LEG
gewohnt gut.

CAPTURE CHANCES

DRIVE INNOVATION

ANNUAL REPORT 2017

KEY FACTS 2017

T1 – Key facts

		2017	2016	+/– %/bp
RESULTS OF OPERATIONS				
Rental income	€ million	**534.7**	511.7	4.5
Net rental and lease income	€ million	**399.4**	373.1	7.0
EBITDA	€ million	**1,408.1**	947.3	48.6
EBITDA adjusted	€ million	**385.7**	355.7	8.4
EBT	€ million	**1,120.3**	779.6	43.7
Net profit or loss for the period	€ million	**844.8**	579.2	45.9
FFO I	€ million	**295.3**	268.3	10.1
FFO I per share	€	**4.67**	4.26	9.4
FFO II	€ million	**294.1**	292.3	0.6
FFO II per share	€	**4.65**	4.64	2.2
AFFO	€ million	**179.8**	190.8	–5.8
AFFO per share	€	**2.84**	3.03	–6.6
PORTFOLIO		**31.12.2017**	31.12.2016	+/– %/bp
Number residential units		**130,085**	128,488	1.2
In-place rent	€/sqm	**5.50**	5.28	4.2
In-place rent (l-f-l)	€/sqm	**5.46**	5.29	3.3
EPRA vacancy rate	%	**3.5**	3.2	30 bp
EPRA vacancy rate (l-f-l)	%	**2.8**	3.0	–20 bp
STATEMENT OF FINANCIAL POSITION		**31.12.2017**	31.12.2016	+/– %/bp
Investment property	€ million	**9,460.7**	7,954.9	18.9
Cash and cash equivalents	€ million	**285.4**	166.7	71.2
Equity	€ million	**4,112.4**	3,436.7	19.7
Total financial liabilities	€ million	**4,299.6**	3,774.3	13.9
Current financial liabilities	€ million	**478.2**	552.0	–13.4
LTV	%	**42.3**	44.9	–260 bp
Equity ratio	%	**41.1**	40.7	40 bp
Adj. EPRA NAV, diluted	€ million	**5,753.0**	4,597.2	25.1
Adj. EPRA NAV per share, diluted	€	**83.81**	67.15	24.8

bp = basis points

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THOMAS HEGEL
Chief Executive Officer

HOLGER HENTSCHEL
Chief Operating Officer

ECKHARD SCHULTZ
Chief Financial Officer

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
dear Ladies and Gentlemen,

Once again LEG can look back on a successful financial year, in which we again further improved all financial and operating performance indicators. In the process we are not only leveraging the favourable fundamental economic conditions, but we are also working actively to reinforce our position as one of the leading companies in the German residential property section, also moving forward into the future.

"Capture chances, drive innovation": The motto of our annual report describes how we are reacting to the transformation in our industry. To achieve this we established a new Innovation Management unit tasked with initiating new processes, developing customer-oriented services as well as motivating all employees to think out of the box. Digitisation is an important element of our innovations, an area in which we have further expanded our position. As an example, our central customer service has also been available by messenger since May 2017 for potential customers. In autumn we successfully started the pilot projects LEG-Tenant portal and LEG-Tenant app. At the same time, we are working on introducing the digital rental agreement. Ultimately digitisation brings us a key advantage in the form of increased process efficiency, something from which both shareholders and tenants benefit.

With all our activities, our customers – the tenants –, are the focus. We created new offers for them again in 2017. These included the "Living for Generations" project where families and seniors can swap their apartments to find a suitable home in the same neighbourhood and according to their individual living conditions. In addition, we expanded our tenant-oriented services by founding the company TechnikServicePlus for small repairs management and in the autumn VitalServicePlus, a company that promotes the vitality and health of our tenants with several partners, supporting them to be able to stay longer in their accustomed environment.

In the autumn of 2017, LEG started the strategic modernisation programme which is to invest an additional EUR 360 million to enhance value over the next five financial years. Roughly 75% of the overall budget is earmarked for energy-efficient measures, thus making a contribution to achieving climate targets. It is here that the housing industry faces particular challenges.

In the reporting year, we invested EUR 187.5 million to maintain and improve the quality of our portfolio. We also see opportunities for developing our portfolio by filling in vacant lots at selected locations. The first newbuild project in the Weissenburg Garden Estate project in Münster is to be rented from April 2018.

Alongside these measures to accelerate organic growth, acquisitions remain a key element of our growth strategy. In what remains a challenging transaction market, we managed to buy four portfolios in 2017. Two thirds of the total of 3,500 residential units are in strongly growing markets such as Dusseldorf and one third in attractive B locations.

Our strategy again paid off in the last financial year. The in-place rent per square metre on a like-for-like basis rose considerably by 3.3% to average EUR 5.46 per square metre. In the free-financed residential portfolio, which best reflects the rental momentum, it moved up by as much as 4.1%. At the same time, as of the reporting date our vacancy rate declined slightly year-on-year to the low figure of 2.8% (like-for-like).

Parallel to this we continued to expand our leading profitability, moving up the EBITDA margin to 72%. For 2018, we are anticipating a further rise to 73%. Our focus on profitability is reflected in FFO I, the key indicator for our financial performance. In the past financial year, FFO rose by 10.1% to EUR 295.3 million. On the basis of a pay-out ratio of 65% of FFO, the Management Board and Supervisory Board again will propose an increased dividend of EUR 3.04 per share to the Annual General Meeting in May 2018. Moving forward, we are anticipating a further improvement in both the FFO and dividend growth. For the current year, we anticipate that FFO will be in the range of EUR 315 to 323 million, followed by a further increase in 2019 to between EUR 338 and 344 million. Per share this is equivalent to between EUR 4.99 and EUR 5.11 for 2018 and between EUR 5.35 and EUR 5.44 for 2019.

Contributory factors here include strong rental growth, positive effects from acquisitions and further efficiency enhancements combined with what remains very low financing costs. As at 31 December 2017, the average interest rate was 1.7%, a level secured on a long-term basis with an average term of approximately 8 years. On the back of our strong position, we have access to all important financing instruments, at very low cost of capital overall. In the 2017 financial year, we further diversified our financing, placing an unsecured fixed-rate corporate bond for the first time, issuing a second convertible bond and establishing a Commercial Paper Programme.

At the end of financial year 2017, our balance sheet also shows a clear value increase of our property portfolio. The upward remeasurements covered all markets, also demonstrating that a dynamic rental upturn and value growth is increasingly evident in so-called B locations as well. As a result, the net asset value (NAV) per share (not including goodwill) moved up to EUR 83.81, a year-on-year upturn of 24.8%. Net gearing in relation to property assets (LTV) was at the low level of 42.3%, underlining the low risk profile LEG has.

For its successful management, LEG won many awards last year. Awards we received included the Best Practice Award of the German Property Federation ZIA for our digital home renovation and repair, the EPRA Gold Award for transparent finance communications and the WirtschaftsWoche award for high customer confidence. Furthermore, in the renowned Extel-Ranking 2017, LEG received top positions for its Investor Relations work from capital market participants, both against European property shares and against German MDAX companies.

We are happy for awards and successes. But we regard them primarily as an incentive not to slacken off in our endeavours in the future. Our employees remain the most important factor contributing to success. At this point we would like to expressly thank them for their great commitment in the reporting year. Together, in 2017, we set the course to influence the dynamic property market with future-driven offers.

Housing Industry 4.0 awaits us. We would like to thank you – as tenants, as shareholders or as business partners – that you are accompanying us on this path.

THOMAS HEGEL
Chief Executive Officer

ECKHARD SCHULTZ
Chief Financial Officer

HOLGER HENTSCHEL
Chief Operating Officer

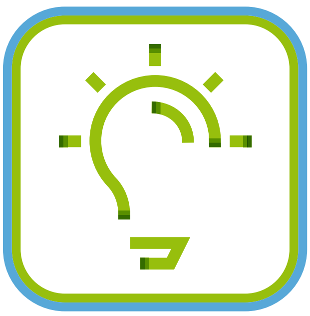
THINKING AHEAD, THINKING OUT OF THE BOX

How to institutionalise innovative thinking and acting in the company and generate additional growth.

Mr Hegel, innovation research has shown that leadership style has a significant influence on the innovation behaviour of employees. Has this also been your experience?

THOMAS HEGEL Yes. Innovations must be sought; they do not arise by accident. This requires creativity, curiosity and willingness to change. Ideas management has a long tradition at LEG. It is part of our corporate culture. We have always rewarded and – wherever possible – implemented new ideas from the ranks of our employees. We want our employees to think for themselves, think ahead, and think outside the box. Since 2017, LEG has had its own unit for innovation. We have thus further institutionalised innovative thinking within the company.

Thomas Hegel, Chief Executive Officer

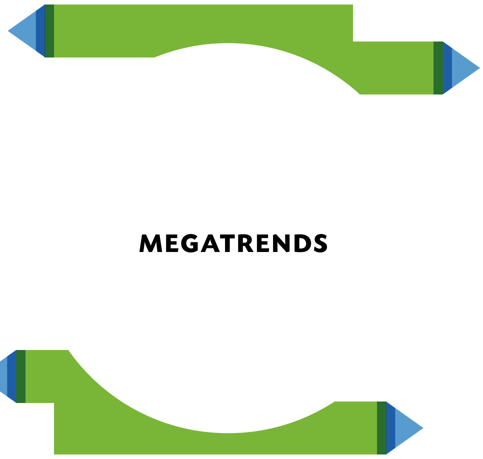


POPULATION CHANGES AND SOCIETAL DEMANDS

- Urbanization and rural depopulation
- Demographic change
- Interculturalization
- Increased mobilization demand

CLIMATE CHANGE AND SUSTAINABILITY

- Energy transition
- Environmental sustainability
- Social sustainability



MEGATRENDS

DIGITIZATION OF THE SOCIETY

- Computerization
- Always-On Society

STATE FINANCES

- Economisation
- Development of labour market

THREE HORIZONS OF INNOVATION

1

Optimisation of existing processes

2

Development of new customer-oriented processes and services

3

Innovations up to the creation of disruptive processes

How does this new unit work?

TH It fills the "pipeline" for new growth for example by carrying out internal workshops for coming up with ideas. It gives employees space for creativity and networks their ideas. We have defined a special innovation process in order to keep this organised and on track. Furthermore, each innovation has to meet three top criteria: It must be customer-oriented. It must be realisable. And it must be financially viable.

Does this not lead to conflicts in the company?

TH Innovation behaviour is generally associated with success, but conflicts of course do also arise in the development phase. This has to be tolerated. If we allow employees to look critically at ideas in the development phase, this can only help us grow. Ultimately, it results in greater willingness to support innovations. Every employee will soon have the opportunity to post things in a virtual idea pool, and everyone will have the opportunity to comment on these posts. This is an important component for selecting which ideas to develop further. Digital innovations not only allow us to respond especially well to current and future customer desires, but also to tap into new revenue sources.

What needs to be considered in innovation management?

TH Communication must be managed just as well as the innovations themselves. We have established open communication in workshops, ideas management programmes, management meetings and monthly reports. We also have a very efficient IT infrastructure that allows the ideas to be implemented. On the question of in- or outsourcing, we bucked the market trend and opted for our in-house IT expertise. We are also working with the latest SAP platform.

Is "Living for Generations" not also an innovation?

TH In a certain sense it is. Because the population's life expectancy is increasing while the birth rate is declining, the proportion of older people in Germany has been climbing since 1972. People arriving from abroad (between 100,000 and 200,000 a year since 2011) are younger on average than those moving away, but this is not halting the ageing of the general population. We have now responded to this demographic change with the "Living for Generations" initiative, among other things. The idea is for seniors and families who want to upsize or downsize, depending on their situation, to unbureaucratically swap homes within their neighbourhoods and to move into made-to-measure homes. The project was rolled out across the country in December 2017.

What will be the win-win effect here?

TH We support the exchange with financial incentives. Tenants who are downsizing take the cheaper price per square metre from their old home to their new one. Both partners to the swap benefit from staying in their neighbourhood and continuing to use familiar infrastructure. We might have lost these customers – now they remain with us as tenants. In addition, the expense of offering the home on the market from scratch is avoided.

How many tenants are affected by the project?

TH We have identified several hundred tenants all over NRW as potential swap partners. We are delighted that we seem to have struck a chord with this offer and can thus meet our tenants' needs even better.

Where do you still see potential for innovation?

TH We believe that the housing industry has great potential for innovation in the areas of service, processes, building technology and communication and would like to establish ourselves as the industry's innovation leader. We have not only embedded our own innovation management within the company, but also made conscious use of the innovative capacity of strategic partners such as Unitymedia, Innogy, B&O, Areal Bank, Aareon and Doozer. In addition, we maintain close relationships with universities and market research institutes such as the Karlsruhe Institute of Technology, Technische Universität Darmstadt and the Fraunhofer Society, with which we are in intensive dialogue, especially on the topic of Smart Living 4.0.

In summary, we use two tools to increase our profitability: we optimise costs with more efficient processes and increase revenues with additional income from innovative tenant-oriented services. LEG has already implemented the companies WohnServicePlus, a cooperation with Unitymedia for TV, internet and telephony; EnergieServicePlus, a joint venture with Innogy for electricity, heating and meter reading; and TechnikServicePlus, a joint venture with B&O for small repairs.

In September 2017, we also founded VitalServicePlus for nursing care, emergency call systems and health, with which we want to augment our services for older people and people with disabilities. Looking forward, we are currently setting our sights on sharing services, for example for cars, which are establishing themselves as major new trend right now. It is important to us that we do not just follow these topics but implement them in a value-adding manner.

LIVING FOR GENERATIONS

Win-win effect for seniors and families

CHANGE AS AN OPPORTUNITY

There is a Chinese proverb that goes: "When the wind of change blows, some people build walls, others build windmills." We see change as an opportunity, and we want to use it in the interests of our shareholders, our tenants and our employees.

Let's take a brief look back: Until the year 2000, housing as a product was established in the public sector and not very disposed to change. The main task was managing existing housing. There were hardly any attempts and no resources for innovation or investment back then. It was not until privatisations in the sector, including that of LEG in 2008, that the situation changed permanently. The capital market now provides the funds required for growth, modernisation and innovation.

Innovation and digitisation are exceedingly important for the housing industry of today. We want to and will use new technologies. We assume that this will have an enormous effect on our company. We are therefore approaching these issues systematically, a few examples of which we will discuss here. Digitisation has been at the top of our agenda for four years now. Digitisation is streamlining and accelerating our processes, resulting in cost savings and thus making our processes more efficient. In 2017, we then established the separate "innovation management" unit. We are systematically driving the changes in three directions:

- Optimisation of existing processes
- Development of new customer-oriented processes and services
- Innovations up to the creation of disruptive processes

We are firmly convinced that innovation and digitisation will radically change our business in the next few years. We see great opportunities for LEG here. Innovation will give rise to many new services. Some will of course be included free for our tenants. Others will be subject to charge and then provide financial value added for us.

DEFINITIVELY INNOVATIVE

An idea is not immediately an innovation. It only becomes an innovation when it results in a product, a service or a process – and is successfully disruptive. Being innovative means developing ideas in order to create win-win situations. Lots of ideas. Which of them will win out in the end has to be secondary to begin with, as it is important to think in all directions. One visionary idea, for example, is to provide our tenants with small displays in their homes in order to open up alternative communication channels. Tenants currently call LEG's central customer service. Here, an LEG employee talks to the customer to find out what he or she wants and transfers the matter to the correct part of the company. From questions about tenancy agreements to difficulties paying the rent, everything arrives at the same place and is coordinated from there. On a display hanging in every home, customers could, for example, press a callback button or report a needed repair. We could thus easily contact our customers and provide them with information – and more cost-effectively than before. In addition, the tool would help us get to know our customers' needs even better.

»IDEAS MANAGEMENT HAS A LONG TRADITION AT LEG. IT IS PART OF OUR CORPORATE CULTURE.«

Thomas Hegel, Chief Executive Officer

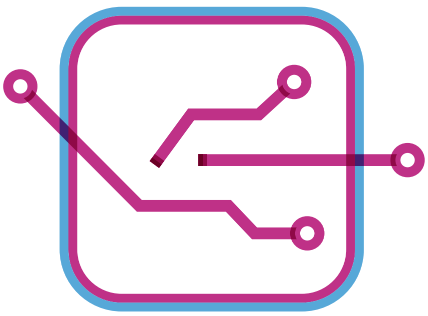
CUSTOMER APPROACH WITH SOCIAL MEDIA

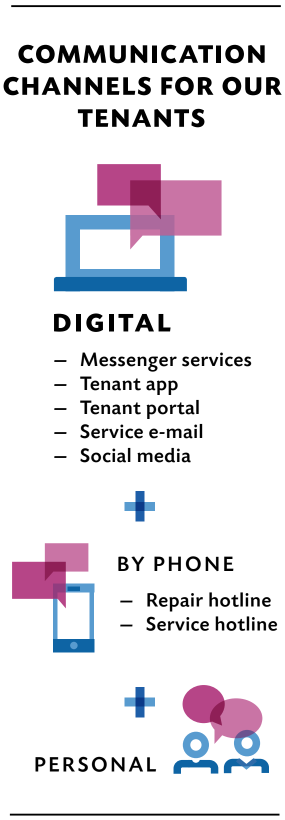
Digital processes accelerate the workflow, increase data security and improve customer service.

Mr Hentschel, to what extent has digitisation affected the way you deal with customers?

HOLGER HENTSCHEL For us as a housing company, it is not about whether we are digital, but how. When we saw that the use of e-mail increased by 10% in recent years, while the use of WhatsApp doubled, it was clear that our customers also had to be able to reach us via messenger. In addition, we developed a tenant portal and a tenant app so that our customers can manage their concerns electronically. Social media channels can no longer be ignored, so we appointed a Social Media Manager in 2017 in order to respond quickly and in a customer-oriented manner here.

Holger Hentschel, Chief Operating Officer





What are the advantages of digitisation for LEG?

HH The most important areas for digitisation in the housing industry are efficient processes, intelligent building technologies, innovative services and modern customer communication. The boundaries between these areas are fluid. The digitisation of processes is firstly about avoiding paper – in business, in technology and in administration. If the necessary documents are in the cloud, the process steps can be carried out anywhere. Our local caretakers are of course equipped with the latest technology. Mobility and flexibility are important keywords here. The automated interweaving of process steps makes it easier for our employees to carry them out, and the faster processes benefit customers. In building intelligence, it comes down to more transparency about the condition of buildings and the smart management of consumption. Innovative services are intended to support tenants in their day-to-day lives and offer them additional services that they can use on a daily basis. But digital customer communication is also important to us above all: we want to make it easy for our tenants to receive and send us information, as made possible by the tenant app I mentioned.

You have done pioneering work on cooperation with tradesmen.

HH That's right. In 2017, we were recognised for our optimisation of cooperation with the German Property Federation (ZIA)'s Best Practice Award. The conventional procedure for renovating and repairing homes when tenants moved in and out took up a lot of time and resources. Now, the entire tenant changeover process is fully digital. This accelerates the purchasing of tradesman services and the reletting process enormously. All involved benefit from the effects of the optimised processes – especially the maximum transparency and the time saved. This also convinced the judging panel.

How does it work exactly?

HH The heart of this new process is the mobile portal solution from Berlin-based Doozer, which is fully integrated into our SAP back end. This means that an order placed via the portal not only triggers the procurement process, but simultaneously enters our accounting system. We have therefore streamlined the procurement system from numerous individual tradesman companies to a few large general contractors and thus substantially simplified the individual renovation measures. The process has also been simplified for our employees: With Doozer, we realised our vision of a "property configurator", which works in a similar way to ordering a car: via a graphical interface on their iPad, the responsible LEG employee can select products from pre-defined standard fixtures and fittings and place them in a shopping basket. The content of the shopping basket is then transmitted to the general contractor as an order. We had to make some organisational changes in order to achieve this result, but it is paying off: we expect this process innovation to have a positive annual earnings effect of around EUR 2 million.

What other digitisation projects are you working on at the moment?

HH In the name of process efficiency, we as LEG have decided to introduce a digital tenancy agreement. Tenancy agreements are currently created, printed and sent to customers by post. On receipt, the potential tenants sign them and send them back, also by post. Postal shipment, postage costs and potential telephone calls if something is missing – this could all be streamlined with a digital process. The idea is to provide the tenancy agreement in the cloud, where the customer can fill it out and sign it using a qualified electronic signature (QES). The elimination of post will save time and money, increase data security and improve customer service. Many tenants see having the tenancy agreement available online as an advantage.

LEG has created digital value added with a modern communication infrastructure and thus significantly enhanced its customer service. Our tenants can reach us not only via central customer service but also via tenant app or messenger services. In a fully automated process, potential customers are entered into the potential customer management system PolyEstate – there are currently over 11,000. This method is faster and less prone to errors than a telephone conversation and manual entry. At the same time, we determine customer satisfaction by way of NPS (Net Promoter Score). The messenger service has been in use productively since May 2017; there have already been over 27,000 customer contacts.

The tenant portal and tenant app pilot project is another addition for improving LEG's tenant service. Tenants can use the portal or the app to send LEG questions or damage reports around the clock and directly from their computer, tablet or smartphone. Existing customers can download personalised forms, e.g. rent confirmations or account statements, some of which they can edit directly. All details of contracts, whether regarding a home or a garage, can be viewed by the respective tenant. Tenants can also conveniently access the current status of their own tenant account or the latest operating cost statement at any time. In addition, existing customers are given an overview of their correspondence with LEG and the repair service, including the current status. All pilot tenants received a personal letter with an individual registration code, which they can use to register with an e-mail address and log into the portal or app. Since the pilot project was successfully completed in 2017, all other LEG tenants will receive access to the new tenant portal or the app this year.

You mentioned building technology as another important trend

HH Building technology provides a vivid picture of how digitisation is affecting our core product. Most applications and products relate to energy efficiency and security solutions, which are becoming ever more important. This includes the detection of smoke and the locking of doors and windows. Smart homes and home automation allow the control of lighting, heating and air conditioning. Our latest value added cooperation with our partner B&O for small repairs management also comes into play here. The particular feature is that we have digitalised all of the processes and interfaces between the companies – from receiving the repair report and planning the tradesmen's route to billing the services, everything is digital and paper-free. This speeds up the process.

Where does LEG stand on smart homes?

HH We are observing the trends in this area very closely. For example, we see potential for optimised facility management with regard to reading heating costs. However, this requires even better base data. We are watching the market and will take action as soon as the cost situation fits our product. For not only do we want to promote intensive dialogue with our tenants, but we also want to discover new communication services and thus generate new revenues and income on a broad scale.

How are you proceeding?

HH LEG is currently conducting two pilot projects in the smart home segment. In the first pilot project, we have equipped one of our buildings with intelligent components for controlling lighting and heating, keyless building and apartment entry systems and a car battery charging station. We have given the test a one-year timeframe and are in close contact with our tenants. On the basis of their experiences, we will evaluate and decide upon the next steps once the test phase ends. We chose to cooperate with Innogy, one of our important strategic partners. We are using Innogy components in this project for the lighting and heating controls and in the car battery charging station. In order to be independent, however, we are also working with other technology providers.

In another building intelligence project, we are cooperating with the leading measuring technology company Techem, which is also a partner in our energy joint venture. In addition, we have equipped 50 LEG buildings with hardware components for gathering and logging heat data together with EBZ Business School. The objective is to make the efficiency of the heating transparent, to gain insights from energy consumption, to identify options for energy-efficient activities and thus to evaluate potential savings. The pilot project is to run until the third quarter of 2018, and the next steps will be determined on the basis of the evaluation results. As well as addressing customers directly, this building intelligence provides the necessary digital infrastructure for tools that increase our profitability: we save costs through increased efficiency and increase our revenue through additional income from new services.

As you can see, we have centred our work on digitisation as well as customers. It is the heart of our property management strategy. With this comprehensive approach, we are striving for top business performance here too. Our SAP platform is state of the art and the prerequisite for digitisation processes. Commercial facility management, technical facility management, accounting, controlling and HR management are all modelled via SAP. A data warehouse is our platform for business intelligence. It maps the planning and portfolio management, delivers the reports to the Management Board, and is the basis for decision-making analyses. The use of artificial intelligence is also an exciting topic for us. We are already using such methods to support our central customer service. The system suggests the next process steps on the basis of learned user behaviour, which significantly speeds up the process. We see great potential for further process optimisations in this kind of technology.

DIGITISATION IN THE HOUSING INDUSTRY

PROCESS EFFICIENCY

- Process Digitisation
- Mobility
- Cloud Services
- Virtualisation

VALUE-ADDED SERVICES

- Multimedia Services
- Ambient Assisted Living
- Shared Services

BUILDING INTELLIGENCE

- Smart Home
- Safety
- Smart Grid
- eHealthcare

CUSTOMER APPROACH

- Tenant Portal
- Customer Relationship Management
- Social Media

LEG recognised the opportunities of digitisation and began converting its processes early on.

As far back as 2013, we won the trade magazine DW Die Wohnungswirtschaft's future prize for the use of our IT-assisted management system for customer relationship management. Since then, many other processes have also been digitalised, including in the administrative, human resources and housing management fields. In 2014, we equipped our caretakers with iPads. This means that final property inspections and the documentation of safety inspections have since been digital. In 2015, LEG's entire digital archive was migrated to a cloud-based document management platform.

Our tenants have also become significantly more digital in recent years. Thanks to the ubiquitous use of smartphones, they can be online any time, any place. They now expect to be able to communicate with us via apps. We have also made a lot of changes here in 2017.

»WE HAVE CENTRED OUR WORK ON DIGITISATION AS WELL AS CUSTOMERS. IT IS THE HEART OF OUR PROPERTY MANAGEMENT STRATEGY.«

Holger Hentschel, Chief Operating Officer

HOUSING QUALITY FOR TENANTS – GROWTH FOR SHAREHOLDERS

Targeted modernisation and acquisitions as value drivers.

Mr Schultz, what do investments mean for your business?

ECKHARD SCHULTZ Targeted investments in our portfolio are important components of our success strategy. They make a considerable contribution to our good performance. In the last financial year, we increased our investment in modernisation and maintenance from EUR 18.2 to EUR 22.4 per square metre. Thanks to this significantly larger investment, we were able to further optimise the structure of our residential portfolio. In addition, we expect even faster rental growth on the basis of the increasing modernisation of the portfolio.

Eckhard Schultz, Chief Financial Officer

Are investments an alternative to acquisitions for LEG?

ES We see them as a complement. In the past financial year, LEG acquired a total of around 3,500 homes in a rather difficult environment in terms of prices. Two-thirds are located in high-growth markets with a focus on Dusseldorf; the other properties are in attractive markets such as Dortmund, Essen and Wuppertal. Some of the acquired portfolios are in a classic turnaround situation and thus offer particular potential for value appreciation.

What is the process for making investment decisions?

ES LEG follows a combined top-down & bottom-up approach in the investment process. From the top down, our portfolio management compiles a list of potential locations. The existing rent potential is an important criterion here. The next step is an in-depth analysis by our technical department of the measures that can realistically be carried out. This means a micro-level analysis, which examines in detail whether the renovation of a bathroom or facade would actually be useful for tenants. Then – and this really is micromanagement – our operating departments also carry out a reality check. They then take a look at every individual affected home. They talk to the tenants there and take their needs into consideration. I have already mentioned that we tend to concentrate on estates rather than on individual buildings when it comes to modernisation. But this does not mean that we always modernise the entire estate. Given the various customer demands, it definitely makes sense to offer homes in different price categories within the same estate.

What returns do you expect on your investments?

ES It is not unusual in the industry to primarily consider the rental yield, i.e. the ratio of the additional annual rental income to the amount invested. LEG has a more nuanced approach here. We calculate the internal rate of return and thus make greater allowance for time components and the life cycles of individual measures. When evaluating investment plans, we see an IRR of 6% as a critical threshold. Investments that cannot achieve this return are not implemented.

Why don't you spend more?

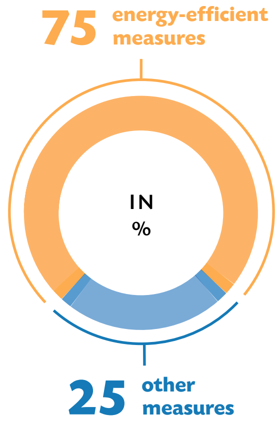
ES We have already increased our planned investments by around 50% up to and including 2021. This is a substantial increase. However, we also have to consider the execution risks and remember that there is a certain scarcity on the market for some trades. A large-scale build-up of our own organisation would not be an advantage, as lean and flexible structures remain vital for preserving our leading profitability.

What are the priorities of LEG's modernisation programme and who will benefit from it?

ES We are investing particularly heavily in the energy-saving renovation of our residential portfolio, but also in the conversion of senior housing. With regard to regions, our modernisation programme is primarily focused on attractive high-growth markets, but also on other attractive locations with catch-up potential. The quality of the micro-location is often crucial here.

The tenants benefit from higher living quality and a more attractive environment in their estates. For shareholders it is important that the quality of the portfolio increases. This improves the prospects for further growth. And the environment is protected thanks to the savings of energy and CO_2. At 75% of the total investment, the focus is on energy-efficient measures such as insulating facades, roofs, cellar ceilings, new entry doors and windows. As these measures are in line with the climate targets, they are met with a high level of approval in society. The other 25% of the investment is being spent on renovating or attaching balconies, modernising bathrooms, designing outdoor spaces and renovating stairwells.

ALLOCATION OF INVESTMENTS



TOP-DOWN- & BOTTOM-UP-APPROACH

1

IDENTIFIYING RENT POTENTIAL

LEG Portfolio management identifies rent potential by comparing in-place to market/reletting rents.

2

IN-DEPTH ANALYSIS

Analysis by technical department. Creating a long list of possible measures.

3

REALITY CHECK

Analysis by operations. Crosscheck of the assumptions for the specific demand situation.

4

PROJECT PORTFOLIO

Portfolio management compiles a project portfolio that matches requirements regarding return, liquidity management and general asset management strategy.

Monheim is currently an important investment location for LEG.

ES The town is in an ideal location between the two business centres of Cologne and Dusseldorf and has developed excitingly. The number of employees in this town has risen by a considerable 22% within just four years. LEG has around 3,500 units in Monheim, of which around 2,800 in the Berliner Viertel district. Around 11,000 tenants live in our homes, which equates to roughly a quarter of the Monheim population. We are the largest landlord in the town by far. Our current vacancy rate is 1.5%, which confirms the strong demand situation.

How much are you investing in Monheim alone?

ES After spending around EUR 4 million on modernisation measures in recent years, we will spend another approximately EUR 25 million by 2021. The project encompasses investments in energy-saving renovation, new bathrooms and the attachment or renovation of balconies and will respond to demographic changes with accessible entryways. There will also be investments in the environment, such as the redesign of outdoor spaces, new systems for waste disposal and the repair of parking spaces.

Apart from acquisitions and modernisation, do you see other opportunities for portfolio development in high-growth markets?

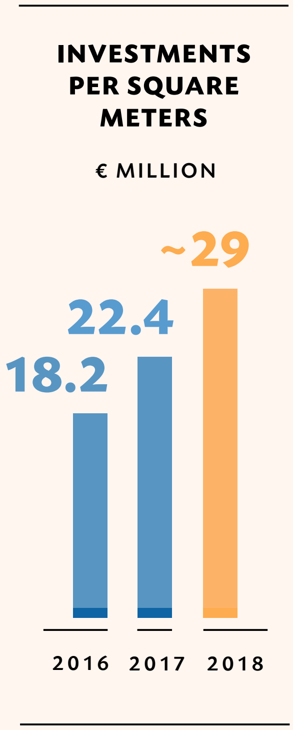
ES Yes, in Münster LEG has built four modern residences in the Weissenburg garden estate. This has created 51 new privately financed rental flats. We are thus unlocking additional value and growth potential and helping to ease the housing market. We are building on our own land here and bringing a product to market to cater for upscale demand. The flats are between 46 and 82 sqm and have balconies or terraces. The flats on the ground and first floors are barrier-free, and those on the second floor are easily accessible. Among other things, the homes have underfloor heating and high-quality design flooring. We have equipped all flats with the LEG multimedia package, comprising internet and HD television, with a foreign language package included. There is a multimedia port in every room. The centre is only ten minutes away by bicycle. This is important, as the estate is car-free. There are also other potential newbuild projects on our land currently in the planning phase. Our project pipeline for new buildings currently comprises around 800 residential units.

How ecological are the new buildings?

ES We have used environmentally-friendly construction and other materials. The residences meet the KfW Efficiency House 55 standard, which makes them particularly energy-efficient. The flat roofs also feature extensive greenery.

PORTFOLIO DEVELOPMENT

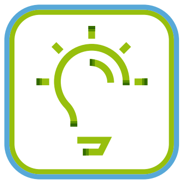
An important requirement for sustainable value generation in the housing industry is high capital discipline. For LEG, this is crucial both for acquisitions and investments. With very efficient capital expenditure for acquisitions and investments, LEG achieves accelerated, sustainable rental growth while creating modern, contemporary homes and residential districts.



In general, LEG tends to concentrate on housing estates rather than on individual buildings when it comes to portfolio management. This increases the residential value all around the estate. Around 3,500 residential units were acquired in financial year 2017. In addition, LEG's five-year modernisation programme started in autumn 2017, which will see EUR 360 million of additional, value-enhancing investment within five financial years. Around EUR 80 million of this figure has been earmarked for each year from 2018 to 2021.

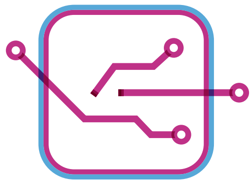
»THE TENANTS BENEFIT FROM HIGHER LIVING QUALITY AND A MORE ATTRACTIVE ENVIRONMENT IN THEIR ESTATES. FOR SHAREHOLDERS IT IS IMPORTANT THAT THE QUALITY OF THE PORTFOLIO INCREASES.«

Eckhard Schultz, Chief Financial Officer



INNOVATION

+



DIGITISATION

+

MODERNISATION

=

CHAPTER

1

TO THE SHAREHOLDERS

EQUITY STORY

ATTRACTIVE DIVIDEND YIELD WITH CLEAR GROWTH PROSPECTS

Sustainable dividend increase

An acceleration of organic rental growth, positive effects from acquisitions and a further planned expansion of operating margins also raise the prospect of a significant increase in earnings moving ahead, in which shareholders will participate directly. On the basis of a distribution ratio of 65% of FFO I, the Management Board and the Supervisory Board will propose a dividend of EUR 3.04 per share for the 2017 financial year at the Annual General Meeting. This corresponds to an average dividend growth rate of 15.1% per year since the IPO in 2013.

Focus on attractive market region

Thanks to a strategic focus on the metropolitan NRW region, LEG leverages efficiency advantages and benefits from the favourable situation on the regional housing market. This is characterised by high demand for affordable housing, strong growth in one-to-two-person households and strong immigration from abroad. LEG's offering is ideally tailored to this long-term trend. About two thirds of the LEG portfolio is located in the 60 km commuter region around the two major economic centres of Dusseldorf and Cologne. As the largest property holding company in NRW, LEG also benefits from an understanding of its market and customers that it uses for its tenants and shareholders.

LEG's growth strategy is based on the three pillars of organic growth, acquisitions and value-added services:

Accelerated organic growth

With like-for-like rental growth of 4.1% in the free-financed portfolio, LEG again proved its management expertise and market knowledge in the 2017 financial year. A five-year modernisation programme was launched in autumn 2017 to further accelerate internal growth. These value-adding additional investments, worth EUR 360 million in total, focus on mainly energy renovation activities.

High synergy effects from acquisitions

Acquisitions are a key factor for further increasing LEG's profitability. Synergies can be leveraged by their immediate incorporation in the extensive existing portfolio. LEG also uses its market knowledge to increase the rental results of its acquired portfolios and to minimise the risks of acquisitions. Around 3,500 residential units were acquired in the financial year. LEG ably demonstrated its expertise in a more difficult transaction market, including in more complex special situations in particular.

Value added from innovation

Innovative services not only increase tenant satisfaction, but also generate additional earnings contributions through value added. LEG also works with strong strategic partners to utilise their special expertise. This strategy led to the establishment of the multimedia business, the founding of the energy service provider EnergieServicePlus and the founding of TechnikService-Plus for small repairs management. LEG is continuing to work intensively to develop new concepts to take advantage of the opportunities arising from new business areas as early as possible and to establish its leadership in innovation.

Increase in operating margins

LEG is characterised by leading operational efficiency. It has therefore significantly increased its EBITDA margin since the IPO – from 64% in 2013 to 72% in 2017. It is already striving for a further increase to 73% for 2018. The steady increase is thanks to the impressive synergies from acquisitions on LEG's core markets, and also to strict cost discipline and the constant optimisation of business processes. Exploiting the opportunities afforded by digitisation will also play a highly significant role for the future as well.

Secure, long-term financing

LEG's favourable financing conditions are another factor making a key contribution to increased profitability, and are secured in the long term. The average interest rate was 1.74% as at 31 December 2017, with an average term of 8.1 years. The strong statement of financial position, clear and transparent financial communication and the Baa1 investment grade rating (Moody's) give LEG an excellent position on the financing market with access to all key instruments.

THE SHARE

The German stock market, measured by the DAX® benchmark index, achieved growth of 12.5% in 2017 against the backdrop of a strong German and global economy. LEG's shares clearly outperformed the market as a whole, generating a return – including the dividend paid – of 33.5% for the 2017 financial year.

In particular, the performance of the German stock market was influenced by international events in the year under review. After a modest start to the year and a low for the year of 11,510 points at the beginning of February, the DAX® gradually gained momentum on the back of rising leading indicators for the euro area, the US and China, and rose 7.2% as at the end of the first quarter. The strong growth of the global economy, good economic data for Germany, the dissipation of political uncertainty following the elections in the Netherlands and France, the extension of bond purchases by the ECB and finally the passing of the US tax reform allowed the DAX® to achieve growth for the year of 12.5% overall. It was also helped by consistently good business figures in numerous sectors and brisk M&A activity. The German benchmark index reached its high for the year at 13,479 points at the beginning of November.

Negative factors, which led to only limited price declines overall, were caused by political risks, for instance in Syria and Catalonia, and the smouldering North Korea crisis. Brexit negotiations, the difficulties in forming a government in Germany and the appreciation of the euro against the US dollar, not to mention the US Federal Reserve's interest rate hikes, also temporarily impacted the German stock market.

LEG SHARES – OUTSTANDING PERFORMANCE

The optimistic stock market environment provided a good basis for the development of property industry stocks, which also benefited from consistently low interest rates. Thus, the return on ten-year Bunds averaged around 0.4% over the year. A temporary rise in interest rates at the beginning of the second half of the year led to minor declines in the price of LEG shares. However, a clear upward trend emerged from September 2017, culminating in a high for the year of EUR 96.85 on 18 December and a closing price of EUR 95.29. Including the dividend paid of EUR 2.76, LEG's shareholders generated a return of 33.5% in 2017. LEG's shares therefore clearly outperformed both the market as a whole and the EPRA Germany index (+25.9%), the benchmark for German property stocks.

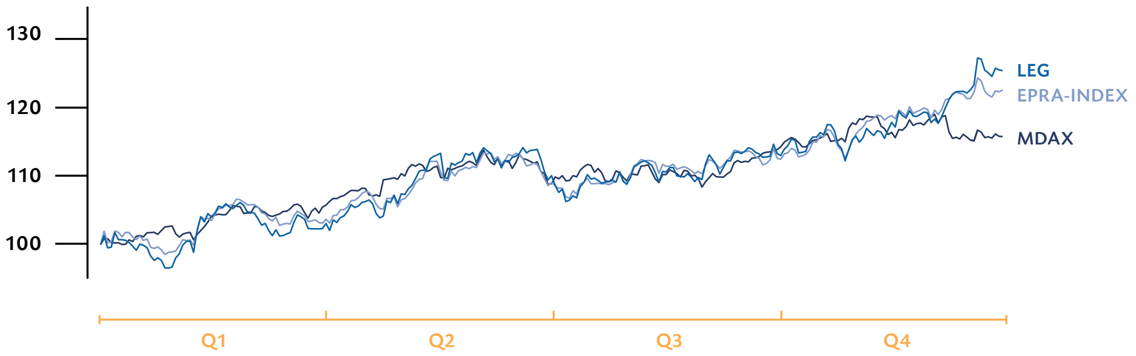
T2 – Share performance indicators

Ticker symbol	**LEG**
German Securities Code Number (WKN)	**LEG111**
ISIN	**DE000LEG1110**
Number of shares	**63,188,185**
Initial listing	**1 February 2013**
Market segment	**Prime Standard**
Indices	**MDAX , FTSE EPRA/NAREIT, GPR Indizes, Stoxx® Europe 600**
Closing price (31 December 2017)	**€95.29**
Market capitalisation (31 December 2017)	**€6,021.2 million**
Free float (31 December 2017)	**100%**
Weighting in the MDAX (31 December 2017)	**2.93%**
Weighting in the EPRA Europe (31 December 2017)	**2.70%**
Average single-day trading volume (2017)	**158,829 shares**
Highest price (19.12.2017)	**€96.85**
Lowest price (27.01.2017)	**€70.90**

SUCCESSFUL CAPITAL MEASURES

In addition to the Baa1 investment grade rating (Moody's), the positive perception of LEG on the capital market and investor confidence in its sustainable growth strategy were also key factors for the successful placement of a corporate bond issued for the first time (EUR 500 million, seven-year term, 1.25% interest coupon) and a second convertible bond (EUR 400 mil-

F1 – Share price development

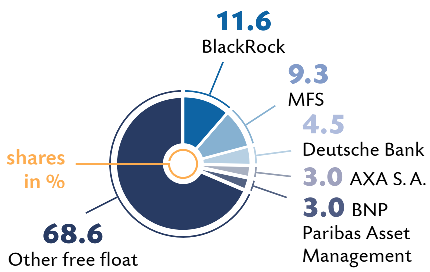


02.01.2017	27.01.2017	19.12.2017	31.12.2017
Open	**Low**	**High**	**Close**
€ 73.80	*€ 70.90*	*€ 96.85*	*€ 95.29*

Share Price 2017 indexed to 100

lion, eight-year term, 0.875% interest coupon) in the reporting year.

F2 – Shareholder structure



EXPANSION OF IR ACTIVITIES

The priority for LEG's investor relations activities is active and transparent communication with capital market participants. This also includes personal dialogues with shareholders at key international financial centres. LEG had roadshows or took part in investor conferences on around 30 days in the reporting year. There were also one-on-one talks with investors at the company's head office in Dusseldorf or as part of property tours. The Management Board of LEG also staged its first Capital Markets Day in 2017. Around 40 participants were invited to hear about LEG's strategy in the areas of innovation, digitisation and modernisation, and took part in a tour of the company's properties in Monheim (Rhineland).

The high level of interest shown by the capital market in LEG's shares is also reflected in the coverage of currently 23 analysts from renowned research firms. A current overview of analysts' recommendations and price targets can be found on LEG's website at *www.leg-wohnen.de/en/corporation/investor-relations/share/analyst-recommendation/*. Analysts' average price target was EUR 98 on 28 February 2018.

MORE HONOURS FOR INVESTOR RELATIONS WORK

LEG's clear and transparent communication was again rewarded by the capital market. The IR team took second place among MDAX® companies for the German Investor Relations Prize 2017, presided over by WeConvene Extel, Wirtschaftswoche and DIRK. At the same time, the Head of IR was individually ranked as the number one MDAX® IR manager.

The prestigious EPRA Gold Award was bestowed by the European Public Real Estate Association for the quality of financial reporting.

EPRA
BPR
GOLD

EPRA KEY FIGURES

With more than 250 members, including LEG Immobilien AG, EPRA (European Public Real Estate Association) represents the listed real estate industry in Europe. EPRA strives to establish best practices in accounting, reporting and corporate governance, to provide high-quality information to investors.

Transparent and fair reporting form the basis for LEG's communications with the capital market. In light of this, LEG also actively supports the initiative of the sector association of EPRA to harmonise key financial figures. The table below provides an overview of the key figures in accordance with EPRA's Best Practice Recommendations. Further information can be found in the management report of this annual report. For a definition of the key figures please see the glossary of this annual report.

T3 – EPRA key figures

€ millions	**2017**	*2016*	*Details*
EPRA Vacancy (like-for-like) in %	2.8	3.0	See page 62
EPRA Earnings per Share	3.90	3.56	See page 143
EPRA NAV	5,753.0	4,597.2	See page 70
EPRA NAV per share in €	83.81	67.15	See page 70
EPRA NNNAV	4,434.8	3,734.4	See page 70
EPRA NNNAV	64.61	54.54	See page 70
EPRA Net Initial Yield in %	4.5	4.7	See page 65
EPRA "topped-up" Net Initial Yield in %	4.5	4.8	See page 65
EPRA Cost Ratio incl. direct vacancy costs in %	27.2	29.9	See page 63
EPRA Cost Ratio excl. direct vacancy costs in %	26.1	28.7	See page 63
EPRA Cost Ratio, adjusted by maintenance incl. direct vacancy costs in %	17.6	15.7	See page 63
EPRA Cost Ratio, adjusted by maintenance excl. direct vacancy costs in %	16.4	14.5	See page 63

PORTFOLIO

LEG Immobilien AG's portfolio comprised 130,085 residential units, 1,256 commercial units and 32,629 garages and parking spaces as at 31 December 2017. The assets are distributed across around 170 locations in North Rhine-Westphalia. The average apartment size is 64 square metres with three rooms. Buildings comprise seven residential units on average across three storeys.

PORTFOLIO SEGMENTATION AND PROPERTIES

The LEG portfolio is divided into three market clusters using a scoring system: high growth markets, stable markets and higher yielding markets.

The scoring model is updated every three years. The last update as at 31 December 2015 used data sets provided to LEG on the basis of the cooperation with InWIS Forschung & Beratung GmbH and CBRE. The indicators used are based on the following demographic, socio-economic and property market data:

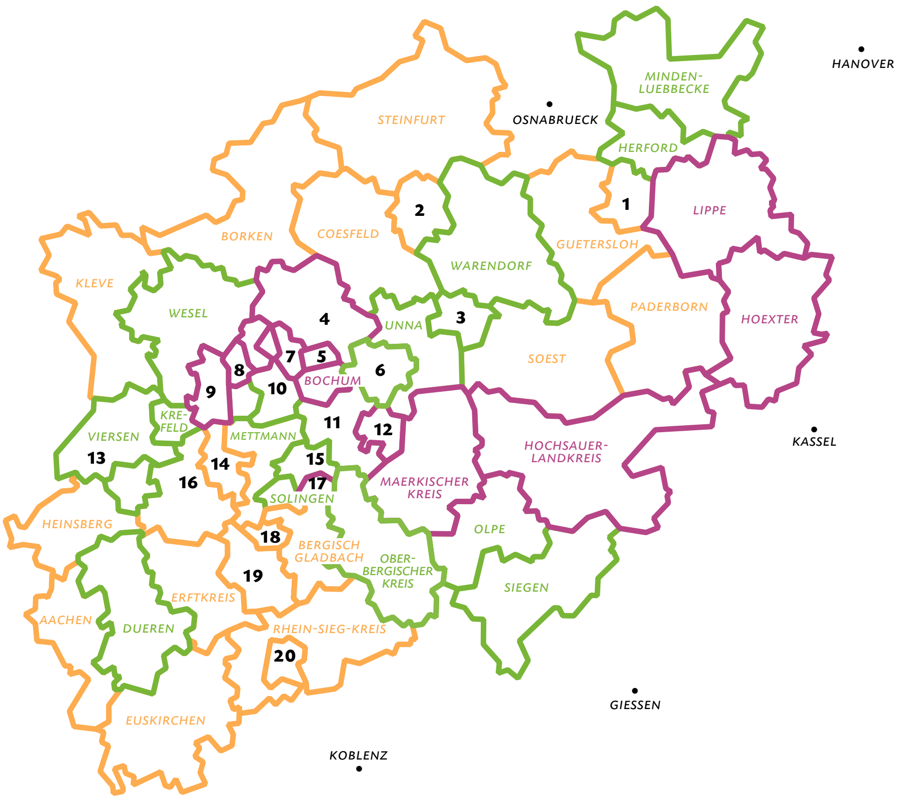
- Population trend 2011 to 2014 (InWIS/IT. NRW)
- Household forecast 2012 to 2030 (BBSR)
- Purchasing power index 2014 (InWIS/GFK)
- Trend in number of people in employment paying social security contributions 2005 to 2014 (InWIS/IT. NRW)
- Asking rents Q3 2014 to Q2 2015 (Empirica)
- Market vacancy rate 2014 (CBRE/Empirica)

Portfolio development

The portfolio as at 31 December 2017 grew by 1,597 residential units compared to the end of the previous year. This includes 3,509 residential units from an acquisition in 2016 and three acquisitions in 2017, each of which was transferred in 2017. This was offset in the year under review by the disposal of 1,889 apartments, the sale of which was primarily notarised back in 2016 in the context of portfolio optimisation. Other changes (23 residential units, e.g. due to units being combined) resulted in a total portfolio of 130,085 residential units as at the end of the year. The portfolio was increased again by 304 residential units as at 1 January 2018 following the integration of a further portfolio acquired in 2017.

F3 – LEG in North Rhine-Westphalia by market segment

High growth markets
Stable markets
Higher yielding markets



1 *Bielefeld*
2 *Münster*
3 *Hamm*
4 *Recklinghausen*
5 *Herne*
6 *Dortmund*
7 *Gelsenkirchen*
8 *Oberhausen*
9 *Duisburg*
10 *Essen*
11 *Witten*
12 *Hagen*
13 *Moenchengladbach*
14 *Dusseldorf*
15 *Wuppertal*
16 *Neuss*
17 *Remscheid*
18 *Leverkusen*
19 *Cologne*
20 *Bonn*

PERFORMANCE OF THE LEG PORTFOLIO

Operational development

Rent growth developed very positively in the year under review. Existing rents on a like-for-like basis (not including re-letting) increased by 3.3% to EUR 5.46 per square metre/month as at 31 December 2017 (previous year: EUR 5.29 per square metre/month). In the free-financed residential portfolio, which accounts for around 73% of LEG's portfolio, rents rose by 4.1% to EUR 5.77 per square metre on average (like-for-like). Momentum continued on all markets. An increase of 3.6% to EUR 6.60 per square metre (on a like-for-like basis) was achieved on the high growth markets. The strongest rise was on the stable markets, where rents rose by 4.4% to an average of EUR 5.44 per square metre (like-for-like). There was also significant growth on higher yielding markets, with an increase of 4.0% to EUR 5.31 per square metre (like-for-like).

As a result of the scheduled three-year increase, rent generated in the rent-restricted segment was up by 1.2% at EUR 4.74 per square metre (like-for-like) as at 31 December 2017.

The EPRA vacancy rate declined further on a like-for-like basis to 2.8% (previous year: 3.0%). LEG's portfolio on high growth markets was almost fully booked with an occupancy rate of 98.9% (like-for-like) as at the end of 2017. The stable markets also had a high occupancy rate of 97.1% (like-for-like). The letting rate on the higher-yielding markets rose by 30 basis points year-on-year to 94.8%. Vacancies were reduced to 3.0% at key LEG locations such as Duisburg and Recklinghausen.

Value development

The following table shows the distribution of assets by market segment. The rental yield on the portfolio based on in-place rents is 5.9% (rent multiplier: 17.0). The valuation of the residential portfolio corresponds to an EPRA net initial yield of 4.6%.

T4 – Acquisitions in 2017

Residential units	*Main locations*	*Markets*	*Transfer*	*Annual net cold rent*	*In-place rent/sqm*	*Vacancy rate*
1,145	Dortmund, Essen, Wuppertal	Stable markets	October 2017	€ ~3.5 million	€ 5.50	32.5%
250	Dusseldorf	High growth markets	October 2017	€ ~2.1 million	€ 8.60	0.1%
1,792	Dusseldorf, Neuss	High growth markets	July 2017	€ ~9.6 million	€ 8.07	20.6%
304	Dusseldorf, Neuss	High growth markets	January 2018	€ ~1.7 million	€ 6.70	1.4%

T5 – Portfolio segments – Top 3 locations

	31.12.2017				
	Number of LEG apartments	*Share of LEG portfolio %*	*Living space sqm*	*In-place rent €/sqm*	*EPRA vacancy rate %*
HIGH-GROWTH MARKETS	**41,000**	**31.5**	**2,715,078**	**6.15**	**1.7**
District of Mettmann	8,410	6.5	585,313	6.20	1.4
Münster	6,074	4.7	403,337	6.44	0.3
Dusseldorf	5,183	4.0	336,885	7.42	4.9
Other locations	21,333	16.4	1,389,543	5.75	1.4
STABLE MARKETS	**47,650**	**36.6**	**3,063,398**	**5.20**	**3.5**
Dortmund	13,406	10.3	876,192	5.05	2.8
Moenchengladbach	6,447	5.0	408,462	5.48	1.9
Hamm	4,167	3.2	250,634	5.03	2.8
Other locations	23,630	18.2	1,528,110	5.25	4.4
HIGHER-YIELDING MARKETS	**39,559**	**30.4**	**2,413,440**	**5.11**	**6.0**
District of Recklinghausen	9,230	7.1	574,357	5.01	6.2
Duisburg	6,571	5.1	408,345	5.33	3.2
Maerkisch District	4,567	3.5	281,419	5.01	3.3
Other locations	19,191	14.8	1,149,319	5.11	7.6
OUTSIDE NRW	**1,876**	**1.4**	**125,956**	**5.86**	**0.9**
TOTAL	**130,085**	**100.0**	**8,317,872**	**5.50**	**3.5**

T6 – Performance LEG portfolio

		High-growth markets		*Stable markets*	
		31.12.2017	*31.12.2016*	**31.12.2017**	*31.12.2016*
Subsidised residential units					
Units		12,592	13,205	13,896	15,213
Area	sqm	885,096	931,092	940,250	1,035,366
In-place rent	€/sqm	4.99	4.94	4.67	4.57
EPRA vacancy rate	%	0.6	0.6	2.2	3.0
Free-financed residential units					
Units		28,408	26,002	33,754	31,778
Area	sqm	1,829,982	1,662,389	2,123,149	1,987,030
In-place rent	€/sqm	6.72	6.41	5.44	5.25
EPRA vacancy rate	%	2.1	1.5	3.9	3.2
Total residential units					
Units		41,000	39,207	47,650	46,991
Area	sqm	2,715,078	2,593,481	3,063,398	3,022,396
In-place rent	€/sqm	6.15	5.88	5.20	5.02
EPRA vacancy rate	%	1.7	1.3	3.5	3.1
Total commercial					
Units					
Area	sqm				
Total parking					
Units					
Total other					
Units					

	31.12.2016						
	Number of LEG apartments	Share of LEG portfolio %	Living space sqm	In-place rent €/sqm	EPRA vacancy rate %	Change in-place rent % like-for-like	Change (basis points) vacancy rate like-for-like
	39,207	**30.5**	**2,593,481**	**5.88**	**1.3**	**2.7**	**–10**
	8,508	6.6	591,738	6.02	1.1	3.0	50
	6,075	4.7	403,395	6.33	0.3	1.7	0
	3,543	2.8	227,948	6.55	0.6	3.6	30
	21,081	16.4	1,370,400	5.57	1.9	2.7	–50
	46,991	**36.6**	**3,022,396**	**5.02**	**3.1**	**3.5**	**–10**
	13,164	10.2	862,666	4.85	1.9	3.8	10
	6,447	5.0	408,462	5.19	1.5	5.5	40
	4,132	3.2	248,480	4.89	1.9	2.7	70
	23,248	18.1	1,502,788	5.09	4.5	2.9	–60
	40,396	**31.4**	**2,467,955**	**4.94**	**5.9**	**3.3**	**–30**
	9,140	7.1	569,073	4.87	6.9	2.8	–120
	7,123	5.5	441,858	5.16	4.7	3.2	–130
	4,838	3.8	297,710	4.79	3.9	4.0	–40
	19,295	15.0	1,159,315	4.92	6.4	3.5	40
	1,894	**1.5**	**127,275**	**5.61**	**2.0**	**4.2**	**–110**
	128,488	**100.0**	**8,211,106**	**5.28**	**3.2**	**3.3**	**–20**

		Higher-yielding markets		Outside NRW		Total	
		31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
		8,314	8,584	112	124	34,914	37,126
	sqm	545,060	566,207	8,910	9,894	2,379,316	2,542,559
	€/sqm	4.45	4.39	4.58	4.50	4.74	4.67
	%	4.1	5.8	0.0	1.5	2.0	2.7
		31,245	31,812	1,764	1,770	95,171	91,362
	sqm	1,868,380	1,901,748	117,046	117,381	5,938,556	5,668,547
	€/sqm	5.31	5.10	5.96	5.71	5.81	5.56
	%	6.4	6.0	1.0	2.0	4.0	3.4
		39,559	40,396	1,876	1,894	130,085	128,488
	sqm	2,413,440	2,467,955	125,956	127,275	8,317,872	8,211,106
	€/sqm	5.11	4.94	5.86	5.61	5.50	5.28
	%	6.0	5.9	0.9	2.0	3.5	3.2
						1,256	**1,148**
	sqm					209,702	**193,542**
						32,629	**31,640**
						2,333	**2,199**

Investing activities

EUR 187.5 million was invested in maintenance and value-adding modernisation work in the reporting year (previous year: EUR 149.6 million). EUR 115.5 million (previous year: EUR 77.6 million) of total investment relates to capital expenditure, while maintenance recognised as an expense amounted to EUR 72.0 million (previous year: EUR 72.0 million). The capitalisation rate is therefore 61.6% (previous year: 51.8%).

2017 marked the start of more extensive strategic investment in the portfolio, with an additional volume of EUR 360 million overall in the years 2017 to 2021.

For example, around EUR 5 million was invested in the energy-saving renovation of façades and improvements to access routes for two residential towers in Cologne-Ostheim. An amount of roughly EUR 1.2 million is being invested in new built-on balconies and painting of the façade, substantially enhancing the appeal of a centrally located neighbourhood in Münster. The Siepmann estate in Dortmund-Kirchlinde is getting new façades, windows and balcony railings for around EUR 8 million, and at the same time will be brought up to date with additional energy-saving measures and the renovation of the elevators and outdoor areas. The modernisation measures in Monheim proved attractive enough to be expanded to further properties.

T7 – Market segments

	Residential units	*Residential assets € million* [1]	*Share residential assets / %*	*Value € / sqm*	*In-place rent multiplier*	*Commercial / other assets € million* [2]	*Total assets € million*
HIGH GROWTH MARKETS	**41,000**	**4,174**	**46**	**1,540**	**21.2x**	**214**	**4,388**
District of Mettmann	8,410	826	9	1,414	19.2x	69	895
Münster	6,074	756	8	1,876	24.3x	42	798
Dusseldorf	5,183	676	7	2,012	24.0x	37	714
Other locations	21,333	1,915	21	1,382	20.2x	66	1,981
STABLE MARKETS	**47,650**	**2,838**	**31**	**926**	**15.3x**	**108**	**2,946**
Dortmund	13,406	881	10	1,000	16.8x	38	919
Moenchengladbach	6,447	398	4	974	15.0x	11	409
Hamm	4,167	217	2	864	14.6x	4	221
Other locations	23,630	1,341	15	880	14.5x	56	1,397
HIGHER-YIELDING MARKETS	**39,559**	**1,923**	**21**	**793**	**13.7x**	**61**	**1,985**
District of Recklinghausen	9,230	463	5	794	14.0x	19	482
Duisburg	6,571	356	4	868	13.9x	22	378
Maerkisch District	4,567	203	2	720	12.3x	2	205
Other locations	19,191	902	10	784	13.7x	18	920
SUBTOTAL NRW	**128,209**	**8,935**	**98**	**1,090**	**17.1x**	**384**	**9,319**
Portfolio outside NRW	1,876	146	2	1,152	16.5x	2	147
TOTAL PORTFOLIO	**130,085**	**9,081**	**100**	**1,091**	**17.0x**	**385**	**9,466**
Prepayments for property held as an investment property							9
Leasehold + land values							35
Inventories (IAS 2)							4
Finance lease (outside property valuation)							3
TOTAL BALANCE SHEET [3]							**9,518**

[1] Excluding 375 residential units in commercial buildings; including 425 commercial and other units in mixed residential assets.
[2] Excluding 425 commercial units in mixed residential assets; including 375 residential units in commercial buildings, commercial, parking, other assets as well as IAS 16 assets.
[3] Thereof assets held for sale EUR 30.9 million and owner-occupied property (IAS 16) EUR 22.7 million.

CHAPTER

2

CORPORATE GOVERNANCE

REPORT OF THE SUPERVISORY BOARD

MICHAEL ZIMMER
Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

2017 was another successful financial year for LEG. This is reflected in the dynamic upturn of our relevant key ratios, such as FFO and NAV, as well as the increase of service quality for our customers. The committed performance on the basis of the successful and regularly updated LEG strategy continues to be successful. The capital markets confirmed the further development of our growth strategy with a higher share price.

Despite the scant number of offers on the market which are interesting and economically viable for LEG, LEG managed to acquire 3,491 residential units in the 2017 financial year. LEG tracks the market on an ongoing basis for profitable offers which add value. At the same time, this secures a balanced portfolio structure between acquisitions and disposals. Parallel to the balanced portfolio structure, the regional focus on the "Greater NRW" platform has been retained without any changes.

In the context of the difficult acquisition market, internal growth played an important factor in the 2017 reporting year. The Management Board and Supervisory Board intensively discussed the important element of the growth strategy, the implementation of the housing strategy with the objective of increasing efficiency and economic viability, as well as achieving high levels of customer and employee satisfaction. The focus was implementing and realigning the reorganisation of the operating units which had been initiated in 2016. Other key growth initiatives accompanied by the Supervisory Board are the strategic investment programme and the intensification of the added value concepts.

The Supervisory Board considers the commitment of LEG in the area of innovation and digitisation reasonable and supports LEG in its positioning as an rental and service provider.

KEY AREAS OF SUPERVISORY BOARD ACTIVITIES

In the 2017 financial year, numerous changes were implemented within the LEG Group. This requires intensive cooperation between the Management Board and the Supervisory Board on a regular and comprehensive basis to discuss strategic, economic and financial issues in addition to current business developments. In addition to their regular meetings, the Management Board and the Supervisory Board held a strategy conference in 2017. The Chairman of the Supervisory Board was in regular contact with the Management Board. In the meetings the Management Board reported on important topics, such as the 2016+ reorganisation project.

The members of the Supervisory Board were always at the company's disposal in the 2017 financial year. In the 2017 financial year there were four scheduled meetings of the Supervisory Board. Usually, the Management Board takes part in the committee meetings. In addition, the Supervisory Board and Executive Committee met twice and three times respectively, without the presence of the Management Board. In addition to the Management Board, LEG representatives, e.g. Head of Accounting, Head of Internal Audit and Head of Legal, regularly took part. If required, the Supervisory Board took advice from external parties. Examples here were the mandatory participation of the auditor PwC in the meeting to adopt the annual financial statements or the participation of the Managing Director of the property assessor, CBRE.

The composition of the Supervisory Board ensures that the members of the Supervisory Board must have the necessary knowledge, abilities and specific experience to perform their duties properly. The professional expertise of the individual Supervisory Board members is complementary in that the Supervisory Board as a whole is sufficiently diverse to perform its duties comprehensively.

The focus of the Supervisory Board strategy meeting in November 2017 which lasted several days were considerations to further increase the appeal of LEG on the capital market. The conference kicked off with a speech made by an external guest who described LEG from an investor viewpoint together with the expectations. The next day there was a detailed discussion of individual aspects of the LEG strategy and its development.

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board met for four ordinary Supervisory Board meetings in the 2017 financial year.

In addition ten resolutions were passed by way of written procedure. These resolutions had been previously discussed in detail at Supervisory Board meetings, but the Board had not been ready to make a decision at the time of the meeting. It was agreed by the Supervisory Board that the corresponding resolutions would be passed by way of written procedure.

All the members of the Supervisory Board attended at least half the meetings.

T8 – Supervisory Board meeting attendance 2017

Supervisory Board Member	*08.03.17*	*30.05.17*	*28.09.17*	*30.11.17*
Michael Zimmer (Chairman)	X	X	–	X
Stefan Jütte (Deputy Chairman)	X	X	X	X
Dr Johannes Ludewig	X	–	X	X
Dr Jochen Scharpe	X	X	X	X
Dr Claus Nolting	X	X	X	X
Natalie Hayday	X	X	X	X

X = attendance, – = no attendance

At its meeting on 8 March 2017, following a detailed examination and discussion, the Supervisory Board adopted the annual financial statements for 2016, including the management report, and approved the consolidated financial statements for 2016, including the Group management report, at the recommendation of the Audit Committee. In preparation for the fifth Annual General Meeting, the Supervisory Board again appointed Mr Stefan Jütte as the Deputy Chairman of the Annual General Meeting for the event of the absence of the Chairman of the Supervisory Board. The Supervisory Board also dealt with preparatory resolution items, determined the agenda for the fifth Annual General Meeting, the appointment of the auditor for 2017 and internal restructuring to improve the basis of the distributable equity at LEG Immobilien AG.

The Supervisory Board adopted the report of the Supervisory Board for the 2016 financial year to the Annual General Meeting; the Supervisory Board approved the annual report for 2016, including the joint report by the Management Board and the Supervisory Board on corporate governance in accordance with item 3.10 of the German Corporate Governance Code.

The Supervisory Board discussed the 2016 target attainment of the Management Board in respect to the Short Term and Long Term Incentives. The mathematical correctness of the calculations for the Short Term Incentive was confirmed by PwC and substantiated by an actuarial expertise for the Long Term Incentive. The bonus claims were 100% achieved, including calculation of a discretionary factor to be determined by the Supervisory Board. This is described in detail in the LEG Immobilien AG Remuneration Report.

The other main points of the meeting of the Supervisory Board on 8 March 2017 were the resolutions on the female quota for the Supervisory Board and Management Board, on the adjustment of the Rules of Procedure of the Management Board in respect to a realignment of the threshold values for transactions requiring approval, on updating the 2017 disposal programme, on updating the treasury policy and on portfolio acquisitions. In line with the increase in size of the LEG Immobilien Group, the Rules of Procedure of the Management Board in respect to a realignment of the threshold values for transactions requiring approval were aligned appropriately. There was a further alignment in connection with the resolution on the Commercial Paper Programme.

The Supervisory Board meeting on 30 May 2017 mainly dealt with the detailed reports of the committees, the acknowledgement of the quarterly report for QI 2017, information on an acquisition project and the acknowledgement of reports on key projects of the company. The reports on the major projects of the company included, for example, the planned newbuild projects of the LEG Group and the current status of the Münster-Weissenburg newbuild project which is being realised. The Supervisory Board also acknowledged the report on the duty to implement safety precautions in the 2016 financial year.

The meeting of the Supervisory Board on 28 September 2017 focused on the acknowledgement of the H1 2017 report and Supervisory Board reporting, the resolution on goals and on the competence profile for the Supervisory Board in accordance with the German Corporate Governance Code, reports by the Committees and the resolution on the coordination for preparing the audit of the 2017 Sustainability Report. The Supervisory Board delegated the coordination of the audit for the Supervisory Board to the Audit Committee. In addition, the Supervisory Board mandated PwC with the external audit of the content of the Sustainability Report. Furthermore, the Supervisory Board discussed the agenda for the planned strategy conference in November 2017 and the communication strategy of the LEG Group.

In its last meeting of the Supervisory Board in the 2017 financial year on 30 November 2017, the key discussion points were the QIII 2017 quarterly report and Supervisory Board reporting and approval of business planning for 2018 as well as acknowledgement of business planning for 2019 to 2022, which had first been discussed intensively by the Audit Committee on 29 November 2017. The Supervisory Board also approved the issuance of the declaration of compliance by the Supervisory Board and Management Board in accordance with section 161 AktG.

Furthermore, after preparation by the Executive Committee by way of written procedure in December 2017, the Supervisory Board resolved the 2018 Long Term Incentive targets for the Management Board for Performance Period 1 (2018 to 2019), Performance Period 2 (2018 to 2020) and Performance Period 3 (2019 to 2022).

MEETINGS OF THE COMMITTEES OF THE SUPERVISORY BOARD

Executive Committee

The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte and Dr Johannes Ludewig. Dr Jochen Scharpe was elected as a deputy member. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. The Executive Committee met five times in the 2017 financial year, with one of these meetings taking the form of a conference call. Please refer to the table for the attendance of the members.

T9 – Executive Committee meeting attendance 2017

Executive Committee Member	*20.02. 2017*	*03.05. 2017*	*21.08. 2017*	*29.08. 2017*	*30.11. 2017*
Michael Zimmer (Chairman)	X	X	X	X	X
Stefan Jütte (Deputy Chairman)	X	X	X	X	X
Dr Johannes Ludewig	X	X	X	X	X

X = attendance

At its meetings and by way of written procedure, the Executive Committee intensively discussed the acquisition of housing portfolios, the Operations 2016+ reorganisation project, the LEG financing and communication strategy and the 2017 Sustainability Report. The Executive Committee issued the appropriate recommendations to the Supervisory Board on these individual issues. The acquisitions amounted to a total volume of 3,491 residential units. The Executive Committee also discussed and adopted resolutions on the achievement of targets by members of the Management Board and other Management Board issues (e.g. salary review).

The Executive Committee examines developments on the capital market as a fixed agenda item at its meetings.

Nomination Committee

The Nomination Committee meets as required and suggests suitable candidates to the Supervisory Board for its nominations for the Annual General Meeting. The Nomination Committee consists of members of the Executive Committee. The Nomination Committee did not meet in the 2017 reporting year.

Audit Committee

The Audit Committee consists of three members: Mr Stefan Jütte (Chairman), Dr Jochen Scharpe (Deputy Chairman) and Ms Natalie Hayday.

The Audit Committee met four times in the 2017 financial year. Please refer to the table for the attendance of the members.

T10 – Audit Committee meeting attendance 2017

Audit Committee Member	*07.03.17*	*29.05.17*	*27.09.17*	*29.11.17*
Stefan Jütte (Chairman)	X	X	X	X
Dr Jochen Scharpe (Deputy Chairman)	X	X	X	X
Natalie Hayday	X	X	X	X

X = attendance

The matters covered at the Audit Committee meetings were the detailed discussion of the annual financial statements and annual report, including the 2016 management report (separate financial statements) and the consolidated financial statements and annual report, including the 2016 Group management report. The Audit Committee also analysed the reports of the Management Board on the quarterly figures, the internal key performance indicators ("KPI tree"), also compared to the peer group and the financial structure. Furthermore, at its meetings the Audit Committee discussed the continuation of the treasury policy and the 2017 disposal programme. The Audit Committee also discussed the report of the Management Board in accordance with section 107(3) AktG, the expansion of the White List in the context of the legislative amendments to the Audit Regulation, updating the 2017 audit planning, the coordination and preparation of the 2017 Sustainability Report and primarily business planning for 2018 to 2022. The Audit Committee regularly discussed the risks reports and the risk inventory.

Four resolutions were passed by way of written procedure – on mandating PwC for providing services in connection with the calculation of the target attainment of the Management Board (STI), updating the 2017 corporate business planning, mandating PwC for audit-related consulting in 2017 and for providing services in connection with implementing IFRS 16 in the LEG Group.

CORPORATE GOVERNANCE

Working with the Management Board, in November 2017 the Supervisory Board discussed the updated version of the declaration of compliance in accordance with section 161(1) AktG that was issued in the previous year and issued this. The updated declaration has been made permanently available on the company's website.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Management Board prepared the annual (separate) financial statements and management report for the 2016 financial year in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the consolidated financial statements and Group management report in accordance with the provisions of the International Financial Reporting Standards (IFRS), as endorsed in the European Union, and the additional commercial regulations of section 315a HGB. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) was appointed as the auditor of the annual and consolidated financial statements for the 2017 financial year. PwC audited the annual financial statements, including the management report, and the consolidated financial statements, including the Group management report, for the 2016 financial year and issued an unqualified audit opinion for each.

A review of the risk management and monitoring system is included in the audit. In the report on the risk management and monitoring system of the Management Board, the auditor commented on risks jeopardising the continued existence of the company as a going concern. The auditor considers that the risk management and monitoring system is suitable for the early detection of developments that could threaten the continuation of the company.

The Supervisory Board received the audited and certified annual financial statements and the management report for the 2016 financial year in good time. The Supervisory Board conducted its own audit, taking into account the report of the auditor and the report of the Chairman of the Audit Committee on the preliminary audit of the annual financial statements. The same applies to the consolidated financial statements, the Group management report and the proposal of the Management Board for the appropriation of earnings.

At the meeting of the Audit Committee on 7 March 2017 and at the meeting of the Supervisory Board on 8 March 2017, representatives for the auditor explained the results of the audit as a whole and the individual areas of audit focus. There were no objections. The auditors found no facts during their audit that contradict the declaration of compliance. In the committee meetings, the Audit Committee and the Supervisory Board of LEG Immobilien AG were informed by the representatives of the auditor on the independence of the auditor and acknowledged their independence report.

The auditors expressly stated that there were no circumstances giving rise to concern over their impartiality. There were also no objections after a thorough examination of all documents by the Supervisory Board. The Supervisory Board approved the results of the audit.

The Supervisory Board approved the (separate) financial statements and management report for 2016 and the consolidated financial statements and Group management report for 2016 in accordance with the proposal of the Audit Committee on 8 March 2017. The annual financial statements for 2016 were therefore adopted and the consolidated financial statements for 2016 were approved.

The Supervisory Board reviewed the proposal of the Management Board for the appropriation of the unappropriated surplus, taking into account in particular the liquidity of the company and its financial and investment planning. After this review, the Supervisory Board endorsed the Management Board's proposal to distribute EUR 174,399,390.60 as a dividend (EUR 2.76 per share).

The remaining part of the unappropriated surplus in the amount of EUR 18,596,351.90 will be carried forward to new account.

At its meeting on 7 March 2018, after in-depth examination and discussion, the Supervisory Board adopted the annual financial statements for 2017, including the management report, and approved the consolidated financial statements for 2017, including the Group management report, on the recommendation of the Audit Committee.

MANAGEMENT BOARD AND SUPERVISORY BOARD

The composition of the Management Board in the 2017 financial year was the same as it has been since the IPO in 2013.

The Supervisory Board would like to thank the LEG shareholders for their ongoing and renewed confidence in the company which reflects the positive response of the capital market to the LEG strategy. For their above-average commitment in pursuing the ambitious targets for the 2017 reporting year, particularly in the context of implementing the operations 2016+ reorganisation project, the Supervisory Board would like to thank the LEG Management Board and employees.

Dusseldorf, 7 March 2018

On behalf of the Supervisory Board of LEG Immobilien AG

MICHAEL ZIMMER
Chairman of the Supervisory Board

CORPORATE GOVERNANCE

The trust of investors, employees, customers and the public in LEG Immobilien AG is gained and maintained by responsible and value-based management and control of the company geared to long-term business success. Respecting the interests of shareholders and employees, transparency and responsibility in business decisions and the appropriate handling of risk are therefore core elements of our corporate governance and the basis for the work of the Supervisory Board, the Management Board and the employees of LEG Immobilien AG.

Below, the Management Board, together with the Supervisory Board, reports on corporate governance at LEG Immobilien AG. Further information on this can be found in the corporate governance declaration (page 97 of the annual report); this information is also part of our corporate governance reporting.

COMPLIANCE WITH THE RECOMMENDATIONS OF THE GERMAN CORPORATE GOVERNANCE CODE

LEG Immobilien AG complies with the currently applicable recommendations of the German Corporate Governance Code as amended on 7 February 2017 (“Code”).

The Management Board and Supervisory Board have discussed compliance with the recommendations of the Code and, in November 2017, issued a declaration of compliance in accordance with section 161(1) of the Aktiengesetz (AktG – German Stock Corporation Act). The declaration of compliance issued in the 2017 financial year has been printed in the corporate governance declaration (page 97 of the annual report).

LEG Immobilien AG also complies with the suggestions of the Code, which can be deviated from without disclosure in the declaration of compliance, with the following exceptions:

- Item 2.3.3 of the Code suggests that the company should make it possible for shareholders to monitor the Annual General Meeting using modern communication media (e.g. the internet). LEG Immobilien AG has examined the technical cost and effort this would entail and has come to the conclusion that this would be disproportionate to the information benefit for shareholders, particularly since all speeches by the Management Board are published on the company’s website.
- In accordance with item 3.7(3) of the Code, in the event of a takeover bid, the Management Board should convene an extraordinary general meeting at which shareholders discuss the takeover bid and possibly decide on corporate action. It is questionable as to whether the organisational effort of convening a general meeting would be justified if no corporate action was to be resolved. Accordingly, the Management Board reserves the right to convene an extraordinary general meeting only if a resolution is planned.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of LEG Immobilien AG consists of six members, all of whom are elected by the Annual General Meeting as shareholder representatives. The mandates of the current members of the Supervisory Board – with the exception of Dr Claus Nolting – are scheduled to end after the Annual General Meeting that resolves official approval for their actions for the 2017 financial year. Dr Claus Nolting’s mandate ends after the Annual General Meeting that adopts the resolution on official approval of his actions for the 2021 financial year.

In accordance with item 5.4.1(2) of the recommendations of the German Corporate Governance Code (GCGC), the Supervisory Board resolved the following objectives for its composition on 23 April 2013, last modified on 28 September 2017. In this context, the Supervisory Board meeting on 28 September 2017 adopted a competence profile devised in 2017 as an additional target:

1. Fulfilment of the competence profile

On the basis of their knowledge, skills and professional experience, the members of the Supervisory Board should be able to perform the duties of a Supervisory Board member of a listed property company with a focus on residential properties. In particular, this includes knowledge of the property industry in addition to general requirements expected of a correspondingly responsible position, such as teamwork, integrity and an awareness of responsibility and sustainability.

Furthermore, the Supervisory Board has designated special areas of competence, which are met by the Supervisory Board as a whole through individual members’ key areas of competence. These special areas of competence are the key issues derived from the business activities of LEG Immobilien AG as a listed property company. In particular, key competence in these topics is acquired through many years of experience in and a special commitment to the respective field, and goes far beyond general knowledge and capabilities in these areas.

Each special area of competence should be covered by at least one Supervisory Board member. However, in order to benefit from specific expertise and to allow the Supervisory Board to function efficiently, it is not intended that each member of the Supervisory Board covers the majority of the special areas of competence.

When selecting the members of Supervisory Board committees in particular, care must be taken to ensure that the respective committee has a member specialising in the subject matter of the committee at all times.

The special areas of competence that should be fulfilled by the Supervisory Board as a whole include special expertise in the following areas:

Business management

As a listed company whose shareholders are mainly institutional investors, the company is committed to increasing its enterprise value by serving the expectations of its key stakeholders, namely its shareholders, tenants and employees. Efficient management and the optimisation of these requirements demand special experience of heading up complex organisations.

Housing industry

LEG Immobilien AG focuses on the management of residential property. Knowledge of the specifics of managing large residential portfolios and exploiting the residential value chain are of great importance for the qualified oversight and guidance of the management of one of Germany's largest property holding companies.

Property transactions

Growth through acquisitions and the integration of property portfolios are a major cornerstone of our corporate strategy. However, value is generated by such growth only if the risk/reward profile is attractive relative to the consideration. Detailed experience of property transactions is helpful in assessing and evaluating the corresponding purchase and sales opportunities and their structures.

Bank and capital market financing

Against the background of the growth strategy and safeguarding liquidity in the long term, the financing of the company with equity and debt is a matter of crucial importance. Capital discipline and efficiency are the cornerstones of corporate strategy, together with a defensive financing profile. Banking and capital market financing expertise is required in order to make the best possible use of the extensive range of capital market instruments and bank financing available.

Finance

Efficient oversight demands an in-depth knowledge of the analysis of financial reports and controlling assessments. The ability to analyse and scrutinise risks, to be sensitive to and have an affinity for the significance of effective compliance structures can be applied more profitably with appropriate experience and the knowledge acquired.

Management and regulation

"Housing" fulfils a basic need. As major provider of residential housing, LEG takes the responsibility this entails seriously. LEG therefore also serves its local municipalities as a partner to help solve housing shortages. Furthermore, defining rent levels in particular is subject to regulatory requirements that are constantly under discussion of potential amendment. Communication with the public sector, an understanding of the relevant perspectives and the analysis of regulatory developments are therefore highly important.

2. Fulfilment of GCGC requirements

The members of the Supervisory Board should satisfy the requirements of the German Corporate Governance Code. In particular, these include the requirements regarding the independence of the members of the Supervisory Board (5.4.2 sentence 3 GCGC: not members of governing bodies of, or exercise advisory functions at, significant competitors, 5.4.4 GCGC: not a member of the management board of the same listed company in the last two years) and their having sufficient time available (5.4.5 sentence 2 GCGC: no more than three supervisory board mandates at listed companies in total).

3. Independence

At least five members of the Supervisory Board must be independent as defined by item 5.4.2 sentence 2 of the GCGC, i.e. in particular they must have no business or personal relationship with LEG Immobilien AG, its executive bodies, a controlling shareholder or an affiliated company, which could give rise to a material and not merely temporary conflict of interest.

4. Diversity and participation of women

In the interests of complementary cooperation within the Supervisory Board, attention should be paid to sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience when selecting candidates. As the business activities of LEG Immobilien AG primarily concentrate on residential property in Germany, it is not necessary, in the opinion of the Supervisory Board, that the Supervisory Board has one or more members with a particular degree of international experience. Nevertheless, the Supervisory Board welcomes it if a member has an international background.

There should be at least one woman on the Supervisory Board.

5. Age limit

Only candidates younger than 75 at the time of the election should be proposed for the Supervisory Board.

6. Membership of the Supervisory Board

A member of the Supervisory Board is not usually a member for more than fifteen years (first appointment plus two re-appointments).

Implementation / fulfilment of objectives

All goals have been achieved with the current composition of the Supervisory Board. In particular, the requisite competence profile has been fulfilled. This is illustrated by the table and brief CVs below:

T11 – Fulfilment of objectives

					Committee membership	
	Age	*Member since*	*Appointed until (AGM)*	*Independence*	*Executive Committee**	*Audit Committee*
Michael Zimmer (Chairman)	54	2013	2018	•	X	
Stefan Jütte (Deputy Chairman)	71	2013	2018	•	•	X
Natalie C. Hayday	41	2015	2018	•		•
Dr Johannes Ludewig	72	2012	2018	•	•	
Dr Claus Nolting	66	2016	2022	•		
Dr Jochen Scharpe	58	2013	2018	•		•

* Nomination Committee has the same composition as the Executive Committee.
X = Chairperson
• = Member / fulfilled

Michael Zimmer

Michael Zimmer co-founded the Corpus Sireo Group in 1995 and, as the chairman of its management, built it into one of the largest asset management companies in Germany, with more than 500 employees and assets under management of around EUR 17 billion. In his years as the property group's CEO, Michael Zimmer has overseen corporate and property transactions with a total value of more than EUR 20 billion. This includes the sale of roughly 11,000 Deutsche Post AG apartments and 48,000 ThyssenKrupp AG apartments. In this context, alongside expert knowledge in the structuring and financing of large property transactions, Michael Zimmer also gained an extensive understanding of dealing with public agencies. Michael Zimmer gradually sold his shares to a banking syndicate in the years that followed, before leaving the company in 2009. Since leaving the Corpus Sireo Group, Michael Zimmer has successfully applied his knowledge and experience as an investor and consultant to many, mostly property-related, transactions. Michael Zimmer's philanthropic spirit is demonstrated by the Cornelius Foundation, which helps the children of parents suffering from addictions.

Stefan Jütte

As a long-serving board member at major German banks, Stefan Jütte has more than 20 years of experience in the responsible governance of banks. Stefan Jütte was appointed to the board of Deutsche Postbank AG in 2000, where he was made CEO in July 2009, a position he held until he left the company in July 2012. Mr Jütte's responsibilities at Deutsche Postbank AG included corporate banking and commercial property financing. Before joining the Deutsche Postbank AG board, Stefan Jütte was with DSL Bank, Bonn, as a member of the board from 1994 and chairman from 1997. From 1990 he was a deputy member of the board of Stadtsparkasse Münster/Westfalen, and went on to become a full member from 1992 to 1994. Stefan Jütte is a member of the Supervisory Board of HSH Nordbank, where he has also plied his expertise as the Chairman of the Risk Committee since the end of 2012.

Natalie C. Hayday

Natalie C. Hayday acquired her extensive knowledge in investment banking, capital markets and finance while working at UBS Warburg (Investment Banking division of the Corporate Advisory Group, New York, 1997 to 1999) and GOLDMAN SACHS & CO, where she most recently held the position of Executive Director of Investment Banking in Frankfurt/Main. Natalie C. Hayday worked for BIG from 2009 to 2012, initially as a consultant to HE Sheikh H. A Al-Banawi (Chairman and CEO of BIG, Saudi Arabia) and subsequently as the Head of Business Development, Jeddah, Dubai and Frankfurt/Main. Since 2013, Natalie C. Hayday has been exercising her experience and proven expertise as a consultant, initially as a freelance consultant for capital markets and investor relations, from 2016 as an investment consultant to Obermark GmbH, and since 2018 as Chief Executive Officer of 7Square GmbH. Natalie C. Hayday is a member of the Supervisory Board of JOST Werke AG.

Dr Johannes Ludewig

Dr Johannes Ludewig spent many years in senior positions at the German Federal Ministry of Economics, most recently as State Secretary and Federal Government Commissioner for the New Länder, and previously in the Federal Chancellery as head of the Department of Economics, Finance and Coordination for the New Länder. During his time as the CEO of Deutsche Bahn AG (1997 to 1999) and as Executive Director of the Community of European Railway and Infrastructure Companies (2002 to 2011), he also gained valuable knowledge and experience in the field of corporate governance and government regulation in key sectors. Since 2006, Dr Johannes Ludewig has been the Chairman of the National Regulatory Control Council, responsible for federal ministry information on the follow-up costs of legislation, and advising the government on reducing bureaucracy, limiting statutory follow-up costs and digitising public administration.

Dr Claus Nolting

After studying law, Dr Claus Nolting initially became a lawyer and then worked for the HYPOVEREINSBANK Group from 1989 to 2002, where he held various board positions (director of Bayerische Vereinsbank, CEO of Bayerische Handelsbank/HVB Real Estate, director of Hypovereinsbank). Dr Claus Nolting applied and further improved his outstanding finance, capital market and property expertise acquired during this time in his next position as CEO of COREALCREDITBANK AG (formerly Allgemeine Hypothekenbank Rheinboden). Since 2015, Dr Claus Nolting has been using his expertise as senior advisor to the private equity firm Lone Star Germany. Dr Claus is a member of the supervisory boards of IKB Deutsche Industriebank AG, TLG Immobilien AG, Trust Real Estate Invest Management GmbH and Chairman of the Supervisory Board of MHB Bank.

Dr Jochen Scharpe

After studying business and earning his doctorate, Dr Jochen Scharpe was initially a senior manager in the corporate finance department of KPMG Peat Marwick GmbH, where he acquired his extensive knowledge in the field of finance. Since 1996 he has held prominent management positions at various companies in the property industry, including as Managing Director of Eisenbahnimmobilienmanagement GmbH (later Vivico GmbH, today CAImmo Deutschland GmbH, from 1996 to 1999) and subsequently as Managing Director of Siemens Real Estate GmbH. Since 2004, Dr Jochen Scharpe has been applying his outstanding knowledge in the fields of the property industry and transactions as a managing partner of AMCI GmbH and ReTurn Immobilien GmbH. Dr Jochen Scharpe is the Deputy Chairman of the Supervisory Board of FFIRE AG, Supervisory board member and Chairman of the Audit Committee of Instone Real Estate Group N.V. and a member of the Advisory Board of Ista GmbH and H&H Holding GmbH.

DIRECTORS' DEALINGS

In accordance with Article 19 of the Market Abuse Regulation (MAR), the members of the Supervisory Board and the Management Board are required to immediately disclose transactions involving shares and bonds of LEG Immobilien AG or related financial instruments if the value of the transactions attributable to the member or related persons reaches or exceeds a total of EUR 5,000 within a calendar year. Four such transactions were reported to LEG Immobilien AG in the 2017 financial year. Details of these transactions were published as required and can be accessed on the company's website at *www.leg-wohnen.de/en/corporation/investor-relations/corporate-governance/directors-dealings/*.

SHARE PROGRAMMES AND SHAREHOLDINGS

LEG Immobilien AG has not currently set up any share option plans and does not currently have any similar share-based incentive systems. As at 31 December 2017, the members of the Management Board and the Supervisory Board held less than 1% of the shares issued by the company.

TRANSPARENCY

In dealing with the shareholders of the company, LEG Immobilien AG abides by the principle of comprehensive, continuous and timely information. We provide detailed documents and information, such as financial reports, current ad hoc disclosures and press releases and information on Annual General Meetings on our website *www.leg.ag*. The company's Articles of Association can also be found on the website.

COMPLIANCE MANAGEMENT SYSTEM

Compliance with the law and the company's internal policies is a key management and monitoring function. LEG Immobilien AG maintains a compliance management system and, in this context, has appointed a compliance officer and an experienced external ombudsman as an additional point of contact. Please see page 42 of the annual report for information on the compliance management system.

DECLARATION IN ACCORDANCE WITH SECTION 289F HGB

The corporate governance declaration in accordance with section 289f of the Handelsgesetzbuch (HGB – German Commercial Code), including the above declaration in accordance with section 161 AktG and the relevant disclosures on corporate governance practices applied in addition to the statutory requirements, is a component of the management report. Please see page 97 of the management report in this respect.

The corporate governance report of LEG Immobilien AG, including the corporate governance declaration in accordance with section 289f HGB, can also be found on the website of LEG Immobilien AG at *www.leg.ag*.

COMPLIANCE

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public. Fully aware of this, the compliance system is designed for the day-to-day business.

The main principles for conduct within the company and with respect to business partners are compiled in the LEG Code of Conduct, which can be found on our website. As a guideline for proper conduct, it assists employees in making the right decisions in their day-to-day work. Associated guidelines substantiate the Code of Conduct with regard to central issues such as integrity, competition and working with business partners.

Persons who identify any breaches of compliance can contact their supervisors, the Compliance Officer or the external ombudsman, who can guarantee the whistleblower anonymity as far as the law allows. The information is investigated and measures are taken as appropriate.

The regular analysis of compliance risks in combination with the early recognition of significant business and litigation risks, and the corresponding countermeasures, are at the heart of the compliance system.

LEG has appointed a Compliance Officer to head up the compliance management system. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee training and advice. At regular meetings, the heads of Internal Audit, Legal and Human Resources discuss the design of the compliance system with the external ombudsman. Permanent benchmarking against other compliance systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance system. The adequacy and suitability of the compliance management system to prevent fraud has been tested and confirmed by an auditor.

Compliance is assigned to the Legal, Internal Audit and Compliance department, whose head reports directly to the CEO of LEG.

The Audit Committee of the Supervisory Board discusses the topic of compliance on a regular basis and reports to the Supervisory Board accordingly. In the event of urgent notification of serious cases, the Management Board and the Supervisory Board committees are promptly informed of significant developments in the area of compliance.

SEPARATE FINANCIAL STATEMENTS OF LEG IMMOBILIEN AG

LEG IMMOBILIEN AG

As the managing holding company of the LEG Group, LEG Immobilien AG, based in Dusseldorf, performs controlling activities and administrative services for the LEG Group.

As at the balance sheet date of 31 December 2017, the separate entity company is a large corporation within the meaning of section 267 HGB (German Commercial Code). Since applying for a stock market listing in December 2012, LEG Immobilien AG has been considered a publicly traded company in accordance with section 264d HGB and is subject to section 267(3) HGB.

On entry in the commercial register on 11 January 2013, LEG Immobilien GmbH underwent a change of legal form and was renamed LEG Immobilien AG. LEG Immobilien AG went public on 1 February 2013 with the initial listing of its shares on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

HGB ANNUAL FINANCIAL STATEMENTS FOR 2017

Net profit / income statement

The net profit for the year of EUR 2,741.2 million (previous year: net loss of EUR 13.6 million) primarily results from the disclosure of hidden reserves due to the non-cash contribution of LEG NRW to the LEG holding company (EUR 2,767.3 million before income taxes) in order to strengthen the equity basis of LEG Immobilien AG.

An adjustment for all special items would result into an expected small net loss for the year, in line with previous year's level.

Balance sheet

Financial assets increased by EUR 3,658.0 million to EUR 4,747.8 million (previous year: EUR 1,089.8 million). The changes in financial assets essentially result from a contribution in kind of shares in LEG NRW GmbH, LEG Recklinghausen 1 GmbH and LEG Recklinghausen 2 GmbH into LEG Holding GmbH in return for new shares as well as from passing on the proceeds from the issue of the corporate bond and the convertible bond as loans to affiliated companies of the LEG-Group.

The receivables predominantly consist of receivables from affiliated companies (EUR 69.7 million).

Prepaid expenses of EUR 38.9 million (previous year: EUR 28.2 million) essentially include a discount resulting from the difference between the fair value on issue and the liability for convertible bonds recognised at settlement amount.

The equity and liabilities side of the balance sheet comprises equity of EUR 3,469.2 million, liabilities of EUR 1,322.1 million, deferred tax liabilities of EUR 6.2 million and provisions of EUR 65.9 million.

As at 31 December 2017, the equity of LEG Immobilien AG consists of the subscribed capital of EUR 63.2 million, capital reserves of EUR 614.6 million, revenue reserves of EUR 1,402.3 million and net retained profits of EUR 1,389.2 million. The Management Board and the Supervisory Board of LEG Immobilien AG will propose to the Annual General Meeting 2018 to allocate the net retained profit - remaining after the payment of the dividend of EUR 3.04 per share with dividend rights (corresponding to EUR 192.1 million) - to the revenue reserves.

A further convertible bond of EUR 400.0 million maturing by 1 September 2025 was issued on 1 September 2017. In addition to the convertible bonds totalling EUR 700.0 million as at 31 December 2017, a corporate bond of EUR 500.0 million and commercial paper financing (EUR 100.0 million), liabilities comprise other liabilities (EUR 22.0 million) and trade payables (EUR 0.1 million).

Provisions are essentially defined by two provisions for conversion rights in the amount of EUR 60.8 million (previous year: EUR 45.6 million).

T12 – Balance sheet separate financial statements

€ million	**31.12.2017**	*31.12.2016*	*Change*
Financial assets	4,747.8	1,089.8	3,658
Receivables	73.6	145.2	–71.6
Cash and cash equivalents	3.1	3.6	–0.5
Prepaid expenses	38.9	28.2	10.7
TOTAL ASSETS	**4,863.4**	**1,266.8**	**3,596.6**
Equity	3,469.2	902.5	2,566.7
Provisions	65.9	50.2	15.7
Liabilities	1,322.1	314.1	1,008.0
Deferred tax liabilities	6.2	0.0	6.2
TOTAL EQUITY AND LIABILITIES	**4,863.4**	**1,266.8**	**3,596.6**

Financial statements

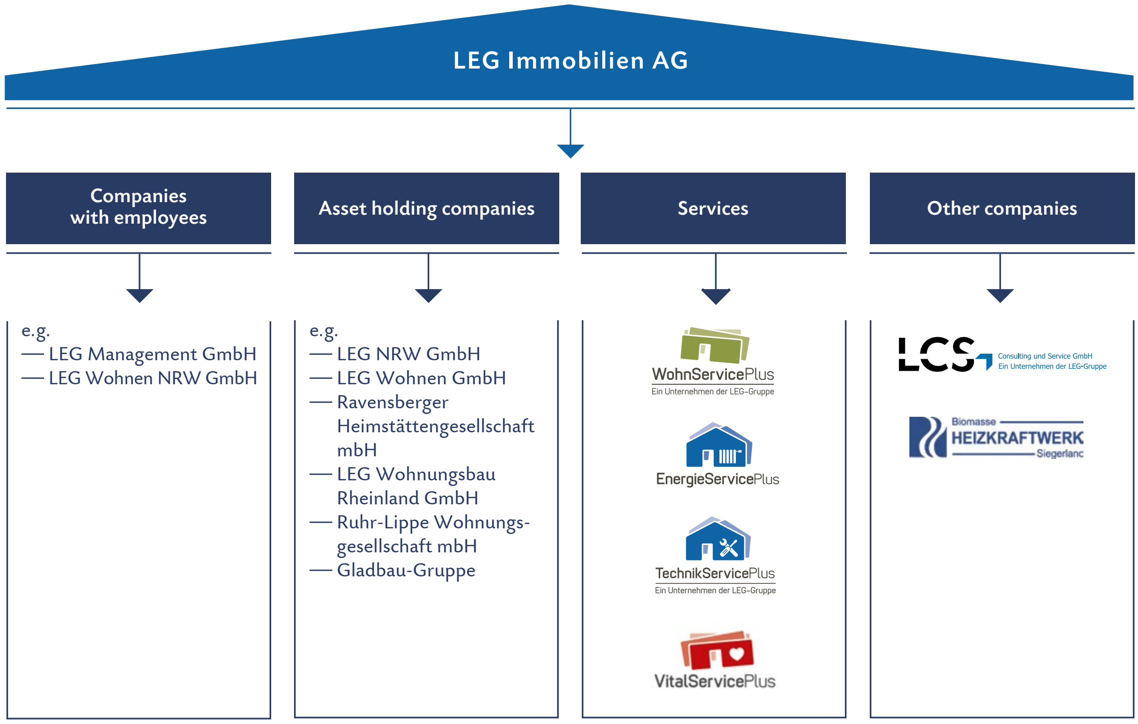
The full HGB annual financial statements of LEG Immobilien AG, with an unqualified audit opinion from the auditor, are disclosed in the electronic Federal Gazette. They can also be requested from LEG Immobilien AG as a special print and are published on the website of LEG Immobilien AG.

CHAPTER

3

MANAGEMENT REPORT

F4 – LEG Group structure



For details of the Management Board members' responsibilities see page 182
For the list of shareholdings see page 159

BASIC INFORMATION ON THE GROUP

GROUP STRUCTURE AND LEGAL FORM

LEG Immobilien AG was formed in 2013 following the transformation of LEG Immobilien GmbH. A diagram of the Group structure of LEG Immobilien AG is shown in *figure* **F4**.

BUSINESS ACTIVITIES AND STRATEGY

With a portfolio of around 130,000 apartments at 170 locations in North Rhine-Westphalia, LEG Immobilien AG is one of the leading residential property companies in Germany, and also the regional market leader in North Rhine-Westphalia. LEG's core business is the management and development of its residential portfolio and the expansion of the portfolio through value-adding acquisitions. The business model is supplemented by the development of innovative services and the cultivation of new income models.

Thanks to the strategic focus on the affordable segment of the North Rhine-Westphalia metropolitan region, LEG benefits in particular from this region's positive economic and demographic data. NRW is not just the most densely populated federal state and Germany's economic heavyweight, but also one of Europe's largest conurbations and a core region for immigration to Germany. This creates high demand for affordable living space, particularly as a result of the rapidly growing number of one-to-two-person households. LEG's apartment offering is precisely tailored to these needs. At the same time, the regional focus of its portfolio gives LEG a sustainable competitive edge in terms of property management, operating efficiency and market knowledge.

LEG's business model is geared towards growth and customer focus, and thereby takes a sustainable, value-oriented approach that reconciles shareholder and tenant interests. This also includes the continuous improvement of internal processes and structures. The company also has a strong interest in leveraging the advantages of digitisation.

LEG's business model and the company's ongoing growth are ensured by a solid statement of financial position and a favourable, secure, long-term financing structure in the interests of all stakeholders. A low LTV of 42.3%, an average remaining term on loans of 8.1 years and average financing costs of 1.74% document LEG's defensive risk profile and its strong position on the financing market.

The company's employees are another key factor in its success. LEG is therefore keen to ensure its appeal as an employer, so as to attract and retain qualified and motivated employees.

Organic growth

LEG has consistently achieved rental growth in excess of the market average in recent years (+2.7% per year since 2012). Like-for-like rent growth amounted to 3.3% in 2017. At the same time, the vacancy rate on a like-for-like basis remained at a low level of recently 2.8%. These results were achieved on the basis of efficient and targeted capital expenditure with investments of around EUR 22.4 per square metre in the reporting year, and highlight LEG's management expertise, the quality of its portfolio and the attractiveness of its markets.

A further positive rental development is expected in the coming years, with an annual like-for-like increase of around 3.0% to 3.5%. In its free-financed portfolio, rent increases are possible through alignments with rent tables, when letting properties to new tenants and when implementing modernisation measures. Value-adding investment has been stepped up since autumn 2017 as part of an extensive, multi-year modernisation programme. Such investments are carried out in line with the specific market circumstances and are subject to strictly defined return criteria and an internal rate of return of 6%. In the rent-restricted portfolio, inflationary developments are passed on to tenants every three years in the form of adjustments to the cost of rent. A positive effect can also result from modernisation measures here. Also, rent control will expire for some of this portfolio over the coming years. This provides leeway for rent adjustments on properties where the rent, in some cases, is significantly below market levels.

LEG uses selective growth opportunities as well by building new residential properties on the land held and within existing LEG neighbourhoods. 51 newly built apartments in Münster have been available to rent for the first time since the spring of 2018. The potential for 800 residential units in total has been identified in the context of redensification measures.

External growth and portfolio optimisation

Depending on the market situation, LEG's property portfolio can be expanded by acquisitions. Acquisitions are focused on the company's core regions in NRW, where the highest cost synergies can be generated thanks to the strong presence already in place. LEG applies a selective, value-oriented acquisition strategy that is geared towards clear targets for increasing its operating margins and the FFO yield, and to the development of net asset value (NAV). Even in an environment that has become more difficult due to increased purchase price demands, LEG has stood by its strict acquisition criteria and the principle of capital discipline. Since its IPO in 2013, LEG has acquired portfolios of different sizes with around 45,000 residential units in total and attractive returns. Thanks to their fast and sustainable integration, economies of scale can be leveraged and operating margins increased. This is particularly true for turnaround portfolios as well. LEG is also a sought-after negotiating partner on the transaction market for special situations. As a bidder, LEG can assert special strengths such as its good reputation, the guarantee of transaction security and the ability to manage complexity.

LEG takes advantage of the appropriate market environment to sell sub-portfolios or individual properties in the context of portfolio optimisation.

Expansion of value-added services

The customer base of around 350,000 tenants is also the foundation for expanding services. LEG can create value-added for both its tenants and its shareholders. By working with partners, external expertise is combined with LEG's management flair to minimise risk. Having successfully launched its multimedia business in cooperation with Unitymedia in 2014, LEG has since then offered its tenants a significantly improved product range at low rates. EnergieServicePlus, a joint venture between LEG (51%) and Innogy, commenced operations in January 2016 and manages all energy technology and utilisation services for LEG's properties. LEG and B&O Service und Messtechnik AG began a joint venture, TSP – TechnikServicePlus (51% share held by LEG), for the management of small repairs in January 2017. The new company VSP – VitalServicePlus was created in December 2017 to provide LEG tenants with services relating to care, safety, vitality and community support. In addition to increasing customer satisfaction and loyalty, service activities as a whole make a significantly positive contribution to earnings that is set to keep on growing. In light of this, LEG will continue to work on the development of its housing and non-housing services moving ahead.

Innovation and digitisation

LEG recognised the digitisation megatrend at an early stage and was able to further consolidate its leading position in this field. The opportunities for LEG's business model mainly lie in the areas of process efficiency, building technology, value-added services and customer contact. A number of measures were in the planning phase at the end of the 2017 financial year or had already been successfully implemented. A powerful IT platform and competent IT specialists are just as important for this as LEG's corporate culture, in which the willingness to innovate and constantly evolve is firmly established.

Further increase in profitability

LEG has increased its profitability steadily since its IPO. Together with systematic cost discipline, efficiency enhancement measures, new profitable business areas and financing at favourable conditions, the dynamic growth in rent is expected to lead to strong earnings growth as well.

GROUP MANAGEMENT SYSTEM

The strategic development of LEG is geared towards sustainably increasing its enterprise value. The Group management system is systematically focused on supporting this value-oriented corporate strategy and on deviations in leading indicators.

The management system of the LEG Group continues to be built on a control concept based on performance indicators, with the planning process serving as a key instrument. This is an integrated process resulting in five-year planning consisting of the statement of comprehensive income, the statement of financial position and the statement of cash flows. The entire process is based on detailed planning specific to properties, persons and projects. As part of the forecast process, planning for the current and following financial years is revised and updated at regular intervals on the basis of the current business performance. At the same time, there is a close connection between planning and forecasts with the risk management system, with the result that corresponding countermeasures can be promptly derived and implemented for any risks ascertained. Cash flow projections for the development of the liquidity situation are prepared on a monthly basis and allow potential financial risks to be identified at an early stage.

The Management Board, the Supervisory Board and executives are informed on the key value drivers and current business performance on a monthly and quarterly basis in the form of standardised reporting. The foundation for this reporting system is the IT-based Group data warehouse, which is connected to the Group-wide SAP system. As part of this regular reporting, current actual data is compared against forecast data, with any deviations being analysed and commented on before countermeasures are developed and introduced. Particular importance is attached to deviations in leading indicators that provide an outlook for future business performance. Key leading indicators are data such as the termination of leases, fluctuation, changes in the regulatory environment and interest rate developments.

In addition to monthly reporting, talks are held in person at various levels on a monthly basis, where current business figures are analysed, measures – e.g. for improving efficiency – are devised and their effectiveness is reviewed. The efficiency of Group management is determined to a large extent by the effectiveness of the management cycle.

The overall system of key performance indicators is structured by functional areas to ensure a targeted control of individual areas. There is a target definition and achievement system within the functional areas. Corresponding responsibilities for all value drivers are defined within the organisation. The target system affects the focus of the individual levels of hierarchy.

Essential financial key performance indicator for Group management is FFO. In contrast to net profit, FFO is not influenced by volatile valuation results and thus more informative with regards to operating business success.

Further key figures relevant for the property industry, such as NAV and LTV, are also aggregated, analysed and assessed at Group level.

Furthermore, key figures and effects in connection with investments and acquisitions are subject to special monitoring.

There is regular benchmarking against the corresponding figures for competitors.

In the functional area "residential", LEG focuses in particular on further improving the performance indicators in its operating business. Key indicators include rent per square metre and vacancies, which directly and indirectly influence the Group's key figures. The corresponding cost items, such as maintenance measures and staff and non-staff operating costs, are budgeted and monitored. Monthly reporting is used to analyse effect relationships and to derive measures. The impact of acquisitions is examined separately.

The functional area "administrative and other expenses" primarily consists of the central divisions that perform general Group functions. Detailed budgets for the individual cost positions are discussed and agreed with the respective cost centre managers.

There are further key figures that are subject to monitoring on a regular basis.

For staff costs, financial indicators of a less direct nature – such as sick leave, employee turnover and staff development needs – are taken into account in management reporting.

The nature of the industry means that debt service plays an important role in company management on account of the importance of the liquidity and earnings situation. The central Corporate Finance & Treasury division, which is responsible for controlling, ensure the optimisation of the LEG Group's liquidity position while taking into account market developments. Based on current forecast figures and risk and opportunity reports, various liquidity scenarios are included in reporting and measures are derived on this basis. Additional financial reports on refinancing, covenants and interest rate developments are also important elements of Management Board and Executive reporting.

As a further condition, compliance with the obligations under the social charter until 28 August 2018 is taken into account. All of the protective provisions, such as minimum investment, are incorporated into management processes and included in regular standard reporting.

Non-financial key performance indicators that are not part of the Group management do not exist.

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

Strong upswing continues

The German economy remained in robust condition in 2017 and enjoyed strong growth. Private consumer spending remained a key driver, and was boosted by the positive performance on the labour market and the development in income. As part of the ongoing recovery of the global economy, which saw real gross domestic product (GDP) expand by 3.5% in 2017, German exports also began to rise at a faster rate. Strong domestic demand and foreign trade saw a significant resurgence in investment, which also benefited from the consistently low interest rates. Overall, GDP thus rose by 2.2% in 2017, according to the German Federal Statistical Office. This development is comparable to that of the euro area, where the EU Commission calculated GDP growth of 2.2%. Here, too, the main drivers were increased private consumer spending, the global upswing and significant growth in investment.

With conditions as they are now, the very strong economy in Germany is expected to continue in the current year. According to Bundesbank estimates, German GDP could therefore rise by 2.5% in 2018. In the medium term, however, growth momentum will probably be limited by the shortage of workers and the high level of capacity utilisation already achieved. The European Commission expects the strong expansion in the euro area to continue in 2018, with only a marginal slowdown in job creation, disposable income and investment. The growth of the previous year is therefore likely to almost continue with GDP growth of 2.1% in 2018.

The economic recovery in Germany allowed a further improvement in employment. According to initial calculations by the Federal Statistical Office, the number of people in work in 2017 increased by 1.5% to around 44.3 million – the strongest growth in the last ten years. Negative demographic effects were also compensated by the immigration of foreign workers. According to the annual report of the Council of Economic Experts, net immigration in 2017 totalled 500,000 persons, thereof 439,000 persons of working age, only 6,000 of whom were refugees. The unemployment rate in Germany has continued to decline accordingly. It averaged 5.7% in 2017, down 40 basis points on the previous year. The Bundesbank expects a further decrease to 5.3% for 2018. The unemployment rate was further reduced in North Rhine-Westphalia in 2017 as well. It was 7.0% at the end of December 2017, after 7.4% as at the end of the previous year.

In addition to the rise in employment, negotiated pay adjustments also led to growth in disposable income in 2017. Standard wages grew by 2.3%, and were therefore ahead of inflation for the sixth year in a row. Measured by the consumer price index (HICP), inflation was 1.7% and thus – as a result of higher energy prices in particular – up significantly on the previous year's level of 0.4%. Inflation is also forecasted at 1.7% for 2018 with growth in standard wages of 2.4%.

The general economic situation therefore remains conducive to housing demand in Germany, and thus beneficial to LEG's business model as well.

NRW RESIDENTIAL MARKET

Persistent demand pressure causing rents and purchase prices to rise significantly throughout NRW

Rapid increases in asking rents and property prices are still being observed across the board on the NRW residential market. According to empirica, asking rents were up in all 53 cities and districts compared to the same period of the previous year in the period from January to December 2017. Average asking rents in NRW climbed by 2.8% from EUR 6.43 per square metre to EUR 6.61 per square metre. Purchase prices for owner-occupied apartments and, in particular, apartment buildings in NRW increased significantly by an average of 8.0% and 9.0% respectively, reflecting the consistently high level of interest among private individuals and institutional investors from Germany and abroad in residential property as an asset class.

The demand for housing and thus the appeal of North Rhine-Westphalia as a rental market is growing all the time. Continued positive demographic trends are still stoking further demand for housing. According to provisional IT.NRW figures, the population rose by around 25,000 to approximately 17.89 million as at 31 December 2016. Although the influx of refugees from countries outside Europe has slowed significantly since the start of 2016, the effects on the housing market in NRW are all the more significant – albeit after a delay depending on the growing number of people being processed for asylum status.

The shortage of available housing in metropolitan areas is also reflected by the fact that the average consumption of living space per capita, bucking the long-term trend, has declined again since 2015. According to NRW.Bank, the markets are currently as tight as they last were in the mid-1990s.

Rent development

The positive trend in asking rents in NRW continued. With the exception of the Aachen city region, where average rental growth was flat following a very strong previous year, all cities and districts reported higher average asking rents (median values) compared to the previous year. Increases in asking rents were particularly high in Münster (up 6.7%) and Cologne (up 5.8%) as well as in the B locations Herne (up 5.7%), Hamm (up 5.3%) and Duisburg (up 5.3%). According to empirica, there were minor increases (less than 2%) for the city of Hagen (up 1.5%), the Olpe district (up 1.7%) and Euskirchen (up 1.9%).

The most attractive housing market regions enjoyed strong growth: While Dusseldorf overcame the key price limit of EUR 10.00 per square metre for the first time (up 3.0%), asking rents in Cologne – still the most expensive housing market in NRW – grew by 5.8% to EUR 10.58 per square metre.

The housing markets in the northern Ruhr area are now also starting to benefit from the positive price trend: the cities of Bottrop (up 5.1%), Gelsenkirchen (up 4.8%) and Herne (up 5.7%) and the district of Recklinghausen (up 5.2%) experienced strong increases in average asking rents. Rent trends were highly positive outside the conurbations and the attractive large cities as well. In East Westphalia, for instance the Bielefeld and Paderborn locations reported significant rental increases of 4.3% and 4.0% respectively.

At currently EUR 4.68 per square metre, Höxter remains by far the most affordable district and the only housing market in NRW with average asking rents of less than EUR 5.

The trend in median asking rents is similar in the low cost segment (lowest quartile of asking rents). Rents in the low-cost segment of the Aachen city regions were virtually unchanged with a swelling of 0.2%. Similarly, there was only marginal growth in the districts of Minden-Lübbecke (1.4%) and Euskirchen and in Hagen (both up 1.5%). The highest increases were reported in Westphalia – average asking prices in the low-cost segment in Münster, Dortmund and the Warendorf district all rose by more than 5%. In Dusseldorf and Cologne, low-cost rents climbed by 4.5% and 3.0% respectively.

There were 559,500 rent-restricted apartments in North Rhine-Westphalia at the end of 2016. This figure was therefore down by 16,400 units (–2.8%) as against the previous year. Around 467,400 of these units are social rental apartments in multi-story residential buildings, while 92,100 are owner-occupied. With around 4.9 million multi-story residences in NRW, only 9.6% of all rented accommodation is rent-restricted. At between 5% and 10%, the share of rent-restricted rental housing is particularly low in large cities with populations of more than 500,000. Examples of this are Dusseldorf (5.7%) and Essen (7.5%).

The previous year's slightly negative trend in figures for completed buildings has been reversed again – completion figures were at their highest level for the last ten years. Approximately 47,200 apartments in residential and non-residential buildings were completed in 2016 – an increase of 16% compared to 2015. Construction activity has also risen again noticeably in the field of apartment buildings, with 21,000 units completed (up 12.5%). However, with construction costs at their current high level, availability remains largely limited to the upper price segment.

Vacancy development

As in previous years, demand for housing in NRW was characterised by immigration and the rising number of single- and two-person households. In addition, mainly younger households relocating for training or professional reasons has resulted in higher demand, especially in what are known as "swarm cities". This trend is leading to increased demand, particularly in the low-cost segment, and thus to a further reduction in the vacancy reserve. Cities such as Cologne, Dusseldorf, Bonn and Münster therefore have very low vacancy rates. The average vacancy rate in NRW – based on active vacancies (real lettable living area) – was thus 3.1% overall according to the 2015 CBRE-empirica Vacancy Index, and exactly on par with the German national average. No data were available for the subsequent periods at the time of writing this report. However, LEG is assuming that the downward trend will continue further, particularly in the conurbations.

Prices for owner-occupied apartments still rising strongly in growth centres – Dusseldorf and Cologne approaching EUR 3,500-mark

Purchase prices for owner-occupied apartments rose in virtually all housing market regions as a result of new construction activity continuing to focus on the higher-priced segment and sustained demand pressure. At currently EUR 3,317 (up 8.9%), Cologne is still in second place after Dusseldorf at EUR 3,449 (up 6.7%). Purchase prices for owner-occupied apartments have since also risen to above the EUR 3,000-line in Münster (EUR 3,082, up 6.1%). It is followed, at some distance, by Bonn, where prices have risen by 4.3% (EUR 2,635). The strongest percentage increases (between 14% and 15%) were reported in the districts of Coesfeld, Rhein-Erft and Gütersloh. In the low-cost segment (25th percentile), average asking prices surged most, by 21.9%, in the Rhein-Erft district. Price increases in this segment were also significant in Bottrop (19.9%), the Olpe district and Dusseldorf.

The top four locations in the apartment building segment – Dusseldorf, Cologne, Münster and Bonn – are relatively close together. Average asking prices here are between EUR 2,332 (Bonn) and EUR 2,747 per square metre (Münster). While increases in excess of 20% were reported in the same period of the previous year, the trend slowed somewhat in 2017. Cologne posted the strongest growth of 9.3% and took second place in the state with an average price of EUR 2,691. In line with the level of asking rents, purchase prices in the apartment building segment were the lowest in the districts of Hochsauerland and Höxter, and in the Ruhr area cities of Hagen, Herne and Gelsenkirchen (less than EUR 800 per square metre in each case). However, with the exception of Hochsauerlandkreis (up 1.8%), purchase prices on these residential markets also rose by double-digit rates.

TRANSACTION MARKET

The high level of interest in German residential property among German and international investors was undiminished in the 2017 financial year. With investments of EUR 15.2 billion in residential packages and facilities for 50 or more residential units, the transaction volume was once again up by 11% on the previous year (previous year: EUR 13.7 billion). A significant portion of the overall volume was accounted for by nine-figure transactions. Given the quality of rented accommodation, the German housing market has long been established as an investment market, and is therefore increasingly attracting international investors. Their share of transactions completed continued to rise as against the previous year, amounting to 34% of the investment volume in 2017 (EUR 5.2 billion).

While the number of registered portfolio transactions increased to 303 after 272 in the previous year, the number of apartments sold declined significantly by 20% to around 118,700 units, reflecting the short supply on the market. The area of rental space bought and sold declined by 17% to 7.7 million square metres.

Property portfolios accounted for around 71% of the transaction volume in 2017 (EUR 10.8 billion), as compared to around 75% (EUR 10.2 billion) in the previous year. Properties are therefore still in short supply. By contrast, there was a significant increase of more than 25% in investments in project developments, rising by around EUR 4.4 billion in 2017. This, together with increased trading in high-priced portfolios, led to a sharp rise in purchase prices from EUR 92,810 to EUR 128,100 per apartment on average. The average purchase price per square metre increased by 33% to EUR 1,980.

North Rhine-Westphalia, LEG's core market, was the most sought-after investment location for transactions after Berlin. Transactions here increased significantly to EUR 3.0 billion or around 35,000 residential units in 2017 (previous year: EUR 1.6 billion, 18,000 residential units). LEG acquired around 3,500 residential units in the reporting year, approximately 70% of which in high growth markets.

According to CBRE estimates, the transaction volume in Germany is again set to match the relatively high level of 2017 in 2018. The German residential property market is likely to remain highly attractive to international investors on account of the stable national economic situation on the one hand and political uncertainty elsewhere in Europe on the other. Given the continuing demand for residential property and the trend towards investments in project developments, a further increase in purchase prices is anticipated for major cities and regional centres.

EMPLOYEES

LEG offers its employees "More than a roof over your job". A large number of activities in the areas of training, continuing professional development and health management were therefore implemented in the 2017 financial year as well. A central concern is to develop each employee individually and to support an attractive, pro-performance culture of cooperation. The model for this is formed by the "Principles of Governance and Cooperation", which were devised in 2017 and jointly adopted by all managers and employees.

Number of employees

LEG employed 1,311 people as at the end of 2017, compared to 990 in the previous year. The increase is due to the formation of the new service company Technik ServicePlus, which had 317 employees as at the end of the reporting period. Adjusted for members of the Management Board, managing directors and trainees, the number of full-time equivalents (FTES) was 1,144.7 (2016: 837.8 FTES). The number of trainees increased from 38 in 2016 to 51 in the reporting year.

Continuing professional development

520 LEG employees took part in at least one continuing professional development event in the 2017 financial year (not including TechnikServicePlus). With more than 1,610 seminar days, each employee attended an average of 1.6 seminar days. Training costs amounted to EUR 662,182 in total in the year under review, an average of EUR 666 per employee. The content of training focused on follow-up work and quality assurance for LEG's reorganisation. A clear trend here is the use of internal multipliers to teach matters specific to LEG.

Health management

LEG's employees are actively supported by the company's health management with a wide range of programmes and offers. Established campaigns such as "Active Lunch Break", fresh fruit in the winter months and the annual corporate run cover a broad selection for all interests and age groups. The core element of health management is the LEG family service, which offers a diverse range of advice and support, such as in the areas of childcare and home/eldercare, in addition to counselling in stressful professional or private situations. The online "getfit" programme was also launched in the first quarter of 2017: Employees use a digital platform to book health and fitness classes and to learn about and share information on fitness and work-life balance trends.

Training

51 trainees completed training in the LEG Group as at the end of 2017, mainly as real estate agents, but also as IT specialist or at the service company TechnikServicePlus.

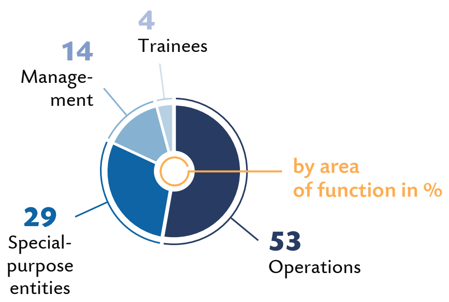
In addition to an intensive introduction to business workflows, a sponsorship model has also been established with systematic support provided by trainees from a more senior year. Seminars and workshops are also offered for specific subjects. In addition, trainees are involved in interesting projects right from the outset. LEG signed contracts with all trainees who had expressed a wish to join the company in the 2017 financial year.

T13 – LEG employees as of 31 December

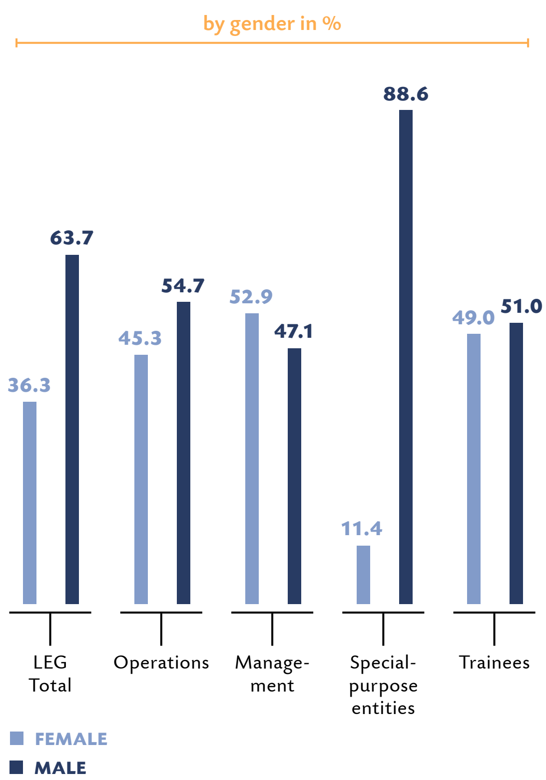
	2017	2016
TOTAL	**1,311**	**990**
male in %	64	53
female in %	36	47
FTEs (excluding Management Board members and trainees)	1,145	838
Fluctuation rate in %	8.9	6.9
Absence rate in %	7.1	4.5
Average age in years	45.3	45.3

* excluding service company TechnikServicePlus

F5 – Employee distribution 1



F6 – Employee distribution 2



CURRENT BUSINESS ACTIVITIES

The LEG Group continued its growth trajectory in the 2017 financial year as well. As in previous years, growth was driven both by organic factors and externally by acquisitions. The key financial performance indicator for Group management, FFO I, rose by 10.1% from EUR 268.3 million to EUR 295.3 million in the 2017 financial year. The key drivers behind this earnings increase were a positive organic development in existing rents across all sub-markets, the effects of acquisitions, high cost discipline for operating and central administrative costs and a further reduction in the already very low average financing costs. Tenant-oriented services, including the service company founded as a joint venture on 1 January 2017 (TechnikServicePlus GmbH), also contributed positively to growth in FFO I.

As at 31 December 2017, LEG Immobilien AG's property portfolio consisted of 130,085 apartments, 1,256 commercial units and 32,629 garages and parking spaces. *Table* **T14** shows the key portfolio data as compared to the previous year.

The change in the residential portfolio mainly related to the acquisition of four portfolios with 3,509 residential units in total that were transferred in 2017. Sales resulted in the disposal of around 1,889 apartments in total, approximately 1,700 of which were already notarised in the 2016 financial year. The disposals were mostly sub-portfolios from acquisitions that did not fit LEG's portfolio structure and, to a smaller extent, remainders from former tenant privatisation activities. The portfolio was further reduced by 23 units as a result of, for example, units being combined.

The acquisition portfolios transferred to the LEG portfolio in the 2017 financial year are located in LEG's core markets and thus offer correspondingly high synergy potential. In addition to achieving cost synergies through economies of scale, there is additional potential for increasing value by reducing vacancies and adjusting rents in line with the market level.

Thanks to proven and standardised integration processes, the portfolios acquired in 2017 were quickly and successfully integrated into the Group's scalable systems and processes so that they already made a significant contribution to increasing operating earnings on a pro rata basis in the reporting year. This was also helped by the full impact described above of properties acquired during the previous year.

Further significant operating value drivers developed as follows:

The average rent on the housing portfolio was EUR 5.50 per square metre of living area as at 31 December 2017. Like-for-like monthly rent per square metre, a key driver for organic growth, rose by 3.3% year-on-year. There was even an increase of 4.1% in the free-financed segment. All market segments contributed to this positive

T14 – Development of the real estate portfolio

Key figure	*Usage*	**31.12.2017**	*31.12.2016*[1]	*Change*	*%*
Number residential units	Residential	130,085	128,488	1,597	1.2
	Commercial	1,256	1,148	108	9.4
	TOTAL RESIDENTIAL AND COMMERCIAL	**131,341**	**129,636**	**1,705**	**1.3**
	Parking	32,629	31,640	989	3.1
	TOTAL	**163,970**	**161,276**	**2,694**	**1.7**
Lettable area in sqm	Residential	8,317,872	8,211,106	106,766	1.3
	Commercial	209,702	193,542	16,160	8.3
	TOTAL RESIDENTIAL AND COMMERCIAL	**8,527,574**	**8,404,648**	**122,926**	**1.5**
In-place rent in €/sqm	Residential	5.50	5.28	0.22	4.2
	Residential (l-f-l)	5.46	5.29	0.17	3.3
	Commercial	7.41	7.18	0.23	3.2
	TOTAL RESIDENTIAL AND COMMERCIAL	**5.55**	**5.32**	**0.22**	**4.2**
Number of vacancies	Residential	4,581	4,280	301	7.0
	Commercial	252	221	31	14.0
	TOTAL RESIDENTIAL AND COMMERCIAL	**4,833**	**4,501**	**332**	**7.4**
EPRA vacancy in %	Residential	3.5	3.2	0.2	7.7
	Residential (l-f-l)	2.8	3.0	–0.2	–6.1
	Commercial	10.9	12.1	–1.2	–9.8
	TOTAL RESIDENTIAL AND COMMERCIAL	**3.5**	3.5	0.0	–0.9

[1] Figures include 575 residential units disposed of as at 31 December 2016

development. Rents for rent-restricted apartments, which still accounted for around 27% of the total portfolio as at the end of the year, climbed by 1.2% on a like-for-like basis to EUR 4.74 per square metre in the reporting year.

Rental performance in the 2017 financial year was affected by the reorganisation of operating activities in the fourth quarter of 2016. While vacancy figures temporarily increased at a moderate rate until the middle of the year as a result of the reorganisation, there was a clear reduction in vacancies in the second half of the year after the new processes were established and began to take effect.

The goal of the successfully completed reorganisation is to further enhance the company's efficiency and to be able to respond even more strongly and specifically to customer requirements moving ahead. In addition to a central customer service for the efficient and standardised processing of customer requests, local rental and customer support teams were set up at eight branches to take care of the concerns of existing tenants and the acquisition of new customers. As the standardisation of new processes increases, positive effects are expected in rental business in the years ahead as well.

The EPRA vacancy rate for all residential units of the LEG Group including the properties acquired was 3.5% as at the end of the 2017 financial year. On a like-for-like basis, the vacancy rate was 2.8% or 0.2 percentage points lower than the figure for the previous year. The already very low level of vacancies was therefore reduced even further.

In addition to the optimisation of the organisational structure and internal processes, a positive market development and individual concepts for residential units with higher vacancy rates contributed to the good overall rental results.

The LEG Group implemented selective and needs-driven investments in its portfolio over the past financial year, thereby holding itself to its own high standards as a long-term property manager. Total expenditure was increased again as against the previous year by 25.3% from EUR 149.6 million to EUR 187.5 million. The share of value-adding capex was around 61.6% (previous year: 51.8%). Average investment per square metre of living and usable area amounted to EUR 22.4. Investment therefore increased by EUR 4.20 per square metre year-on-year in the period under review. The company is also anticipating further growth in investment in energy optimisation and inventory improvements in the years ahead as well. Investment per square metre is expected to be around EUR 30 per year by 2021.

In order to enhance customer satisfaction and offer its tenants more than just apartment rentals, LEG continued to expand its range of tenant-related services in the 2017 financial year: By entering the field of small repairs management with its new company TechnikServicePlus GmbH, LEG secured craftsman capacity on a market where resources are scarce. This has allowed it to further optimise damage assessment and repair processes, which in turn benefits tenants and shareholders alike. Furthermore, preparations were made to form a new company that will offer tenants healthcare and safety services in future. EnergieServicePlus GmbH, an energy and heating provider, and WohnServicePlus GmbH, a provider for multimedia services, as well as the subject of elderly-friendly housing, round off the range of tenant-related services. These services are already having a positive effect on operating earnings figures in addition to a strong customer loyalty effect in the long term.

In summary, ongoing operating business again developed positively in the 2017 financial year. In light of the positive outlook for organic rental growth, the potential for further process optimisation, additional investment in the portfolio, the planned further expansion of service activities and the high synergy potential of planned acquisitions on core markets, the Group also feels it is well positioned for the coming years.

FINANCING

Diversification of the financing portfolio

LEG further diversified its financing portfolio in the 2017 financial year by issuing a benchmark bond for the first time (EUR 500 million) and floating a commercial paper programme (EUR 500 million). The bond, with a term of seven years (2024) and a coupon of 1.25% p.a., was successfully placed in January 2017. In particular, the commercial paper programme is intended for the short-term interim financing of portfolio acquisitions and was utilised in an amount of up to EUR 200 million in the 2017 financial year. LEG was able to leverage the current financing environment and secured a highly attractive interest rate. LEG issued its second convertible bond after 2014 with a volume of EUR 400 million in September 2017. It has a coupon of 0.875% p.a., a term of eight years (2025) and a conversion premium of 45%.

In particular, the proceeds from these capital market instruments were used to finance the long-term acquisition of residential properties as well as to repay subsidised loans (around EUR 280 million) and other bank loans (around EUR 200 million) in 2017.

Balanced financing structure

As at the end of the reporting period, approximately 64.3% of the LEG Group's total loan liabilities relate to bank loans, 6.1% to subsidised loans from NRW.Bank and 29.5% to funds raised on the capital market (bond, convertible bonds, commercial papers). The loan liabilities to banks are essentially distributed among 12 banks, mainly in the mortgage and state bank (Landesbank) sector. In addition to the criterion of market conditions, diversification in the credit portfolio is also a key factor in selecting financing partners. In line with the financing strategy to date, the maximum share of a single bank in the total credit portfolio is capped at around 20% to avoid an excessive dependence on any one financing partner. LEG Group's largest creditor currently has a share of approximately 16% of the bank loan portfolio.

Balanced, long-term maturity profile

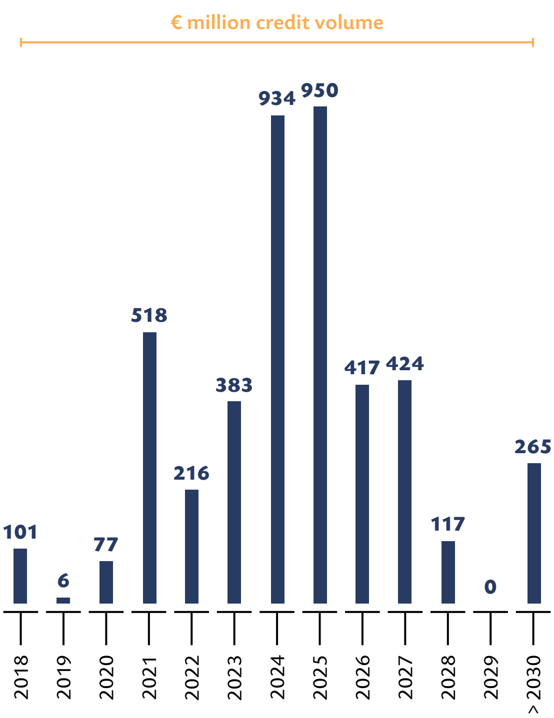
In line with the long-term nature of its basic business and in order to ensure its defensive risk profile, LEG has established a balanced, long-term financing structure. Financing is arranged with bank partners on the basis of medium- and long-term agreements with terms of up to twelve years. The funds raised on the capital market have a term of up to eight years. Taking into account the long-term subsidised loans and capital market instruments, the financing portfolio as a whole has an average maturity of approximately 8.1 years. The goal in managing contract terms is that no more than 25% of total liabilities fall due within one year.

Bank loans are primarily secured by the real collateral of the properties and other collateral usually provided for property portfolio loans. The capital market instruments are unsecured and unsubordinated financing.

Interest rate hedging and average financing costs

The financing agreements, befitting the long-term strategic outlook of the company, are around 91.5% hedged by fixed-rate agreements or interest rate swaps. Derivative interest hedging instruments are linked to the respective hedged loan (micro hedge). In line with the internal policies of LEG, interest rate derivatives can be used only to hedge interest rate risks. Thus, the company does not maintain open or speculative items. Given the long-term interest rate hedges in place, no significant interest rate risks are anticipated in the medium term. The average financing costs including subsidised loans and capital market funds amounted to 1.74% as at the end of the reporting period.

F7 – Maturity profile



Covenants

Credit agreements usually contain regulations on compliance with defined financial covenants that the borrower must comply with throughout the term of the agreements. A violation of covenants can result in the lender cancelling the agreement and thus the early repayment of the loan. The covenants agreed relate to figures within the portfolio financed by the respective bank or at the level of the respective borrower. The key financial covenants are within the following ranges:

- Loan-to-Value (LTV) 60.0% – 82.5%
  (ratio of the loan amount to the market value of the portfolio)
- Debt-Service-Coverage-Ratio (DSCR) 110% – 350%
  (ratio of net rental income after management to debt service)
- Debt-to-Rent-Ratio (DRR) 750% – 1,330%
  (ratio of loan amount to net rental income)

Furthermore, individual loan agreements contain stipulations regarding rentals.

In addition, the following covenants were also agreed for unsecured capital market financing in connection with the first-time issue of a bond in January 2017:

- Consolidated net financial indebtedness to total assets max. 60%
- Secured financial indebtedness to total assets max. 45%
- Unencumbered assets to unsecured financial indebtedness min. 125%
- Consolidated adjusted EBITDA to net cash interest min. 180%

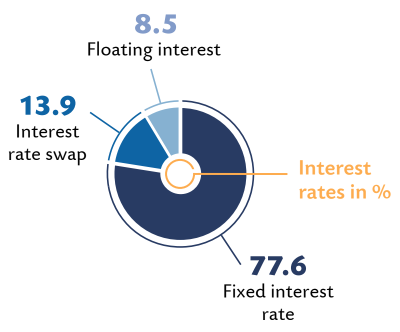
As part of its risk management for the company as a whole, LEG has implemented a process for the continuous monitoring of compliance with covenants. LEG has fully complied with the covenants of its loan agreements. Breaches are also not anticipated moving ahead.

High credit quality confirmed by corporate ratings

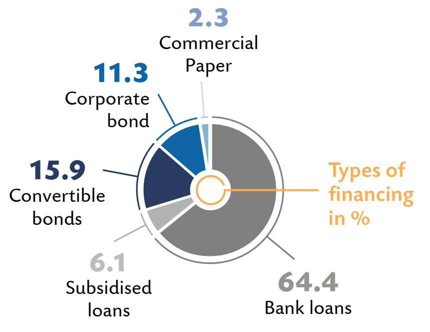
LEG has had a "Baa1" long-term issuer rating since 2015, which was again confirmed by Moody's in 2017. The rating particularly reflects the strong market position, leading portfolio management and long-term financing strategy of LEG Immobilien AG. The corporate rating is an essential foundation for further diversifying LEG's financing instruments.

Since 2017, LEG has also had a "P-2" short-term issuer rating, which attests to the company having a high level of creditworthiness for issuing short-term debt securities on the basis of its liquidity, the credit facilities available and its balanced maturity profile.

F8 – Interest hedging instruments



F9 – Financing sources



SOCIAL CHARTER

The LEG Group has to comply in full with the protection provisions of the social charter which are enforceable by penalty and has successfully implemented these provisions without any objections for the past nine years.

The social charter was agreed as part of the privatisation of the LEG Group and sale to Lancaster GmbH & Co. KG (now LEG Immobilien AG). It includes far-reaching provisions for the protection of the tenants, employees and properties of the entire LEG Group at the date on which the social charter was concluded. The social charter expires on 28 August 2018. Full compliance must be maintained with the protection provisions until expiration in the 2018 financial year.

These protection provisions include regulations on:

Tenant/property protection

- protection against eviction
- special protection against eviction for older tenants
- protection of leasehold improvements for existing tenants
- obligation to provide corresponding information to tenants and proof of performance
- general continuance of section 16(1) of the German Controlled Tenancy Act
- limit on rent increases
- exclusion of luxury modernisations for existing tenants
- minimum investment in Group apartments
- restrictions on disposal when selling apartments
- relocation of existing tenants within the Group
- upkeep of social services
- duty to establish a foundation

Employee protection

- exclusion of redundancies/dismissals with option of altered employment conditions
- protection of existing collective and works agreements against termination
- obligation to provide corresponding information to all employees and partners under collective law and proof of performance
- membership in employer association
- continuance of trainee positions
- offering training activities

Economic restrictions and restrictions on resale and restructuring activities

An audited report is prepared each year on all measures, action taken and action not taken in connection with the protection provisions on the basis of which the Ministry for Transport of the State of North Rhine-Westphalia monitors compliance with the social charter. As in the past years, in the most recent 2016 audit period, full compliance was confirmed by the auditing company with an unqualified opinion.

To date, no objections have been raised by the then seller. The social charter report for the 2017 financial year will be prepared in the 2018 financial year.

The text of the regulations and provisions can be found on the company's homepage at *www.leg-wohnen.de*.

Compliance with the social charter was not affected by the conversion of Lancaster GmbH & Co. KG into LEG Immobilien AG and the subsequent IPO.

GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH (GWN) and Gemeinnützige Eisenbahn-Wohnungsbau-Gesellschaft mit beschränkter Haftung Wuppertal (GEWG)

In the context of the privatisation of the Federal Railway Assets (Bundeseisenbahnvermögen) social charters were agreed for GWN and GEWG with a term of ten years. In accordance with the share purchase and transfer agreements for the shares in GWN and GEWG, aforementioned social charters were compulsory concluded with the former purchasers.

Regardless of the social charters, which have since expired, both corporations must continue to be operated as a social institution of the German federal railways in accordance with principles stipulated by Bundeseisenbahnvermögen for as long as authorised persons (railway workers) live in these properties and former GWN or GEWG employees who were employed by the company when the social charters were agreed are still in employment.

In 2001, GWN has been acquired by the LEG Group. GEWG was acquired in October 2014 as part of the Vitus Group acquisition.

The residential portfolio of both companies still serves primarily the purpose of providing adequate and affordable housing for railway workers and their families. The company complies with these obligations. This is also confirmed annually in an audit report by an auditor.

Acquisition of portfolios

By way of purchase agreement dated 19 October 2012, LEG Wohnen Bocholt GmbH, a wholly owned subsidiary of the LEG Group, acquired 1,244 apartments in Bocholt from GAGFAH. These properties are subject to the social charter protection of GAGFAH, which remained in force until 3 January 2017 and was enforceable by contractual penalty. LEG Wohnen Bocholt GmbH adopted the provisions of this social charter protection in full. Qualified business processes ensured compliance.

Tenant Foundation

In the context of the privatisation of LEG, the formation of the foundation had been agreed in the acquisition and takeover agreement of 29 August 2008. The LEG NRW Tenant Foundation has been working for social concerns for eight years now.

The shareholders of LEG NRW GmbH (the former Lancaster GmbH & Co. KG and Rote Rose GmbH & Co. KG) established the foundation for social concerns in cooperation with the state of North Rhine-Westphalia to benefit tenants and the community. The aim of this is to create non-profit or charitable value added for tenants and the public.

The support offered by the foundation has been successfully used by more and more LEG tenants since it was founded. The foundation's support services extend from individual assistance for tenants in financial difficulties, to providing accessible housing to integrative or intercultural events in residential quarters, which are also enjoyed by non-LEG tenants.

The formation of the foundation, which has endowment capital of EUR 5 million, was officially recognised by the Dusseldorf district authority on 30 December 2009.

Social commitment is a matter of great importance to LEG Immobilien AG. This is again reflected in the numerous projects that were supported by the foundation in the year 2017.

In 2017, a total of 75 projects or tenants in need of assistance received funding of EUR 140,668.65. EUR 35,668.65 of these projects/subsidies were of a benevolent nature and EUR 105,000.00 of a charitable nature.

DIVIDEND

The development of FFO I is the key factor influencing the amount of the dividend. LEG plans to distribute at least 65% of its FFO I to shareholders as a dividend on a sustainable basis. The retained portion of FFO I is used for value-adding investments in the portfolio, the repayment of loans and for acquisitions, and thus for further increases in shareholder value.

The Management Board and the Supervisory Board will propose a dividend of EUR 3.04 per share at the Annual General Meeting for the past 2017 financial year. This corresponds to a distribution ratio of around 65% of FFO I and a dividend yield of 3.2% based on the closing price of LEG shares at the end of 2017.

ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Please see the glossary in the annual report for a definition of individual ratios and terms.

Results of operations

Aggregate income statement

The condensed income statement is as follows:

T15 – Condensed income statement

€ million	Q4 2017	Q4 2016	01.01.–31.12.2017	01.01.–31.12.2016
Net rental and lease income	96.5	82.2	399.4	373.1
Net income from the disposal of investment properties	–0.5	–0.7	–1.4	7.6
Net income from the remeasurement of investment properties	555.7	607.2	1,036.8	616.6
Net income from the disposal of real estate inventory	–0.1	–0.9	–2.3	–2.4
Net income from other services	1.3	1.4	6.3	3.7
Administrative and other expenses	–12.8	–12.2	–41.3	–78.2
Other income	0.9	9.8	1.4	16.4
OPERATING EARNINGS	**641.0**	**686.8**	**1,398.9**	**936.8**
Interest income	6.9	0.9	7.4	0.9
Interest expenses	–63.5	–87.6	–152.3	–177.2
Net income from investment securities and other equity investments	1.4	0.0	4.1	2.2
Net income from associates	0.0	0.0	0.4	0.3
Net income from the fair value measurement of derivatives	–75.0	48.3	–138.2	16.6
NET FINANCE EARNINGS	**–130.2**	**–38.4**	**–278.6**	**–157.2**
EARNINGS BEFORE INCOME TAXES	**510.8**	**648.4**	**1,120.3**	**779.6**
Income taxes	**–124.1**	**–155.5**	**–275.5**	**–200.4**
NET PROFIT OR LOSS FOR THE PERIOD	**386.7**	**492.9**	**844.8**	**579.2**

Operating earnings increased considerably in the past financial year. Adjusted EBITDA, which includes the adjustment for the non-cash earnings effect of the portfolio measurement, climbed from EUR 355.7 million in the previous year to EUR 385.7 million. The adjusted EBITDA margin was expanded from 69.5% in the previous year to 72.1%.

The key drivers for the increase in earnings were higher income resulting from acquisitions and organic rent increases, as well as the implementation of measures to improve operating profitability.

In the context of portfolio remeasurement a net profit of EUR 1,036.8 million was realised (previous year: EUR 616.6 million).

Administrative expenses were impacted by the implementation of efficiency enhancement measures. Despite the discontinuation of a positive non-recurring effect, this resulted in only a moderate increase of current administrative expenses from EUR 32.1 million by 3.7% to EUR 33.3 million.

In the past financial year, subsidised loans of around EUR 281 million were paid back early. In addition, a corporate bond with a nominal volume of EUR 500 million and a convertible bond with a nominal volume of EUR 400 million were issued.

Expenses for refinancing in the financial year negatively impacted net finance costs by EUR –50.4 million, thereof EUR –41.0 million from additional loan amortisation and EUR –9.1 million from prepayment penalties and SWAP redemption fees (previous year: EUR –65.8 million).

Despite an 8.6% higher average financing volume, cash interest expenses were reduced by EUR 2.3 million or 2.8% year-on-year.

For the financial year, current income tax of EUR –8.2 million is anticipated (previous year: EUR –5.0 million).

Net rental and lease income

Net rental and lease income for 2017 is broken down as follows:

In the reporting period, the LEG Group increased its net rental and lease income by EUR 23.0 million or 4.5% against the comparative period. In-place rent per square metre on a like-for-like basis rose by 3.3% in the reporting period.

Due to the acquisition of 51% of the shares of Technik ServicePlus and the consequential full consolidation as at 1 January 2017 the LEG Group provides an essential part of the maintenance services by itself. As a result, the staff and administrative costs increased by EUR 19.8 million whereas the expenses for externally procured maintenance decreased.

T16 – Net rental and lease income

€ million	*Q4 2017*	*Q4 2016*	**01.01.– 31.12.2017**	*01.01.– 31.12.2016*
Net cold rent	136.3	130.4	534.7	511.7
Profit from operating expenses	0.3	–0.7	–2.8	–1.6
Maintenance for externally procured services	–16.2	–27.1	–51.2	–72.0
Employee benefits	–15.8	–12.0	–55.8	–42.2
Allowances on rent receivables	–1.8	–1.7	–7.2	–7.2
Depreciation and amortisation expenses	–1.6	–1.4	–6.1	–5.3
Other	–4.7	–5.3	–12.2	–10.3
NET RENTAL AND LEASE INCOME	**96.5**	**82.2**	**399.4**	**373.1**
NET OPERATING INCOME-MARGIN (IN %)	**70.8**	**63.0**	**74.7**	**72.9**
Non-recurring project costs – rental and lease	2.1	1.8	3.4	2.7
Depreciation	1.6	1.4	6.1	5.3
ADJUSTED NET RENTAL AND LEASE INCOME	**100.2**	**85.4**	**408.9**	**381.1**
ADJUSTED NET OPERATING INCOME-MARGIN (IN %)	**73.5**	**65.5**	**76.5**	**74.5**

Taking into account the effect of the own performed maintenance services, rental related staff costs developed at a slower rate (2.0%) than the net cold rent.

Adjusted net rental and lease income rose by 7.3%, and therefore much stronger than rental growth. The net operating income (NOI) margin increased correspondingly in the 2017 financial year.

The EPRA vacancy rate, which is a ratio of rent lost due to vacancy to potential rent in the event of full occupancy on the basis of market rental on the current reporting date, was 2.8% on a like-for-like basis as at 31 December 2017.

T17 – EPRA vacancy rate

€ million	**31.12.2017**	*31.12.2016*
Rental value of vacant space – like-for-like	15.1	16.2
Rental value of vacant space – total	19.1	17.6
Rental value of the whole portfolio – like-for-like	531.7	536.2
Rental value of the whole portfolio – total	550.2	545.2
EPRA VACANCY RATE – LIKE-FOR-LIKE (IN %)	**2.8**	**3.0**
EPRA VACANCY RATE – TOTAL (IN %)	**3.5**	**3.2**

Investing activities in the period under review focused on major projects and measures aimed at facilitating the new letting of vacant apartments. They thus contributed to the EUR 37.9 million increase in total investment to EUR 187.5 million.

New portfolios acquired accounted for EUR 2.6 million of total investment.

T18 – Maintenance and modernisation of investment properties

€ million	*Q4 2017*	*Q4 2016*	**01.01.– 31.12.2017**	*01.01.– 31.12.2016*
Maintenance expenses for investment properties	23.6	27.1	72.0	72.0
Capital expenditure	52.8	30.8	115.5	77.6
TOTAL INVESTMENT	**76.4**	**57.9**	**187.5**	**149.6**
Area of investment properties in million sqm	8.51	8.38	8.38	8.22
AVERAGE INVESTMENT PER SQM (€/SQM)	**9.0**	**6.9**	**22.4**	**18.2**
CAPITALISATION RATE (%)	**69.1**	**53.2**	**61.6**	**51.9**

In the 2017 financial year, the LEG Group invested EUR 22.4 per square metre on average. Compliance with the requirements of the social charter, which prescribe a minimum investment volume of EUR 12.50 per square metre, is assured.

In the 2018 financial year, the focus will be particularly on the further implementation of the strategic investment program, resulting in a EUR 80 million increase in the total investment. It is expected that this will also result in a further increase of the average capitalisation rate.

The EPRA cost ratio sets operating and administrative costs against gross income from renting activities. The resulting cost ratio serves to determine the efficiency of the property platform and makes a comparison within the real estate sector possible. By definition, no adjustment is made for non-recurring and special effects. There are adjustments for leasehold interests and direct vacancy costs and a company-specific adjustment for the result from the multimedia business. For reasons of transparency and comparability, a further adjustment is made for maintenance costs during the financial year, as the level of maintenance expenses for a property company depends to a large degree on the accounting standard used and on the individual maintenance strategy.

T19 – EPRA Cost Ratio

€ million	**2017**	*2016*
Adjusted EBITDA	–385.7	–355.7
Rental income	534.7	511.7
Maintenance expenses	–51.2	–72.0
Management costs	97.8	84.0
Maintenance expenses	51.2	72.0
Leasehold land interests	–4.6	–4.3
EPRA costs (including direct vacancy costs)	144.4	151.7
Direct vacancy costs	–6.0	–6.3
EPRA costs (excluding direct vacancy costs)	138.4	145.4
Rental income	534.7	511.7
Leasehold land interests	–4.6	–4.3
Gross rental income	530.1	507.4
EPRA Cost Ratio (including direct vacancy costs)	**27.24%**	**29.90%**
EPRA Cost Ratio (excluding direct vacancy costs)	**26.11%**	**28.66%**
Adjustment for maintenance	51.2	72.0
Adjusted EPRA costs (including direct vacancy costs)	93.2	79.7
Adjusted EPRA costs (excluding direct vacancy costs)	87.2	73.4
Adjusted EPRA Cost Ratio (including direct vacancy costs)	**17.6%**	**15.7%**
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	**16.4%**	**14.5%**

Net income from the disposal of investment properties

In 2017, net income from the disposal of investment properties is composed as follows:

T20 – Net income from the disposal of investment properties

€ million	*Q4 2017*	*Q4 2016*	**01.01.–31.12.2017**	*01.01.–31.12.2016*
Income from the disposal of investment properties	3.0	22.8	66.5	159.0
Carrying amount of the disposal of investment properties	–3.3	–23.2	–67.4	–150.3
Costs of sales of investment properties sold	–0.1	–0.3	–0.5	–1.1
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–0.4**	**–0.7**	**–1.4**	**7.6**
Valuation gains induced by disposals (included in net income from the remeasurement of investment properties)	0.3	0.4	2.1	9.7
Profits from the disposal of other net assets (included in other income)	–	1.4	–	7.8
ADJUSTED NET INCOME FROM DISPOSALS	**–0.1**	**1.1**	**0.7**	**25.1**

Income generated from disposals of investment property in the reporting period was EUR 92.5 million lower than in the same period of the previous year.

Income from disposals primarily included sales of investment properties, which were reported as assets held for sale as of 31 December 2016 and were remeasured up to the contractually agreed property value.

In the second quarter of 2017, a subsequent sales price adjustment of EUR –0.7 million was recognised in connection with a bloc sale disposed on 31 December 2016.

Changes in value of investment properties

In 2017, net income from the measurement of investment property amounted to EUR 1,036.8 million (2016: EUR 616.6 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase of 12.4% (2016: 8.4%).

The average value of investment property (incl. IFRS 5 objects) as of 31 December 2017 is EUR 1,091 per square metre including acquisitions (31 December 2016: EUR 930 per square metre) and EUR 1,077 per square metre excluding acquisitions. Including investments in modernisation and maintenance measures, the average portfolio value thus rose by 15.8% in the financial year (2016: 10.2%).

The increase in the value of the portfolio is predominantly the result of the positive rent development. In the current financial year this was affected by the end of rent control on subsidised property holdings, for which subsidised loans were repaid early on 30 November 2017. In comparison to the development of rents, the reduction of the discount and capitalisation rates impacted the performance much less significantly.

The EPRA net initial yield is calculated on the basis of the annualised net cash rental income of the financial year divided by the gross market value of the residential property portfolio. The topped-up net initial yield results from an adjustment for costs of rental incentives granted.

T21 – EPRA Net Initial Yield

€ million	31.12.2017	31.12.2016
Investment properties	9,448.0	7,950.9
Assets held for sale	30.9	57.0
Market value of the residential property portfolio (net)	9,478.9	8,007.9
Estimated incidental costs of acquisition	934.3	789.2
Market value of the residential property portfolio (gross)	10,413.2	8,797.1
Annualised net cash rental income of the financial year (net cold rent)	520.9	497.5
Cash income from operating and heating costs	260.2	246.3
Cash expenses from operating and heating costs	–256.8	–250.2
Annualised gross cash rental income of the financial year (net cold rent)	524.3	493.6
Maintenance expenses	–50.7	–71.8
Vacancy and non-allocable operating costs	–4.5	–3.7
Legal and consulting costs	–4.8	–3.4
Property manager fee owners' association	–0.4	–0.2
Annualised property expenses	–60.4	–79.1
Annualised net cash rental income of the financial year	463.9	414.5
Adjustments for rental incentives	4.1	3.1
Topped-up annualised net cash rental income of the financial year	468.0	417.6
EPRA Net Initial Yield in %	**4.45%**	**4.71%**
EPRA topped-up Net Initial Yield in %	**4.49%**	**4.75%**

Net income from the disposal of real estate inventory

Net income from the disposal of inventory properties was composed as follows in 2017: *Table* **T22**

The sale of the remaining properties of the former Development division continued in 2017. The remaining real estate inventory held as at 31 December 2017 amounted to EUR 3.6 million, EUR 1.3 million of which related to properties under development.

In 2017, the cost of sales is positively impacted by the release of a EUR 0.5 million provision for a completed development project. Current costs were again reduced.

Net income from other services

Other services include electricity and heat fed to the grid, IT services for third parties and management services for third-party properties.

Thanks to the very good order situation and even lower commodity prices, operating earnings from electricity and heat generation increased significantly in the financial year. *Table* **T23**

T22 – Net income from the disposal of real estate inventory

€ million	Q4 2017	Q4 2016	01.01.– 31.12.2017	01.01.– 31.12.2016
Income from the disposal of inventory properties	–	0.1	0.2	1.9
Carrying amount of the real estate inventory disposed of	–	–0.1	–0.2	–1.2
Cost of sales of the real estate inventory disposed of	–0.1	–0.9	–2.3	–3.1
NET INCOME FROM THE DISPOSAL OF REAL ESTATE INVENTORY	**–0.1**	**–0.9**	**–2.3**	**–2.4**

T23 – Other services

€ million	Q4 2017	Q4 2016	01.01.– 31.12.2017	01.01.– 31.12.2016
Income from other services	3.2	3.2	12.2	10.3
Expenses in connection with other services	–1.9	–1.8	–5.9	–6.6
NET INCOME FROM OTHER SERVICES	**1.3**	**1.4**	**6.3**	**3.7**

Administrative and other expenses

Administrative and other expenses are composed as follows: *Table* **T24**

The main drivers for the reduction in administrative and other expenses by EUR 36.9 million year-on-year was the omission of the one-off incidental acquisition and integration costs for the acquisition of property portfolios, which resulted in project costs declining by EUR 35.8 million.

Despite the discontinuation of a positive non-recurring effect of EUR 0.5 million, current administrative expenses increased only moderately, by 3.7% to EUR 33.3 million.

Net finance earnings

The measurement of derivatives for the convertible bonds is the main driver for the decline in net finance earnings from EUR −157.2 million to EUR −278.6 million. This was offset by the refinancing in the previous year, the issue of a corporate bond of EUR 500 million on 23 January 2017 and the issue of a convertible bond of EUR 400 million on 1 September 2017. *Table* **T25**

Prepayment penalties for the early repayment of fixed loans (EUR 0.4 million) and swap breakage fees (2017: EUR 10.2 million; 2016: EUR 4.9 million) resulted in refinancing expenses of around EUR 11 million. EUR 1.2 million of the swap breakage fees were looked ahead in previous years.

The early refinancing of subsidised loans in the 2017 financial year resulted in additional expense from loan amortisation of EUR −41.0 million (2016: EUR −59.8 million).

The average interest rate for the entire loan portfolio declined to 1.74% (2016: 2.05%) on an average term of 8.1 years (2016: 11.05 years).

The measurement of the convertible and corporate bonds at amortised cost of EUR −8.3 million (previous year: EUR −6.6 million) was included in interest expenses for loan amortisation in the reporting period.

T24 – Administrative and other expenses

€ million	*Q4 2017*	*Q4 2016*	**01.01.– 31.12.2017**	*01.01.– 31.12.2016*
Other operating expenses	−6.2	−5.4	−17.4	−52.6
Employee benefits	−6.1	−5.6	−22.2	−21.6
Purchased services	−0.3	−0.2	−1.1	−1.1
Depreciation and amortisation	−0.2	−1.0	−0.6	−2.9
ADMINISTRATIVE AND OTHER EXPENSES	**−12.8**	**−12.2**	**−41.3**	**−78.2**
Depreciation and amortisation	0.2	1.0	0.6	2.9
Non-recurring project costs and extraordinary and prior-period expenses	3.6	2.8	7.4	43.2
ADJUSTED ADMINISTRATIVE AND OTHER EXPENSES	**−9.0**	**−8.4**	**−33.3**	**−32.1**

T25 – Net finance earnings

€ million	*Q4 2017*	*Q4 2016*	**01.01.– 31.12.2017**	*01.01.– 31.12.2016*
Interest income	6.9	0.9	7.4	0.9
Interest expenses	−63.5	−87.6	−152.3	−177.2
NET INTEREST INCOME	**−56.6**	**−86.7**	**−144.9**	**−176.3**
Net income from other financial assets and other investments	1.4	0.0	4.1	2.2
Net income from associates	0.0	0.0	0.4	0.3
Net income from the fair value measurement of derivatives	−75.0	48.3	−138.2	16.6
NET FINANCE EARNINGS	**−130.2**	**−38.4**	**−278.6**	**−157.2**

Cash interest expenses declined by EUR 2.3 million or 2.8% to EUR 80.9 million. This was due to the further reduction of interest costs despite an 8.6% increase of average net financing liabilities year-on-year.

In the reporting period, net income from the fair value measurement of derivatives again resulted primarily from changes in the fair value of derivatives from the convertible bonds in the amount of EUR −138.8 million (comparative period: EUR 18.5 million).

The upturn in interest income is due primarily to the remeasurement of liabilities from put options for shares.

Higher earnings shares from equity investments and from the sale of an equity investment result in a EUR 1.9 million increase of net income from other financial assets.

Income tax expenses

As at 31 December 2017, the current effective Group tax rate was 24.6% (previous year: 25.7%). The rise in income taxes from EUR −200.4 million in the previous year to EUR −275.5 million in the reporting period is essentially due to higher deferred tax liabilities on investment property resulting from the portfolio measurement.

For the 2017 financial year, this results in expenses for current income taxes of EUR −8.2 million. In the previous year, there was a current tax charge of EUR −5.0 million. Offsetting losses carried forward positively impacted the comparatively moderate increase of current income taxes in comparison to the development of adjusted EBITDA (increase by EUR 30.0 million) and cash interest expense (decline by EUR 2.3 million).

T26 – Income tax expenses

€ million	*Q4 2017*	*Q4 2016*	**01.01.– 31.12.2017**	*01.01.– 31.12.2016*
Current tax expenses	−3.2	−1.3	−8.2	−5.0
Deferred tax expenses	−121.0	−154.1	−267.3	−195.4
INCOME TAX EXPENSES	**−124.1**	**−155.5**	**−275.5**	**−200.4**

Reconciliation to FFO

FFO is a key performance indicator at LEG Immobilien AG. LEG Immobilien AG distinguishes between FFO I (not including the results of the disposal of investment property) and FFO II (including the results of the disposal of investment property) and AFFO (FFO I adjusted for capex capitalisation). Details of the calculation system for the respective indicator can be found in the glossary.

FFO I, FFO II and AFFO were calculated as follows:

T27 – Calculation of FFO I, FFO II and AFFO

€ million	*Q4 2017*	*Q4 2016*	**01.01.–31.12.2017**	*01.01.–31.12.2016*
Net cold rent	136.3	130.4	534.7	511.7
Profit from operating expenses	0.3	–0.7	–2.8	–1.6
Maintenance for externally procured services	–16.2	–27.1	–51.2	–72.0
Employee benefits	–15.8	–12.0	–55.8	–42.2
Allowances on rent receivables	–1.8	–1.7	–7.2	–7.2
Other	–4.7	–5.3	–12.2	–10.3
Non-recurring project costs (rental and lease)	2.1	1.8	3.4	2.7
CURRENT NET RENTAL AND LEASE INCOME	**100.2**	**85.4**	**408.9**	**381.1**
CURRENT NET INCOME FROM OTHER SERVICES	**2.0**	**2.0**	**8.7**	**6.0**
Employee benefits	–6.0	–5.6	–22.2	–21.6
Non-staff operating costs	–6.6	–5.6	–18.5	–53.7
Non-recurring project costs (admin.)	3.6	2.8	7.4	43.2
Extraordinary and prior-period expenses	0.0	0.0	0.0	0.0
CURRENT ADMINISTRATIVE EXPENSES	**–9.0**	**–8.4**	**–33.3**	**–32.1**
Other income	1.0	0.5	1.4	0.7
ADJUSTED EBITDA	**94.2**	**79.5**	**385.7**	**355.7**
Cash interest expenses and income	–20.4	–20.9	–80.9	–83.2
Cash income taxes	–3.4	–0.8	–6.4	–3.9
FFO I (BEFORE ADJUSTMENT OF NON-CONTROLLING INTERESTS)	**70.4**	**57.8**	**298.4**	**268.6**
Adjustment of non-controlling interests	–1.4	–0.1	–3.1	–0.3
FFO I (AFTER ADJUSTMENT OF NON-CONTROLLING INTERESTS)	**69.0**	**57.7**	**295.3**	**268.3**
Adjused net income from disposals	–0.4	1.1	0.6	25.1
Cash income taxes from disposal of investment properties	0.3	–0.5	–1.8	–1.1
FFO II (INCL. DISPOSAL OF INVESTMENT PROPERTIES)	**68.9**	**58.3**	**294.1**	**292.3**
CAPEX	–52.8	–30.7	–115.5	–77.5
CAPEX-ADJUSTED FFO I (AFFO)	**16.2**	**27.0**	**179.8**	**190.8**

At EUR 295.3 million in the year under review, FFO I (not including net income from the disposal of investment property) was 10.1% higher than in the previous year (EUR 268.3 million). The rise resulted from the positive impact of higher rents in connection with an expansion of the EBITDA margin from 69.5% in the previous year to 72.1% and the decline in interest expenses.

The reduced average interest rate as a result of refinancing is also reflected in the increase of the interest coverage ratio (ratio of adjusted EBITDA to cash interest expenses) from 427% in the comparative period to 477%.

Net assets

Condensed statement of financial position

The condensed statement of financial position is as follows:

T28 – Condensed statement of financial position

€ million	**31.12.2017**	*31.12.2016*
Investment properties	9,460.7	7,954.9
Prepayments for investment properties	–	27.3
Other non-current assets	172.3	182.3
Non-current assets	9,633.0	8,164.5
Receivables and other assets	63.7	47.7
Cash and cash equivalents	285.4	166.7
Current assets	349.1	214.4
Assets held for sale	30.9	57.0
TOTAL ASSETS	**10,013.0**	**8,435.9**
Equity	4,112.4	3,436.7
Non-current financing liabilities	3,821.4	3,222.3
Other non-current liabilities	1,158.8	870.3
Non-current liabilities	4,980.2	4,092.6
Current financing liabilities	478.2	552.0
Other current liabilities	442.2	354.6
Current liabilities	920.4	906.6
TOTAL EQUITY AND LIABILITIES	**10,013.0**	**8,435.9**

Investment property increased as a result of acquisitions (EUR 396.8 million), remeasurement income (EUR 1,036.8 million), value-enhancing modernisation measures (EUR 115.5 million) and offsetting disposals (EUR −41.0 million, comprising EUR 30.9 million with economic transfer after 31 December 2017) by EUR 1,505.8 million against the previous year. As at the reporting date, the share of total assets was 94.5%.

The acquisition of 51% of shares in the craftsmen company TechnikServicePlus as of 1 January 2017 resulted in goodwill of EUR 8.9 million (reported under other non-current assets). As of 31 December 2016, the purchase price payment of EUR 9.2 million for this purchase which had already been paid was reported in other non-current assets.

For a property sale with a closing in 2016, a small portion of the purchase price (EUR 4.1 million) was deferred. As of 31 December 2017, the amount due in 2018 was reclassified from other non-current to other current assets.

Receivables from not yet invoiced operating costs increased by EUR 2.4 million. Net rent receivables increased by EUR 1.8 million in comparison to the previous year.

Equity rose as a result of net profit for the period (EUR 844.8 million) and profits recognised in other comprehensive income as a result of the remeasurement of pensions and derivatives (EUR 19.4 million). A dividend of EUR 174.4 million was distributed to the shareholders of LEG Immobilien AG. For firm commitments for guaranteed dividends to non controlling interests a liability of EUR 14.4 million was recorded directly in the equity attributable to shareholders of LEG Immobilien AG.

Mainly as a result of refinancing, non-current financing liabilities rose by EUR 599.1 million against the previous year, whereas current financing liabilities dropped by EUR 73.8 million.

Driven primarily by net income from the measurement of investment property, deferred tax liabilities (shown under other non-current liabilities) rose by EUR 267.1 million to EUR 855.2 million.

In the course of the further diversification of LEG's financing structure, subsidized loans of EUR 182 million on 28 February 2017 and EUR 99 million on 30 November 2017 were paid back early. The early repayment of EUR 182 million on 28 February 2017 caused additional expense from loan amortisation of EUR 59.8 million, which was recorded in 2016 due to the date of knowledge.

The early repayment on 30 November 2017 caused further EUR 41.0 million additional expenses for loan amortisation due to early repayments.

Key factors impacting the increase in other current liabilities by EUR 87.6 million are the remeasurement of derivatives in the convertible bond issued in 2014 (EUR 105.6 million increase) and the payment of the last instalment on the tax liability for other tax-free asset increases (EUR 9.3 million decrease).

Net asset value (NAV)

A further key figure relevant in the property industry is NAV. Details of the calculation system for this indicator can be found in the glossary.

The LEG Group reported basic EPRA NAV of EUR 5,246.5 million as at 31 December 2017 (31 December 2016: EUR 4,205.4 million). The effects of the possible conversion of the convertible bond and other equity interests are shown by an additional calculation of diluted EPRA NAV. After adjustment for goodwill effects, adjusted diluted EPRA NAV amounted to EUR 5,753.0 million or EUR 83.81 per share as at 31 December 2017 (31 December 2016: EUR 4,597.2 million or EUR 67.15 per share).

T29 – EPRA NAV

€ million	**31.12.2017 basic**	**31.12.2017 Effect of exercise of convertibles/ options**	**31.12.2017 undiluted**	*31.12.2016 basic*	*31.12.2016 Effect of exercise of convertibles/ options*	*31.12.2016 diluted*
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	**4,087.4**	**–**	**4,087.4**	**3,414.5**	**–**	**3,414.5**
NON-CONTROLLING INTERESTS	**25.0**	**–**	**25.0**	**22.2**	**–**	**22.2**
EQUITY	**4,112.4**	**–**	**4,112.4**	**3,436.7**	**–**	**3,436.7**
Effect of exercise of options, convertibles and other equity interests	–	559.2	559.2	–	435.6	435.6
NAV	**4,087.4**	**559.2**	**4,646.6**	**3,414.5**	**435.6**	**3,850.1**
Fair value measurement of derivative financial instruments	259.8	–	259.8	146.7	–	146.7
Deferred taxes on WFA loans and derivatives	12.7	–	12.7	20.0	–	20.0
Deferred taxes on investment property	918.7	–	918.7	656.3	–	656.3
Goodwill resulting from deferred taxes on EPRA adjustments	–32.1	–	–32.1	–32.1	–	–32.1
EPRA NAV	**5,246.5**	**559.2**	**5,805.7**	**4,205.4**	**435.6**	**4,641.0**
NUMBER OF SHARES	**63,188,185**	**5,455,398**	**68,643,583**	**63,188,185**	**5,277,973**	**68,466,158**
EPRA NAV PER SHARE	**83.03**	**–**	**84.58**	**66.55**	**–**	**67.79**
EPRA NAV	5,246.5	559.2	5,805.7	4,205.4	435.6	4,641.0
Goodwill resulting from synergies	52.7	–	52.7	43.8	–	43.8
ADJUSTED EPRA NAV (W/O EFFECTS FROM GOODWILL)	**5,193.8**	**559.2**	**5,753.0**	**4,161.6**	**435.6**	**4,597.2**
NUMBER OF SHARES	**63,188,185**	**5,455,398**	**68,643,583**	**63,188,185**	**5,277,973**	**68,466,158**
ADJUSTED EPRA NAV PER SHARE	**82.20**	**–**	**83.81**	**65.86**	**–**	**67.15**
EPRA NAV	5,246.5	559.2	5,805.7	4,205.4	435.6	4,641.0
Fair value measurement of derivative financial instruments	–259.8	–	–259.8	–146.7	–	–146.7
Deferred taxes on WFA loans and derivatives	–12.7	–	–12.7	–20.0	–	–20.0
Deferred taxes on investment property	–918.7	–	–918.7	–656.3	–	–656.3
Goodwill resulting from deferred taxes on EPRA adjustments	32.1	–	32.1	32.1	–	32.1
Fair value measurement of financing liabilities	–286.6	–	–286.6	–312.2	–	–312.2
Valuation uplift resulting from FV measurement financing liabilities	74.8	–	74.8	196.5	–	196.5
EPRA NNNAV	**3,875.6**	**559.2**	**4,434.8**	**3,298.8**	**435.6**	**3,734.4**
NUMBER OF SHARES	**63,188,185**	**5,455,398**	**68,643,583**	**63,188,185**	**5,277,973**	**68,466,158**
EPRA NNNAV per share	**61.33**	**–**	**64.61**	**52.21**	**–**	**54.54**

Loan-to-value ratio (LTV)

Net debt in relation to property assets declined stable in the reporting period, largely due to portfolio measurement.

The loan-to-value ratio (LTV) stands at 42.3% (31 December 2016: 44.9%).

T30 – Loan-to-value ratio

€ million	31.12.2017	31.12.2016
Financing liabilities	4,299.6	3,774.3
Less cash and cash equivalents	285.4	166.7
NET FINANCING LIABILITIES	**4,014.2**	**3,607.6**
Investment properties	9,460.7	7,954.9
Assets held for sale	30.9	57.0
Prepayments for investment properties	–	27.3
Prepayments for business combinations	2.0	–
REAL ESTATE ASSETS	**9,493.6**	**8,039.2**
LOAN TO VALUE RATIO (LTV) IN %	**42.3**	**44.9**

Financial position

Financing structure

The Group generated a net profit for the period of EUR 844.8 million (previous year: EUR 579.2 million). Equity amounted to EUR 4,112.4 million (previous year: EUR 3,436.7 million). This corresponds to an equity ratio of 41.1% (previous year: 40.7%).

A dividend of EUR 174.4 million (EUR 2.76 per share) was paid from cumulative other reserves in the reporting period.

Statement of cash flows

The condensed statement of cash flows of the LEG Group for 2017 is as follows:

T31 – Statement of cash flows

€ million	01.01.–31.12.2017	01.01.–31.12.2016
Cash flow from operating activities	269.6	207.0
Cash flow from investing activities	–451.3	–565.7
Cash flow from financing activities	300.4	272.6
CHANGE IN CASH AND CASH EQUIVALENTS	**118.7**	**–86.1**

Higher proceeds from net cold rent had a positive effect on the development of cash flow from operating activities. A higher volume of deferred items as of the reporting date led to lower payments for maintenance despite expenses remaining at the same level. The cash flow from operating activities therefore increased by EUR 62.6 million year-on-year to EUR 269.6 million.

Acquisitions and modernisation work on the existing property portfolio resulted in payments of EUR –467.8 million reported in cash flow from investing activities. This was offset by the proceeds from the sale of properties in the amount of EUR 22.0 million.

Repayments of EUR –752.5 million, issue of new bonds of EUR 891.2 million as well as the utilisation of new loans and money market papers of EUR 339.8 million, largely driven by the restructuring of the financing portfolio, impacted cash flow from financing activities. The dividend distribution in 2017 of EUR 174.4 million was EUR 32.5 million higher than in the previous year (EUR 141.9 million).

The LEG Group was solvent at all times in the past financial year.

In respect to events after the reporting period, please refer to the notes to the consolidated financial statements.

RISKS, OPPORTUNITIES AND FORECAST REPORT

RISK AND OPPORTUNITY REPORT

Governance, risk & compliance

Standard process for integrated management of corporate risks

LEG regularly reviews opportunities to advance the development and growth of the Group. In order to take advantage of opportunities, risks may also have to be taken. It is therefore essential that all key risks are recognised, assessed and professionally managed. As part of its responsible handling of risk, a Group-wide structure for the identification, management and controlling of risks has been implemented. Central components of this are the risk management system and the internal control system.

Accounting process / internal control system

Regarding the accounting process, the aim and purpose of the internal control system is to ensure the application of statutory requirements and the correct and complete recording of all transactions. To this end, LEG has established an internal control system in line with the relevant legal provisions and industry standards that comprises principles, procedures and measures aimed at ensuring proper accounting.

For business processes that are divided into strategic, core business, operational and central support processes, all recurring transactions must be recorded and presented accurately, completely and in accordance with statutory requirements in addition to being updated on an ongoing basis. To this end, in 2012 LEG established the internal control system in line with the relevant legal provisions and industry standards that comprises principles, methods and measures aimed at ensuring proper procedures.

The internal control system (ICS) has the following objectives:

— Fulfilment of and compliance with the legal provisions and guidelines applicable to LEG
— Ensuring the regularity, completeness and reliability of internal and external accounting
— Targeted monitoring of business processes
— Ensuring the effectiveness and economic viability of business activity (in particular the protection of assets, including the prevention and identification of asset losses)

The internal control system is constantly being expanded and optimised to meet business process requirements. Various processes have been revised or supplemented in the context of regular updates. Process descriptions are reviewed by the Legal, Internal Audit and Compliance department for appropriate ICS audit steps and the prevention of incentives to non-compliance prior to their implementation. As part of the reorganisation of the operating divisions, the risk control matrices of the core business processes were completely revised. It has also been resolved to introduce a new software solution in 2018, with which to integrate the mapping of – and standardise – business processes and ICS functions.

LEG's Internal Audit conducts process-independent audits to monitor the effectiveness of the internal control system. On this basis, the Supervisory Board and the Audit Committee review the functionality of the internal control system with respect to the accounting process. The key features as regards the (consolidated) accounting process are summarised as follows:

— LEG has a clear and transparent organisational, control and management structure.
— The duties within the accounting process are clearly defined and explicit roles are assigned.
— Self-control, the dual/multiple control principle, the separation of functions and analytical audit procedures are central elements in the accounting process.
— The accounting process is aided by standard software in that IT authorisations reflect the authorities described in the guidelines and thereby guarantee system control.
— There is integrated central accounting and central controlling for the key Group companies.
— The uniform Group-wide accounting, account assignment and measurement criteria are regularly examined and updated.

Compliance management

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public. Fully aware of this, the compliance system is designed for the day-to-day business.

The main principles for conduct within the company and with respect to business partners are compiled in the LEG Code of Conduct, which can be found on our website. As a guideline for proper conduct, it assists employees in making the right decisions in their day-to-day work. Associated guidelines substantiate the Code of Conduct with regard to central issues such as integrity, competition and working with business partners.

Persons who identify any breaches of compliance can contact their supervisors, the Compliance Officer or the external ombudsman, who can guarantee the whistleblower anonymity as far as the law allows. The information is investigated and measures are taken as appropriate.

The regular analysis of compliance risks in combination with the early recognition of significant business and litigation risks, and the corresponding countermeasures, are at the heart of the compliance system.

LEG has appointed a Compliance Officer to head up the compliance management system. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee training and advice. At regular meetings, the heads of Internal Audit, Legal and Human Resources discuss the design of the compliance system with the external ombudsman. Permanent benchmarking against other compliance systems and independent assessment by external experts also serve to ensure the continuous development and improvement of our compliance system. The adequacy and suitability of the compliance management system to prevent fraud has been tested and confirmed by an auditor.

Compliance is assigned to the Legal, Internal Audit and Compliance department, whose head reports directly to the CEO of LEG.

The Audit Committee of the Supervisory Board discusses the topic of compliance on a regular basis and reports to the Supervisory Board accordingly. In the event of urgent notification of serious cases, the Management Board and the Supervisory Board committees are promptly informed of significant developments in the area of compliance.

Risk management

LEG Immobilien AG has a Group-wide risk management system (RMS). A key component of LEG's risk management system is the Group-wide risk early warning system. This system is supported by the "R2C_RM" IT tool.

The coordination and monitoring of the overall system, the organisation of processes, methodological and instrument responsibility for the IT tool used fall within the purview of Controlling & Risk Management. The organisational structure that has been implemented thus allows uniform, traceable, systematic and permanent procedures. As such, the conditions have been created to identify, analyse, assess, control, document, communicate and track the development of risks. The risk early warning system satisfies the general legal conditions and ensures audit security.

LEG's risk early warning system was examined by an auditing company regarding the requirements of the German Stock Corporation Act as part of its audit of the annual financial statements. The audit found that the Management Board has taken the measures prescribed by section 91(2) AktG on establishing an appropriate risk early warning system and that the risk early warning system is suitable for identifying developments that could jeopardise the continued existence of the company at an early stage. The regulatory requirements of LEG's risk early warning system were satisfied this year as well.

The risk management system in place is subject to a constant process of development and optimisation to adapt it to new internal and external developments. For instance, further methodological optimisation was implemented and an even more effective risk management tool was introduced in the financial year. Early risk detection in particular was optimised once again as a result.

On account of its business activities, the LEG Group is exposed to an interest rate risk that results in particular from the conclusion of floating rate liabilities and the maturity of interest-hedged liabilities over time. The interest rate risk is hedged using derivative financial instruments such as interest rate swaps or fixed interest agreements. They serve to hedge the financial expense of financial transactions. The aim is to reduce the effect of volatilities on earnings and cash flows arising from changes on the interest markets. Derivative financial instruments are used solely to hedge interest rates at the LEG Group. The Treasury policy prohibits the use of derivatives for speculative purposes.

At an operating level, the results of the quarterly risk inventories are reported to the decision-making and supervisory committees. The Management Board and Risk Management also discuss the assessment and management of the risks identified and resolve and implement changes as necessary. In addition to the quarterly risk reports to the Management Board, material risks with a potential gross loss (before measures) of EUR 0.2 million or more are immediately reported to the Management Board.

The foundation for all reporting is the risk inventories, for which the uniform, traceable, systematic and permanent procedures are based on the following assessment content and schemes for risks.

The risk inventory reports derived from the risk inventories also include a so-called trend radar for an early recording of potential strategic chances.

Assessment content/schemes

In a uniform risk catalogue system – broken down by categories and their subcategories – risks are calculated and assessed by the risk owners as part of a non-central, bottom-up analysis. The risk catalogue comprises both strategic and operational risks. To help substantiate and prioritise risks at LEG, they are assessed and classified according to gross impact and probability of occurrence.

The benchmark for assessing and classifying the potential impact is the effect on liquidity and business planning. The individual risk assessment is therefore always based on the corresponding change in liquidity and the five-year business plan adopted by the Supervisory Board.

LEG uses a risk assessment matrix consisting of four categories for the liquidity impact of risk notifications. A risk assessment model with four groups has also been established for probability of occurrence.

The individual categories for liquidity impact are as follows:

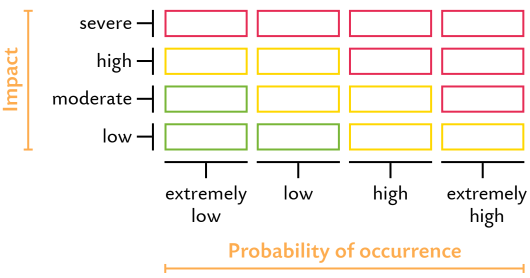
a) Low: Gross impact of between EUR 0 million and EUR 0.5 million
b) Moderate: Gross impact of between EUR 0.5 million and EUR 2.25 million
c) Significant: Gross impact of between EUR 2.25 million and EUR 11.25 million
d) Severe: Gross impact upwards of EUR 11.25 million

The categories for the probability of occurrence are as follows:

a) Extremely low: Probability of occurrence of between 0.0% and 5.0%
b) Low: Probability of occurrence of between 5.1% and 20.0%
c) High: Probability of occurrence of between 20.1% and 50.0%
d) Extremely high: Probability of occurrence of between 50.1% and 100.0%

This model forms the basis for an assessment matrix that uses a traffic light system (red, yellow, green) to classify the individual risk notifications in terms of their expected values (gross impact multiplied by probability of occurrence):

F10 – Risk matrix



Overall assessment of risks and opportunities

General risks such as macroeconomic risks and market risks are first discussed below. Continuing from the overall risks, those that the company feels are particularly relevant have been described together with the measures used to control them. Overall, the Management Board does not expect any risks to the continued existence of the LEG Group as a whole for the 2018 and 2019 financial years.

Beyond the risk categories used for internal risk detection and monitoring, the company is exposed to the following general risks:

Risk reporting

Macroeconomic risks

The German property market is influenced by general economic factors beyond LEG's control. The development of the domestic and foreign economy, and of the financial markets as well, can therefore give rise to risk factors for LEG's business model.

The German economy has been revived by robust domestic demand over several years, and the contribution from the foreign economy has increased significantly since the reporting year. The euro area is also experiencing a phase of economic expansion. However, a consistently strong appreciation of the euro could weaken the growth in export-oriented Germany and the euro area as a whole. Furthermore, the problems of the debt crisis have not yet been overcome in some euro area countries, and the banking systems remain delicate as well. There are further risks to Germany and the euro area in a downturn in the global economy and lingering geopolitical tension.

The occurrence of these risks could significantly impair the macroeconomic environment, have a negative impact on the German labour market and the income of private households, and thereby adversely affect LEG's letting business. In addition, the megatrend of digitisation will mean both risks and opportunities for employment and income in the long term. Furthermore, there is the risk of rising interest rates on the financial markets. A significant increase in interest rates could have a negative impact on the valuation of properties and, in the medium term, on LEG's financing conditions as well.

By contrast, opportunities lie in a significant acceleration of the global economy, in immigration and the resulting increase in demand for affordable housing on the German property market.

Market risks

The LEG portfolio is essentially distributed over the whole of North Rhine-Westphalia. Properties were also acquired in Lower Saxony and Rhineland-Palatinate in recent years as part of the strategic expansion of the portfolio. Future purchases in these two states in addition to Hesse, as a further neighbouring state, are both possible and intended in the coming years.

Economic strength and the positive population and household development derived from it are key external factors that influence the attractiveness of property markets, and can differ extensively at times within the markets on which LEG operates. While conurbations in particular have enjoyed high economic attractiveness, an influx of residents and thus increased demand for housing in recent years, there is now an increased risk of flattening price trends, which makes is possible that the rates of increase seen in the past could no longer be matched. One reason for this could be that the financial limits of those looking for apartments have been reached, which means there will be no demand to meet further price increases on the part of housing providers. This can trigger displacement effects, which first affect the neighbouring cities of the particularly popular conurbations, and later peripheral locations and structurally weaker districts as momentum gathers. Thanks to its broad market, LEG is able to benefit as soon as catch-up effects begin to emerge on these markets.

LEG uses a wide range of internal and external data sources in assessing the future risks and opportunities of market development. In addition to publications by statistical offices, it also analyses a large number of market reports by, for instance, public authorities, property service providers, brokers, associations and banks. To analyse its internal data, LEG has an extensive Group data warehouse in which all relevant information can be found, allowing conclusions about the risks and opportunities of the respective locations to be drawn from the operational development of the company's own portfolio. The positive development of the market as a whole continued again in 2017, and LEG feels that demand for housing has remained at a stable high level.

Since 2015, demand for housing has been heavily influenced by immigration compared to previous years on account of the influx of refugees. This is particularly true after migrants have gradually moved from initial housing to regular rental apartments in recent months. It is not yet clear whether this increased demand will remain in the long term, or how it will affect the housing market. Among other things, the current discussion of domestic policy decisions, for instance regarding the right to stay and family reunification, and the ongoing developments in crisis regions that have experienced the highest emigration, have an ex ante impact that is difficult to predict. As long as there is no sharp increase in repatriation to countries of origin, combined with permanently reduced immigration to Germany, continuing high demand for housing can be anticipated – especially in the low-cost market segment.

Investment and divestment decisions are made, and management processes are implemented, taking into account the forecasts for market development. In terms of investment, a positive forecast increases the probability of a positive decision to buy or modernise properties at a location. Conversely, negative market forecasts increase the likelihood of disposals, especially where value has already been added in the past but is no longer expected to the same extent moving ahead.

Property valuation risks

A large number of individual parameters are incorporated into the valuation of the property portfolio. Wherever possible, these are derived from market data independently of individual assessments by LEG. The most important of these parameters derived from market data are the discount rate for cash flows, the rents that can be achieved from new rentals and additions to the portfolio, macro and micro location scores based on socio-demographic and economic data, market vacancy rates and land values.

Some individual assessments are subject to assessments of the technical condition of properties, expectations regarding future inflation rates and therefore future rent increase rates, plus the weighting of all parameters and their corresponding influence on valuation.

Despite being carefully calculated by qualified personnel, the assessment of future parameters is subject to the risk of misjudgement. At the same time, a more positive development than anticipated can emerge if estimates of forward-looking parameters are too conservative.

Further risks in property valuation arise from the delay with which transaction data are included in publicly available reports and thus calculations. For example, an analysis of historical data could imply an increase in value, while the market has in fact already undergone consolidation and prices are now either stable or even in decline. Monitoring current market activity at all times reduces the risk of surprises from the delay between the time of the transaction and publication of the data.

As the investment of financial assets in properties is in competition with other forms of investment, such as stocks and bonds, the rising attractiveness of these alternative investments can have a negative impact on demand for investment property and thus lead to general price erosion. If there is a sudden and unexpected shift in the attractiveness of alternative investments, it could possibly result in an equally sudden movement on the property market. This can lead to both unexpectedly strong increases and decreases in prices, depending on the correlation between properties and other investment alternatives.

Like all sectors, the property market is governed by a cycle. Given the long-term nature of property investment and the high initial costs, this cycle plays out over a longer period and therefore requires long-term forecasts. Overall, the dynamic price developments of recent years cannot simply be projected into the future. Monitoring the markets for investment alternatives all the time helps to identify acute and strategic risks and opportunities.

Risk categorisation

In its risk reporting, LEG classifies the identified risks based on the risk categories presented below. The table shows all relevant risk categories. Risks that are assigned to the “red” assessment range as at 31 December 2017 are considered particularly relevant. If such risks are eligible for provisions and have an “extremely high” probability of occurrence, a provision was recognised as at 31 December. *Table* **T32**

Barring two exceptions, the risk situation is essentially the same as in the previous year. A risk of particular relevance classified as “moderate” has been added in the two categories “Tax risks” and “Legal risks” since the previous year.

In addition to the table, the main risk categories of our business model, based on the risk inventory of 31 December 2017, are explained in more detail below regardless of their valuation levels.

General business risks

This is not a relevant risk according to the LEG risk assessment matrix.

The Social Charter ends on 28 August 2018. Comprehensive compliance with the Social Charter protection provisions, which are enforceable by penalty, is mandatory for LEG. The protective provisions of the Social Charter include regulations on tenant and employee protection, business restrictions and limitations on reselling and restructuring. Many aspects of LEG’s day-to-day business are affected by the protective provisions of the Social Charter.

Avoiding breaches of the social charter is a highly sensitive priority in the LEG Group that influences all organisational processes affected, in order to avoid both the payment of penalties and the loss of reputation on the housing market that this would entail for LEG.

The system implemented in recent years to reliably avoid Social Charter violations has not just been a proven success, but is also reviewed and updated on an ongoing basis. One example of this is the system update as part of the 2016+ reorganisation. The system comprises both a quality assurance concept and the intensive review of all measures and actions relating to the protective provisions of the Social Charter by an auditor. Given the fundamental importance of compliance with the Social Charter to the LEG Group, the Social Charter has been mapped in LEG’s risk management system.

The auditor again certified LEG's full compliance with the Social Charter for the 2016 financial year. If, contrary to expectations, the protective provisions are nonetheless not complied with, the terms of the Social Charter state that any violations can be rectified in full within six months of becoming known.

The investment portfolio of LEG Group also includes the equity investments in the former railway companies Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH (GWN) and Gemeinnützige Eisenbahn-Wohnungsbau-Gesellschaft mit beschränkter Haftung Wuppertal (GEWG). Social charters are enshrined in the purchase agreements for both companies. Compliance with these social charters is ensured by the organised work of committees. The social charters of the railway company partners are based on the purchase agreements of 14 December 2001 and 9 October 2014.

The investment portfolio of the LEG Group also contains LEG Wohnen Bocholt GmbH, which acquired 1,244 apartments in Bocholt from GAGFAH in 2012. This portfolio was protected by the GAGFAH social charter until 3 January 2017, which was also enforceable by penalty. This protection was adopted in full by LEG Wohnen Bocholt GmbH when the portfolio was acquired. Compliance with the social charter was assured by qualified business processes throughout its term.

Compliance risks

This is a relevant risk according to the LEG risk assessment matrix.

Fraud can occur in particular where there are business, contractual or even personal relationships between employees of the LEG Group and outside persons.

Irregular lease benefits can occur in letting business. Similarly, particularly on markets characterised by housing shortages, unfair practices can occur in the attempt to be given an apartment. These risks are countered by organisational measures. Examples of these are the use of standardised lease agreements, the stipulation of target rents and advising prospective tenants that there is no commission on LEG apartments.

Services rendered by third parties can involve orders or invoices that are not consistent with market standards. This can apply to any kind of service or consulting, such as maintenance, agency or financing services. In order to prevent fraud standardised agreements including anti-corruption clauses have been prepared. There is also a Code of Conduct that is binding for all LEG employees, and that all contractual partners are likewise expected to obey. A clear separation of functions between procurement and invoicing has also been introduced as a further organisational measure.

T32 – Risk categories

Risks main categories	*Subcategory*	*Gross impact*	*Probability of occurrence*
General business risks	No relevant risks	No relevant risks	No relevant risks
Compliance risks	Other	Severe	Extremely low
Property risks	No relevant risks	No relevant risks	No relevant risks
Finance risks	Breach of covenants	Severe	Extremely low
Accounting	No relevant risks	No relevant risks	No relevant risks
Tax risks	a) Taxes/levies (external audit)	Significant	High
	b) Taxes/levies (real estate transfer tax)	Severe	Low
	c) Taxes/levies (input tax key)	Moderate	Extremely high
Human resources risks	No relevant risks	No relevant risks	No relevant risks
Legal risks	a) Liability/insurance risks	Severe	Low
	b) Legal disputes	Moderate	Extremely high
Information and communication risks	No relevant risks	No relevant risks	No relevant risks
Project business risks	Commercial projects	Moderate	Extremely high

Property risks

Modernisation/maintenance risks

This is not a relevant risk according to the LEG risk assessment matrix.

Changes in legislation and regulatory frameworks relating to energy efficiency, the duty to implement safety precautions and tenant protection can affect the economic viability of planned measures or necessitate previously unplanned measures. The monetary impact of such requirements can usually be calculated in advance on account of the corresponding implementation periods, and are thus included in LEG's business planning.

Short-term and unpredictable maintenance risks, particularly with regard to the duty to implement safety precautions, are immediately subjected to a risk assessment as soon as they become known, and are minimised by corresponding structural or safety measures. In particular, such risks can be triggered by bad weather, the side-effects of mining, which used to be highly prevalent in NRW, or other natural hazards.

Regarding modernisation work, typical project deadline and cost risks can lead to a deterioration of profitability compared to planning, particularly if cost increases cannot be passed on to the tenants on account of local conditions on the rental housing market. Time delays usually merely lead to the additional revenue from rent increases due to modernisation being recognised at a later date than originally planned. As for planned additional revenue from rent increases due to modernisation, objections by tenants on the grounds of hardship or formal errors in rent increases can result in the rent increases implemented being lower than planned. All risks are prevented by continuous project controlling with multiple feedback loops if possible. Optimised purchasing and the faster implementation of projects also mean the opportunity for better results than planned.

Technical management

This is not a relevant risk according to the LEG risk assessment matrix.

Risks in technical management firstly result from the quality or design of the properties. Buildings from certain years or of certain types can have specific defects that require increased maintenance for these reasons. Specifically for new purchases, there is an elevated risk that – in spite of intensive technical due diligence in the purchase process – deficits will only be recognised over time and necessitate immediate measures. In addition, acquisitions could require the mandatory assumption of contracts with worse price/performance ratios than those usually agreed by LEG. Over time, contracts already in place for technical maintenance can prove to no longer be in line with market conditions, thus leading to worse price/performance ratios.

Mandatory fire protection and safety requirements for properties and other building regulation requirements are further risks in technical management that can entail increased staff (in the event of special hazards) and maintenance costs for the possible elimination of deficits.

To counteract or minimise these risks in technical management, LEG will continue to focus its efforts on pooling and standardising services, optimising processes and integrated service management.

Portfolio risks

This is not a relevant risk according to the LEG risk assessment matrix.

Portfolio risks are assessed on an ongoing basis to identify circumstances that can affect value early on, with the result that countermeasures can be taken as soon as possible. Technical risks lie in an unexpected and sudden deterioration in the fabric of building (see also maintenance risks). Regular property and safety inspections by qualified internal and external personnel ensure risk minimisation.

Demand risks can arise from deteriorating economic conditions and changes in tenants' housing needs, with the result that either less housing is sought after on certain markets in general, or a decline in demand for a particular type of apartment most common at LEG. Changes in demand are monitored by LEG in the context of its management processes, and corresponding measures are taken if permanent shifts occur. On the supply side, increased competition can lead to apartments of a similar quality being offered by competitors in the immediate vicinity at the same or lower prices. Increased new construction activity will also increase the supply of housing, and could reduce LEG's occupancy rate. Ongoing competitive analyses based on available market data and local management expertise, combined with LEG's specific service offerings, reduce the risks on the supply side.

Risk of rent default

This is not a relevant risk according to the LEG risk assessment matrix.

As a housing company, LEG is subject to the risk of lost rent. Precautions are taken to minimise this risk with standardised credit checks for rentals, and by identifying problematic leases as part of active receivables management. This also entails initiating appropriate countermeasures. The risk of loss of rent exists in individual cases. This risk is reflected in accounting by recognising allowances in an appropriate amount.

Acquisition risks

This is not a relevant risk according to the LEG risk assessment matrix.

The possible acquisition of new properties is constantly under review as part of LEG's structured acquisition activities. Internal and external experts are involved in assessing the risks and potential. This enables reliable assessments of the quality of properties, optimisation measures and their (rent) development. Furthermore, general parameters such as the human resources required and refinancing options are also calculated.

In addition to the risk of an incorrect assessment of acquisition parameters, there is also the risk that information negatively influencing economic assumptions becomes known only after the conclusion of acquisition activities, and thus affects the profitability and value of properties. As far as possible these risks are hedged against by guarantees or declarations by sellers in purchase agreements with guarantors of sufficiently high credit standing or for which money is deposited in notarial accounts in individual cases. However, these guarantees are subject to minimum value thresholds and a maximum total damage amount. In individual cases, matters relevant to an audit are subjected to an additional audit in order to identify any risks because the seller either has a poor credit rating or is unwilling to make the corresponding declarations. There is also the possibility that the properties acquired perform better than expected in terms of rent, quality and occupancy rate as a result of extensive rent and neighbourhood management by LEG.

In share deals, in which usually 94.9% of the shares in the target property company are held, LEG usually has the obligation to find an investor for the remaining minority interest, or alternatively to take on this minority interest itself, by a fixed date. The latter poses a risk in that the subsequent acquisition of the minority interest would trigger property tax for the entire transaction, which is not generally part of the underlying business plan.

Sales risks

This is not a relevant risk according to the LEG risk assessment matrix.

Sales activities consist of the privatisation of individual apartments and the sale of individual properties for management and portfolio optimisation. Likewise, an entire company that holds properties can also be sold. This relates to residential and commercial properties. There are risks that the planned purchase prices are not possible on the market. After sales have already been made, guarantees can be violated leading to a subsequent reduction in the purchase price or, in the event of the buyer's failure to comply with contractual obligations, the rescission of agreements.

The structured sales process applied at LEG guarantees the safe selection of disposal portfolios, the intrinsic value of the properties being sold and the credit and integrity of buyers. The currently high demand on the transaction market, even for opportunistic properties, is seen as an opportunity and can be leveraged to selectively sell properties that are not a good fit for LEG's core portfolio in the long term.

Finance

Rollover risk

This is not a relevant risk according to the LEG risk assessment matrix.

Rollover risk describes the risk that, when financing expires, follow-up financing cannot be prolonged or cannot be prolonged at the anticipated conditions, thereby necessitating the repayment of financing. This risk is limited at the LEG Group thanks to the long-term financing structure and the distribution of maturities over a period of several years. The rollover risk is also very minor thanks to the currently consistently good finance market environment.

Rollover risk has been reduced further by early refinancing in 2017. The next long-term follow-up financing with a volume of more than EUR 100 million is not scheduled until the 2021 financial year. The convertible bond of EUR 300 million matures in the same year. Based on the performance of LEG's shares to date, we currently assume that most of the convertible bond holders will choose the option of conversion into shares and not repayment.

As a short-term financing instrument, LEG issued commercial papers for the first time in 2017. In the currently highly positive capital market environment, the risk that commercial papers cannot be placed or prolonged is considered very low. Moreover, LEG has credit facilities at its disposal that can further mitigate the potential effects.

Breach of financial covenants

This is a relevant risk according to the LEG risk assessment matrix.

Failure to comply with contractually agreed financial covenants can lead to the risk of extraordinary termination of financing agreements. A breach of financing agreements can also lead to higher interest payments, special repayments or the realisation of the collateral provided.

An internal control process has been implemented at LEG to ensure compliance with financial covenants. The covenants stipulated in financing agreements were complied with at all times in the past financial year. There are no indications that financial covenants will not be complied with in future.

Stability of bank partners (banking market)

This is not a relevant risk according to the LEG risk assessment matrix.

In light of the long-term business relationships, the stability of core banks is a key criterion for the LEG Group. Stability in this context refers to both the consistency of business policy and the economic strength of financing partners. A deterioration in the economic situation of a bank or the banking market as a whole can trigger the risk of a change in business policy, possibly resulting in more restrictive lending, higher margins and thus ultimately rising relative costs of debt.

In particular, the default of a financing partner could lead to direct financial losses under contractual arrangements giving rise to claims on the part of LEG, e.g. derivative interest hedges. The internal guidelines for concluding new interest rate hedges therefore provide corresponding minimum requirements regarding the counterparty's credit rating. LEG currently has no claims against its counterparties as the derivatives all had a negative market value as at the end of the reporting period.

Liquidity risk

This is not a relevant risk according to the LEG risk assessment matrix.

Ensuring solvency at all times is constantly monitored by means of a rolling liquidity plan. The binding internal treasury policy stipulates that a defined minimum liquidity reserve must be maintained. Sufficient liquidity was available to cover the company's obligations at all times in the past financial year. Given the highly stable cash flow from the management of residential properties, no circumstances that could give rise to a liquidity bottleneck are currently foreseeable.

Changes in interest rates

This is not a relevant risk according to the LEG risk assessment matrix.

Interest rate risk essentially relates to financing agreements for which there is no long-term interest agreement. More than 90% of bank liabilities are hedged on a long-term basis by way of fixed-rate agreements or interest rate swaps, hence there are no significant foreseeable interest rate risks.

Debt risk

This is not a relevant risk according to the LEG risk assessment matrix.

The leverage ratio has a significant effect on the assessment of LEG's economic situation and therefore on its access to the financing market. In future as well, LEG is planning a conservative debt ratio and a further improvement in the results of operations with consistently low average interest expenses. Analysts, banks and the rating agency Moody's (Baa1, stable) attest to the LEG Group's strong market position with regard to its debt ratio. A deterioration of these credit assessments is not expected.

Accounting

This is not a relevant risk according to the LEG risk assessment matrix.

Accounting risks can result from a failure to comply with statutory regulations, which could lead to incorrect annual, consolidated or quarterly financial statements. In addition, risks can result from further regulatory requirements, such as the German Corporate Governance Code, from disclosure obligations or from operating cash inflows or outflows. Consequences of this could include, for example, a qualified audit opinion or record of denial, a loss of reputation or an impact on the share price.

Regarding its accounting process, LEG has implemented an effective internal control system with the goal of counteracting these risks. Please also see the description of the internal control system in the risk report.

Tax risks

This is a relevant risk according to the LEG risk assessment matrix.

Taxes and duties

Tax risks can arise from external audits and, if they occur, achieve a relevant magnitude. The LEG Group is currently being audited for the years 2009 to 2012; the audit for the years 2005 to 2008 has since been completed.

The audit of the Vitus Group acquired in 2014 for the years 2007 to 2009 concluded with no significant findings. The tax assessments for these years are now largely final.

The tax regulations on the interest expenses disallowance rule apply to LEG. In line with this, net interest expenses (i.e. after deduction of interest income) are tax-deductible up to 30% of taxable EBITDA. Higher interest deductibility is permitted, among other scenarios, if the Group's equity ratio is not significantly higher than the equity ratio of the individual operation (referred to as the escape clause). The LEG Group has utilised the escape clause in the past.

The end of development business, with the simultaneous purchase of residential units, could have had an impact on the LEG Group in line with the level of the general input tax key.

In the opinion of the tax authorities, when acquiring shares in property companies with upstream separation measures, a higher assessment base can be used for transfer taxes.

Human resources risks

This is not a relevant risk according to the LEG risk assessment matrix.

HR management faces major strategic challenges in irreversible megatrends such as demographic and technological change and the changing values of younger generations. LEG will meet these challenges mainly with life phase-oriented HR development and with measures and activities geared to the needs of current and future staff that contribute to LEG's employer branding and the work-life harmony of its employees. With innovative HR management instruments, LEG is lastingly ensuring its attractiveness and appeal as an employer while also allowing these aspects to evolve constantly. LEG again took part in the "Great Place to Work" contest in 2017 and achieved a trust index well above the industry average. We also launched pilot projects to increase the flexibility of working hours and to allow the use of home office.

Being and remaining an employer of choice requires a variety of measures to motivate qualified employees and managers in the long term and to ensure their loyalty to the company. LEG achieves this with a modern, pleasant working environment, attractive remuneration and the opportunity to develop personally. Activities that promote team spirit outside day-to-day business also play an important role for us.

The HR department has a reasonable risk and opportunity situation aligned to the strategic objectives of the company.

Legal risks

Liability/insurance risks

This is a relevant risk according to the LEG risk assessment matrix.

All employees and executive bodies of the LEG Group must comply with the statutory regulations on insider trading (Market Abuse Regulation). Violations mean the personal liability of those concerned and a loss of reputation by LEG; there are also significant risks of fines for LEG. A risk relevant to the LEG Group could result from this. In the 2016 financial year, the company comprehensively revised its corresponding processes and information in order to fully meet the requirements of the Market Abuse Regulation.

Information on the LEG Group is regularly analysed for its significance to the LEG Group and, if the legal requirements are met, categorised as insider information – sometimes even just as a precaution. If information really is insider information, it is communicated only among a select group of participants and the participants are expressly advised that this is confidential. Furthermore, there are statutory lists of insiders and the persons on it, and persons likely to come into contact with insider information, receive special training – as soon as such insider information exists. In addition, there is an ad hoc committee that, firstly, can be reached at all times to discuss developments at short notice by using a group e-mail address created for this purpose and corresponding telephone directories; secondly, this committee meets regularly to discuss project issues and other fundamental issues concerning LEG's ad hoc obligations. Finally, technical measures have been set up to guarantee the technical publication of ad hoc disclosures at all times. As a result of these measures, the probability of occurrence of these risks is rated as low. Finally, the LEG Group is protected against any claims under securities trading law with basic insurance.

Moreover, the process for publishing capital market disclosures was revised and refined in the past financial year to further reduce the risk of late publication.

Contract risks

This is not a relevant risk according to the LEG risk assessment matrix.

Risks in connection with warranties and legal disputes arise in particular from purchase and sale projects and the contracts on which they are based. Sufficient provisions for these were recognised in previous years. The value of these risks has been steadily and significantly reduced by selling these projects over the last few years.

Legal disputes

This is a relevant risk according to the LEG risk assessment matrix.

In legal disputes, LEG distinguishes between active and passive proceedings. Active proceedings are all proceedings within LEG in which it is claiming a receivable. These can be payments in arrears under leases (low disputed values/high number of cases) or other claims, such as defect warranty proceedings from former construction activities (high disputed values / low number of cases). Active rental proceedings (rent receivables) are conducted out of court by the competent handlers (receivables management) and, if unsuccessful, reviewed by case management, a unit within Legal, Internal Audit and Compliance, and then passed on to a law firm. Active proceedings with a high disputed value are first examined by the Legal, Internal Audit and Compliance department in terms of the prospects of success. Thereafter a third-party lawyer may be engaged to collect the receivable. The further development of such proceedings is monitored by Legal.

Passive proceedings are all those in which receivables are claimed from LEG. Passive proceedings are always first passed on to Legal, Internal Audit and Compliance. It assesses the prospects of successfully defending against the claim and a third-party lawyer may be engaged to do so. The further development of such proceedings is monitored by Legal.

Claims are made against LEG on various grounds. The most common of these in terms of volume are past sales of properties or shares, and in connection with the intended use of subsidies.

Other legal risks

This is not a relevant risk according to the LEG risk assessment matrix.

General legal risks and, in the event of the risk materialising, the disadvantages to the LEG Group can arise in particular if legal stipulations are not or only insufficiently complied with. In addition, risks can arise if new laws or regulations are passed, or existing ones are amended, or if the interpretation of laws and regulations already in place changes. For example, risks can result with regard to technical building facilities or the conditions of the rental agreements for the LEG Group's residential properties. Examples of this include rent control legislation or the new Consumer Rights Directive. The LEG Group has assigned specialist employees to monitor these developments in order to identify risks early on. If these risks occur, LEG minimises their impact through appropriate organisational measures, such as by making corresponding amendments to the relevant agreements or by planning modernisation measures. Provisions and write-downs are recognised as necessary.

Information and communication risks

IT risks

This is not a relevant risk according to the LEG risk assessment matrix.

LEG Immobilien AG uses SAP as its ERP application throughout the Group. This application is supplemented by specialist solutions to create a competitive edge. System operations are organised and documented using an information security management system. In this system, all applications and components are assessed in terms of data protection requirements and further protection needs (e.g., cyber attacks) and corresponding measures are added. Availability is ensured by redundant components and service agreements. IT security measures are optimised on an ongoing basis.

Project business risks

Commercial/technical project business risks

This is a relevant risk according to the LEG risk assessment matrix.

The relevant risks subject to a review of the contractually agreed conditions without a legal discussion include – for third parties with a decreasing trend – reviews of subsidies that may be claimed excessively or the implementation of a type of building use (e.g. of higher value) other than that contractually intended, or the processing of warranty defects not covered by a warranty bond. To prevent such risks from occurring, records and files are analysed and assessed in close coordination with the institution conducting the review (e.g. funding agencies). Provisions of a sufficient amount have already been recognised for the transactions currently ongoing. Moreover, there are a few new construction activities for LEG's own portfolio; these are consistently controlled and monitored to avoid risks.

Risks of an investment in a biomass combined heat and power station

This is not a relevant risk according to the LEG risk assessment matrix.

LEG is the majority shareholder in a biomass heating power plant. The complex technology could cause unplanned downtime, thereby leading to relevant risks. These risks include lost revenue or unplanned costs of repairs. Audits are carried out on a regular basis in order to prevent these risks. The system is currently generating stable operating income thanks to the work done and the positive market environment.

Other project business risks

This is not a relevant risk according to the LEG risk assessment matrix.

The risks in the Development area will continue to diminish thanks to active risk management. The risks identified from old projects have largely been processed. The necessary provisions have been recognised. It is assumed that the measures taken will fully cover any potential future charges. There are no signs of any additional hidden liability risks from our former Development business.

REPORT ON OPPORTUNITIES

In addition to the opportunities discussed in the risk section, the significant opportunities of the LEG Group, which have not changed substantially since the previous year, are listed below:

With around 130,000 residential units as at 31 December 2017, LEG Immobilien AG is one of the leading property managers and listed residential housing companies in Germany. Its regional focus is on the North Rhine-Westphalia (NRW) metropolitan region. A consistently value-oriented business model geared to growth and a focus on customers reconciles the interests of shareholders and tenants. LEG's growth strategy is aimed at the sustainable growth of its existing portfolio, the selective expansion of tenant-oriented services and value-adding acquisitions. Demand for affordable housing is rising, and is being accelerated by the current high migration figures into urban areas especially.

One important growth driver is leveraging economies of scale through selective external growth. Around 45,500 residential units in total have mostly been notarised and transferred to LEG's portfolio since its IPO. Around 3,500 of these residential units were acquired in 2017, 3,200 of which were already integrated by the end of the year. Further acquisitions are planned. The regional focus is on the existing core markets with the highest synergy potential, and will be expanded at their geographical borders in accordance with LEG's management platform.

LEG is excellently positioned and is experiencing continuous rental growth above the market average. This reflects the quality of the property portfolio, LEG's management expertise and the resistance to economic fluctuations. The main growth drivers in free-financed housing are regular rent index adjustments, adjustments in line with market rents particularly on new rentals and value-adding investments. The cost of rent is adjusted at regular intervals in the rent-restricted portfolio. As rent control will be steadily phased out in parts of the publicly subsidised portfolio in the coming years, this will also mean the potential for at times high rent adjustments. The like-for-like occupancy rate can also be increased as an additional opportunity.

FORECAST REPORT

LEG achieved its goals in the 2017 financial year. In what follows, the key performance indicators achieved are compared against the forecast from the previous year.

FFO (Funds from Operations) is the key financial earnings indicator in the property sector. For the 2017 financial year, LEG had projected FFO I in a range between EUR 288 million and EUR 293 million. As a result of acquisitions made, this range was slightly raised to between EUR 290 million and EUR 295 million in August 2017. In the 2017 financial year, LEG generated an FFO of EUR 295.3 million, thus achieving a performance at the upper end of the published forecast range.

At 3.3% to the end of 2017, rent growth per square metre on a like-for-like basis – another key operating performance indicator – was at the upper end of the forecast target corridor of between 3.0% and 3.3%. A further slight reduction of the already low vacancy rate as at the end of 2016 was assumed for the 2017 financial year. As of the 2017 reporting date, the like-for-like vacancy rate was 2.8%, lower than the comparable figure of 3.0% from the previous year.

In the current market environment, LEG sees opportunities for implementing value-enhancing modernisation measures. For this reason, it is expected that from 2017 the overall investment volume will increase in comparison to previous years. Specifically, in the 2017 financial year, a target figure of approximately EUR 24 per square metre was envisaged for maintenance and portfolio modernisation. With EUR 22.4, actual investments were within the range of expectation.

Value-adding acquisitions are a key element of the growth strategy LEG is pursuing. In its core region of NRW, LEG considers it has a good positioning as a buyer. The transaction market was difficult in the reporting year, as was the case in the previous year. Nevertheless, in its core market LEG managed to acquire four portfolios with a total of approximately 3,500 residential units.

LEG bases its business model on a strong balance sheet. In the 2017 financial, a target corridor between 45% to a maximum of 50% was set for the loan to value ratio (LTV). With an LTV of 42.3% on the reporting date, net gearing was below this range, so that the target was achieved.

As forecast, net asset value (NAV) was positively influenced by rent development. Price momentum in the market led to value growth of the property portfolio well in excess of rental performance. NAV (not including goodwill) per share thus increased in the reporting year by 24.8% to EUR 83.81 per share.

Outlook 2018

Economic research institutes expect the strong economic growth to continue in 2018. According to the Bundesbank estimate, real gross domestic product in Germany is set to rise by +2.5% in 2018.

LEG feels it is well positioned to benefit from the favourable supply and demand situation for affordable housing in Germany. Demand is likely to be driven further by ongoing net immigration. For financial year 2018, LEG is thus anticipating a further upturn in rental income. From 2018, organic rental growth will also be underpinned with implementing the modernisation programme. In combination with the positive impact from the acquisitions made as well as further efficiency enhancements, these factors again result in a strong upturn movement of FFO I and thus to a correspondingly higher dividend.

The following forecast for the key financial and operating performance indicators has been prepared on the basis of the positive fundamental conditions.

FFO I

LEG expects to generate FFO I of between EUR 315 million and EUR 323 million in 2018. A further increase to between EUR 338 million and EUR 344 million is assumed for 2019. This range does not take account of any additional effects from possible future acquisitions.

The following development is forecast for other relevant performance indicators:

Rent

In 2018 and 2019 there is no material adjustment of the cost of rent in the rent-restricted portfolio. However, in the free-financed portfolio, the modernisation programme that started in the autumn of 2017 will unfold a positive impact from 2018 onwards. This effect will be reinforced in 2019. For this reason, for the 2018 financial year LEG anticipates rental growth on a like-for-like basis of approximately 3.0%. Even faster like-for-like rental growth of approximately 3.5% is anticipated in the 2019 financial year.

Vacancy rate

To the end of 2017, the vacancy rate of the LEG like-for-like portfolio reached the low level of 2.8%. For 2018, a further slight decline of the like-for-like vacancy rate is anticipated.

Maintenance and capital expenditure

While maintaining high capital efficiency, LEG's management strategy is geared towards preserving the quality of the portfolio and selectively leveraging opportunities for value-adding capital expenditure. In 2018, approximately EUR 29 per square metre is to be invested for maintenance and modernisation work, the higher share being for measures which can be capitalised and which add value.

Acquisitions

Assuming a suitable supply situation on the market, LEG remains well positioned in NRW to further expand its leading market position in NRW on the basis of acquisitions.

LTV

To the 2017 year-end, LTV declined to 42.3%, primarily due to measurement gains from the last portfolio remeasurement. In order to safeguard its defensive long-term risk profile, it is intended that the LTV will remain in a target corridor of up to 45% in 2018.

NAV

LEG assumes that the projected positive rental performance will also be reflected in a positive value development in its property portfolio, which in turn will have a positive effect on NAV. However, the ratio of rental growth to value development, which is expressed in the change in the rental yield on the property portfolio, is extremely difficult to forecast. Among other things, the required yield level for residential properties is influenced by the performance of other asset categories and the development of interest rates and therefore cannot be forecast.

Dividend

LEG is planning to distribute at least 65% of its FFO I to shareholders as a dividend on a long-term basis.

REMUNERATION REPORT

The remuneration report outlines the structure and amount of the remuneration paid to the members of the Management Board and the Supervisory Board. The report is based on the recommendations of the German Corporate Governance Code (DCGK), the requirements of the German Commercial Code (HGB), the German Accounting Standards as well as the International Financial Reporting Standards (IFRS).

PRELIMINARY REMARKS

With the notarisation of the change in the legal form of the company into a stock corporation on 2 January 2013 (effective from the entry in the commercial register on 11 January 2013), Thomas Hegel, Eckhard Schultz and Holger Hentschel were appointed as members of the Management Board of LEG Immobilien AG by resolution of the Supervisory Board on 2 January 2013.

On 17 January 2013, the Supervisory Board of LEG Immobilien AG resolved employment agreements for the members of the Management Board that came into effect on 1 February 2013. The Annual General Meeting of LEG Immobilien AG on 19 July 2013 resolved to approve the remuneration system for the members of the Management Board in accordance with section 120(4) AktG (German Stock Corporation Act).

REMUNERATION SYSTEM OF THE MANAGEMENT BOARD

The remuneration system takes into account joint and individual performance with a view to ensuring the company's sustained success. The remuneration system is performance-based and success-based. A long-term focus, appropriateness and sustainability are key criteria.

The remuneration of the members of the Management Board consisted of a fixed component (basic remuneration), a variable component with a short-term incentive function (STI) and a variable component with a mid to long-term incentive function (LTI) for the whole of the 2017 financial year.

The respective target values for the individual remuneration components developed as follows:

T33 – Remuneration components

T€	*Thomas Hegel CEO*	*Eckhard Schultz CFO*	*Holger Hentschel COO*
Fixed remuneration	520	468	350
One-year variable remuneration (STI)	325	312	250
Multi-year variable remuneration (LTI)	390	364	300
TOTAL REMUNERATION	**1,235**	**1,144**	**900**

The maximum total remuneration granted in return for the work of the respective member of the Management Board for one financial year – including basic remuneration, STI, LTI (plus full utilisation of possible adjustments) and benefits – is EUR 1,510 thousand for Thomas Hegel, EUR 1,397 thousand for Eckhard Schultz and EUR 1,110 thousand for Holger Hentschel. If the maximum remuneration for a financial year is exceeded, the payout of the LTI tranches for the corresponding financial year will be reduced.

Fixed remuneration component

The members of the Management Board receive their basic remuneration in twelve equal monthly payments (pro rata temporis). In the event of temporary incapacity, LEG Immobilien AG will pay the remuneration in the same amount for a continuous period of up to six months.

In addition to basic remuneration, the Management Board receives contractually agreed benefits. The members of the Management Board receive standard contributions of up to 50% of their private health and long-term care insurance, however, this is limited to the amount that would be owed if the respective member had statutory health insurance.

If members of the Management Board are voluntarily insured under the statutory pension scheme or are members of a professional pension scheme in place of the statutory pension scheme, 50% of the standard contributions to the statutory pension scheme are paid. This is capped at an annual payment of EUR 15,000.

Furthermore, LEG Immobilien AG provides its Management Board members with an appropriate company car for business and private use. All costs of its upkeep and use are paid by the company. In addition, members of the Management Board can use the services of a driver for official journeys.

The monetary value arising from private use is capped at EUR 45 thousand for Thomas Hegel and EUR 30 thousand for Eckhard Schultz and Holger Hentschel. The wage and income taxes on these benefits are paid by the respective member of the Management Board. Members of the Management Board are also reimbursed for expenses and travel costs.

Furthermore, LEG Immobilien AG has taken out accident insurance for the members of the Management Board which also covers accidents outside work. The payout to the insured party or his heirs amounts to not more than EUR 500 thousand in the event of death and EUR 1 million in the event of invalidity.

D&O insurance has also been taken out for the members of the Management Board. In accordance with the German Corporate Governance Code, the D&O insurance policies each include a legally permitted deductible of 10% of the loss, limited to 1.5 times the fixed annual remuneration per calendar year. The appropriateness of the deductible is reviewed annually.

Variable remuneration component with a short-term incentive function (STI)

The basis of calculation for the STI is the attainment of the following four sub-targets defined in the respective consolidated IFRS business plan of the company. The business plan resolved by the Supervisory Board for the respective fiscal year applies. The benchmarks are based on the forecasts given to the capital market at the beginning of the year. When calculating the target figures, this is neutralised on an ongoing basis by effects from material transactions.

If the Supervisory Board does not resolve a business plan for the respective fiscal year, the four sub-targets for the purposes of the STI are defined by the Supervisory Board at its discretion (section 315 of the German Civil Code) with reference to the targets for the previous year.

The STI consists of an annual payment measured on the basis of the following four targets:

- Net cold rent
- Net rental and lease income
- Adjusted EBITDA
- Funds from Operations I per share (weighted average number of shares in the reporting year)

The first three targets each account for 20% and the final target for 40% of the STI if each sub-target is achieved in full. The attainment of each individual sub-target is determined independently. However, the sub-targets can offset over- and underperformance amongst themselves. The target STI amount cannot be exceeded overall, even if the targets are outperformed.

In the event of changes in the basis of consolidation or capital measures during the current financial year, the respective sub-targets set in the business plan must be adjusted by the Supervisory Board. They are adjusted pro rata temporis.

Regarding the calculation of the sub-target Funds from Operations I per share, an increased number of shares resulting from capital measures for acquisition financing will be considered only after closing of the acquisition, with effect pro rata temporis.

After the end of the financial year, the level of attainment for the sub-targets is determined by the Supervisory Board on the basis of the IFRS consolidated financial statements of the company and internal accounting. The STI is then calculated accordingly.

The calculated STI can be increased or decreased by up to 30% by way of discretionary decision of the Supervisory Board.

In the event of extraordinary developments, after the end of the respective financial year the Supervisory Board can adjust the calculated levels of attainment and, as appropriate, the STI adjusted by way of discretionary decision by up to 20% in either direction.

The STI to be calculated and possibly adjusted for the respective financial year is capped at EUR 423 thousand for Thomas Hegel, EUR 406 thousand for Eckhard Schultz and EUR 325 thousand for Holger Hentschel.

If the above calculation results in the payment of an STI, this must be settled and paid to the respective Management Board member no later than 30 days after the approval of the IFRS consolidated financial statements of the company.

Variable remuneration component with a long-term incentive function (LTI)

In addition to STI, the members of the Management Board are entitled to LTI based on the company's long-term development. The four-year LTI is newly awarded for each fiscal year and is spread over three performance periods of two or three years. The key performance targets for the LTI are:

- Development of total shareholder return
- Development of the company's share price compared with the relevant index, EPRA Germany.

The target LTI is spread over the following three performance periods in three equal tranches:

- Performance period I: From the (proportionate) fiscal year in which the LTI is awarded (relevant fiscal year) up until the end of the first fiscal year following the relevant fiscal year
- Performance period II: From the relevant fiscal year up until the end of the second fiscal year following the relevant fiscal year
- Performance period III: From the fiscal year following the relevant fiscal year up until the end of the third fiscal year following the relevant fiscal year

Graphical display of the performance periods:

F11 – Performance periods

Initial year = relevant financial year

The target LTI and the individual tranches are not increased in the event of target attainment in excess of 100%. Each tranche is separated into two equal amounts. One of the two performance targets is allocated to each of these amounts.

After the end of each performance period, the level of target attainment for the two performance targets is determined by the Supervisory Board following the adoption of the consolidated financial statements for the last fiscal year of the respective performance period and the resulting amounts for the tranche are calculated. Target attainment is determined separately for each performance target and each tranche. However, netting may be performed within a tranche – providing this is mathematically possible – with the shortfall for one performance target being offset by the excess for the other performance target. Netting may not be performed above and beyond the individual tranches. The amount paid for each tranche is determined on the basis of the level of target attainment for both performance targets by adding the respective amounts thus calculated. However, the total amount for each tranche may not exceed one-third of the target LTI, even if the overall level of target attainment for both performance targets is in excess of 100%.

The LTI achieved based on the set targets can be increased or decreased – at the discretion of the Supervisory Board (discretionary decision) – by up to 30%.

In the event of extraordinary developments, after the end of the respective performance period the Supervisory Board can adjust the calculated levels of attainment and, as appropriate, the LTI adjusted by way of discretionary decision by up to 20% in either direction. As a result, the amount allotted to each tranche can be undershot or exceeded by one third of the target LTI.

The LTI calculated and possibly adjusted for the respective performance period is capped at EUR 169 thousand for Thomas Hegel, EUR 158 thousand for Eckhard Schultz and EUR 130 thousand for Holger Hentschel. The total LTI available for a financial year is capped at EUR 507 thousand for Thomas Hegel, EUR 473 thousand for Eckhard Schultz and EUR 390 thousand for Holger Hentschel.

The resulting gross amount for a tranche must be settled and paid to the respective Management Board member no later than 30 days after the adoption of the IFRS consolidated financial statements for the last financial year in the performance period.

At the start of each relevant financial year, the Supervisory Board and the Management Board member conclude an LTI target agreement, which contains the specifications for the two performance targets for each tranche based on the relevant performance period. If no agreement is reached, these components are set by the Supervisory Board at its discretion (section 315 BGB) by reference to the targets for the previous year.

In the event of a legal end to the engagement of a Management Board member, the company can settle the tranches that will become due at a later date early. In such event the Supervisory Board and the respective member of the Management Board can mutually agree a notional target attainment rather than calculating actual target attainment. The amount of a tranche calculated based on this notional target attainment can then be reduced by 30%.

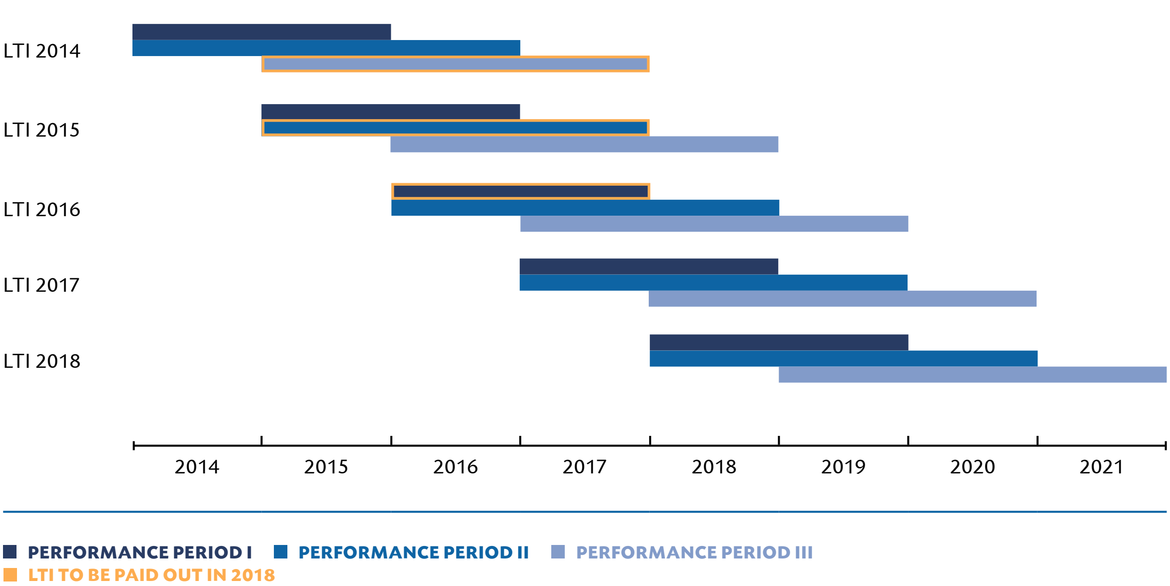
The following specific targets apply (target corridors apply to all outstanding and resolved LTIs):

T34 – Target corridors LTI

	Degree of target attainment		
%	*80%*	*100%*	*120% (Maximum)*
Total Shareholder Return Ø p.a.	5.6	7.0	8.4
PERFORMANCE AGAINST EPRA	**90**	**100**	**110**

The following LTI programmes are outstanding or are to be paid out in 2018:

F12 – Performance periods LTI



LTI to be paid out in 2018

LTI 2014 / Performance period III:

For performance period III of the LTI granted in 2014 and which is due for payment in 2018, the following figures were achieved in respect of total shareholder return:

T35 – LTI 2014 / Performance period III

%	2015	2016	2017
Total Shareholder Return p.a.	27.06	–0.66	32.82
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD III Ø P.A.		**19.74**	

The average total shareholder return of 19.74% p.a. was thus above the annual target of 7.0% p.a. which was necessary to achieve 100% fulfilment of the sub-target.

In the 2015 to 2017 reporting period, the performance against the EPRA Index was as follows:

T36 – Performance against EPRA III

%	
PERFORMANCE AGAINST EPRA	**115.93**

Thus the target of achieving the same performance of the EPRA Index was also more than achieved. Irrespective of outperforming the targets in the two tranches, the target has thus been 100% achieved; despite the over-fulfilment there is no increase in the target LTI.

LTI 2015 / Performance period II:

For performance period II of the LTI granted in 2015 and which is due for payment in 2018, the following figures were achieved in respect of total shareholder return:

T37 – LTI 2015 / Performance period II

%	2015	2016	2017
Total Shareholder Return p.a.	27.06	–0.66	32.82
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD II Ø P.A.		**19.74**	

The average total shareholder return of 19.74% p.a. was thus above the annual target of 7.0% p.a. which was necessary to achieve 100% fulfilment of the sub-target.

In the 2015 to 2017 reporting period, the performance against the EPRA Index was as follows:

T38 – Performance against EPRA II

%	
PERFORMANCE AGAINST EPRA	**115.93**

Thus the target of achieving the same performance of the EPRA Index was also more than achieved. Irrespective of outperforming the targets in the two tranches, the target has thus been 100% achieved; despite the over-fulfilment there is no increase in the target LTI.

LTI 2016 / Performance period I:

For performance period I of the LTI granted in 2016 and which is due for payment in 2018, the following figures were achieved in respect of total shareholder return:

T39 – LTI 2016 / Performance period I

	2016	*2017*
%		
Total Shareholder Return p.a.	−0.66	32.82
TOTAL SHAREHOLDER RETURN PERFORMANCE PERIOD I Ø P.A.	**16.08**	

The average total shareholder return of 16.08% p.a. was thus above the annual target of 7.0% p.a. which was necessary to achieve 100% fulfilment of the sub-target.

In the 2015 to 2017 reporting period the performance against the EPRA Index was as follows:

T40 – Performance against EPRA I

%	
PERFORMANCE AGAINST EPRA	**94.32**

Thus the target of performing at the level of the EPRA Index was not completely achieved. As a result, not achieving the "Performance against EPRA" sub-target is to be calculated against outperforming the "Average total shareholder return" as follows:

1. Sub-target Total shareholder return:
   in line with the specific targets 16.08% TSR p.a. represents 120% target fulfilment

2. Sub-target Performance against EPRA:
   in line with the specific targets 94.32% represents 88.64% target fulfilment

Thus as the two sub-targets are equally weighed, the average target fulfilment is (120% + 88.64%) / 2 = 104.32%. Irrespective of outperforming the average targets when combining the two tranches, the target has thus been 100% achieved; despite the over-fulfilment there is no increase in the target LTI.

LTI not to be paid out in 2018

Due to the lack of any informative value on the actual level of payment made, no presentation is made of the current values.

Long-term incentive plan with former shareholders

As a result of the IPO of LEG Immobilien AG, claims from agreements between former shareholders and the Management Board occurred for the last time in 2016.

TOTAL REMUNERATION OF THE MANAGEMENT BOARD IN 2017

The benefits granted to the Management Board for the 2017 financial year were as follows: *Table* **T41**

On the basis of the assessment of the attainment of performance hurdles, staff costs of EUR 1.4 million (2016: EUR 0.8 million) were recognised for the 2014 to 2018 LTI as at 31 December 2017, EUR 0.5 million of which for Thomas Hegel (2016: EUR 0.3 million), EUR 0.5 million for Eckhard Schultz (2016: EUR 0.3 million) and EUR 0.4 million for Holger Hentschel (2016: EUR 0.2 million).

For the 2017 (2016) STI, an amount of EUR 0.4 million (EUR 0.4 million) was recognised in staff costs for Thomas Hegel, of EUR 0.4 million (EUR 0.3 million) for Eckhard Schultz and EUR 0.3 million (EUR 0.2 million) for Holger Hentschel.

T41 – Remuneration and benefits earned

	Thomas Hegel CEO				*Eckhard Schultz CFO*				*Holger Hentschel COO*			
€ thousand	**2017**	*2017 min.*	*2017 max.*	*2016*	**2017**	*2017 min.*	*2017 max.*	*2016*	**2017**	*2017 min.*	*2017 max.*	*2016*
Fixed remuneration	520	520	520	520	468	468	468	468	350	350	350	325[1]
Additional benefits	45	45	45	36	22	22	22	22	20	20	20	28
TOTAL FIXED REMUNERATION COMPONENTS	**565**	**565**	**565**	**556**	**490**	**490**	**490**	**490**	**370**	**370**	**370**	**353**
One-year variable remuneration (STI)	325	0	423	325	312	0	406	312	250	0	325	225[1]
Total multi-year variable remuneration (LTI)	173	0	507	215	161	0	473	200	133	0	390	151
LTI 2013 (until 2016)	0	0	0	0	0	0	0	0	0	0	0	0
LTI 2014 (until 2017)	0	0	0	0	0	0	0	0	0	0	0	0
LTI 2015 (until 2018)	0	0	0	0	0	0	0	0	0	0	0	0
LTI 2016 (until 2019)	0	0	0	215	0	0		200	0	0	0	151[1]
LTI 2017 (until 2020)	173	0	507	0	161	0	473	0	133	0	390	0
LTIP former shareholders	0	0	0	0	0	0	0	0		0	0	0
TOTAL VARIABLE REMUNERATION COMPONENTS	**498**	**0**	**930**	**540**	**473**	**0**	**879**	**512**	**383**	**0**	**715**	**376**
TOTAL FIXED AND VARIABLE REMUNERATION COMPONENTS	**1,063**	**565**	**1,495**	**1,096**	**963**	**490**	**1,369**	**1,002**	**753**	**370**	**1,085**	**729**
Pension costs	0	0	0	0	20	20	20	20	11	11	11	10
TOTAL REMUNERATION	**1,063**	**565**	**1,495**	**1,096**	**983**	**510**	**1,389**	**1,022**	**764**	**381**	**1,096**	**739**

[1] Contract adjustment as at 1 July 2016

The amounts paid to the members of the Management Board were as follows:

T42 – Remuneration and benefits paid

	Thomas Hegel CEO		Eckhard Schultz CFO		Holger Hentschel COO	
€ thousand	**2017**	*2016*	**2017**	*2016*	**2017**	*2016*
Fixed remuneration	520	520	468	468	350	325
Additional benefits	45	36	22	22	20	28
TOTAL FIXED REMUNERATION COMPONENTS	**565**	**556**	**490**	**490**	**370**	**353**
One-year variable remuneration (STI) [1]	358	336	343	323	248	230
Multi-year variable remuneration (LTI/LTIP)	339	2,533	315	2,053	207	340
LTI 2013 (until 2016)	100	100	93	93	50	50
LTI 2014 (until 2017)	100	100	93	93	67	67
LTI 2015 (until 2018)	139	0	129	0	90	0
LTI 2016 (until 2019)	0	0	0	0	0	0
LTI 2017 (until 2019)	0	0	0	0	0	0
LTIP former shareholders	0	2,333	0	1,867	0	223
TOTAL VARIABLE REMUNERATION COMPONENTS	**697**	**2,869**	**658**	**2,376**	**455**	**570**
TOTAL FIXED AND VARIABLE REMUNERATION COMPONENTS	**1,262**	**3,426**	**1,148**	**2,866**	**825**	**923**
Pension costs	0	0	20	20	11	10
TOTAL REMUNERATION	**1,262**	**3,426**	**1,168**	**2,886**	**836**	**933**

[1] Final payment for previous financial year

The payments made include a discretionary factor of (pro rata) 1.3 for 2015 and a discretionary factor of 1.1 in 2016.

The total remuneration of the Management Board in 2017 was as follows:

T43 – Total remuneration

	Thomas Hegel CEO		Eckhard Schultz CFO		Holger Hentschel COO		Total	
€ thousand	**2017**	*2016*	**2017**	*2016*	**2017**	*2016*	**2017**	*2016*
Fixed remuneration	520	520	468	468	350	325 [1]	1,338	1,313
Additional benefits	45	36	22	22	20	28	87	86
TOTAL FIXED REMUNERATION COMPONENTS	**565**	**556**	**490**	**490**	**370**	**353**	**1,425**	**1,399**
One-year variable remuneration (STI)	325	325	312	312	250	225 [1]	887	862
Multi-year variable remuneration (LTI) [2]	393	387	366	362	302	284 [1]	1,061	1,033
TOTAL VARIABLE REMUNERATION COMPONENTS	**718**	**712**	**678**	**674**	**552**	**509**	**1,948**	**1,895**
TOTAL REMUNERATION	**1,283**	**1,268**	**1,168**	**1,164**	**922**	**862**	**3,373**	**3,294**

[1] Contract adjustment as at 1 July 2016
[2] Includes LTI remuneration for 2017 and 2018

As of 31 December 2017 (31 December 2016), Thomas Hegel owned 54,602 (54,602) LEG Immobilien AG shares, Eckhard Schultz 50,938 (50,938) LEG Immobilien AG shares and Holger Hentschel 9,090 (9,090) LEG Immobilien AG shares.

No loans or advances were granted or extended to the members of the Management Board in the 2017 financial year.

RETIREMENT BENEFITS

Company pension scheme

Effective 1 February 2013, LEG Immobilien AG assumed the occupational pension commitment for the Management Board member Holger Hentschel from LEG Wohnen NRW GmbH (in accordance with section 4(2) no. 1 BetrAVG (German Occupational Pensions Act)). This grants a pension including benefits for surviving dependents. The amount of benefits is dependent on eligible service and pensionable remuneration. The pension will be paid when Mr Hentschel reaches 65 years of age. A pensionable basic salary of EUR 92,676 is assumed. The corresponding provision amounted to EUR 337,941 as at 31 December 2017 (2016: EUR 353,698). The recognised staff costs in 2017 amounted to EUR 11 thousand (2016: EUR 10 thousand).

Eckhard Schultz has a vested occupational pension (including disability insurance) via a provident fund that was also assumed by LEG Immobilien AG. Gross annual premiums of EUR 20,000 are paid. The benefits will be paid in 2025 as a lump sum payment of EUR 420,017. There are also benefits from profit participation.

In 2013 the Supervisory Board resolved to establish an employer-financed pension commitment for Eckhard Schultz and Holger Hentschel via a provident fund by way of a defined contribution plan. The additional payments by LEG Immobilien AG are limited to a maximum of 50% of the standard contributions to the statutory pension scheme. In case of death, the provident fund will make a one-time, lump-sum capital payment to the respective dependents. When Eckhard Schultz reaches retirement age in 2032, the payments will take the form of a non-contributory monthly pension of EUR 1,071.33. When Holger Hentschel reaches retirement age in 2033, the payments will take the form of a non-contributory monthly pension of EUR 1,143.38.

No provisions were recognised for Thomas Hegel or Eckhard Schultz as at 31 December 2017.

EARLY TERMINATION BENEFITS

Severance pay

In the event of the early termination of the activity of a member of the Management Board, the payments made to the respective member, including additional benefits, may not exceed the value of two years' remuneration ("severance cap") or the value of the remuneration payable for the remaining term of this employment agreement. The settlement cap is based on the total remuneration for the past fiscal year and, where applicable, the anticipated total remuneration for the current fiscal year (as recommended in section 4.2.3 of the German Corporate Governance Code).

In the event of the early termination of this agreement for cause falling within the responsibility of the Management Board member, the member will not be entitled to receive any payments.

Death benefits

If a Management Board member dies during the term of the employment agreement, the remuneration plus STI and LTI (including deferred tranches) will be settled up until the end of the agreement as a result of the member's death and paid out to the member's heirs in accordance with the provisions of the agreement. Furthermore, the member's widow and any children under 25 shall, as joint beneficiaries, be entitled to the full payment of the remuneration set out in section 2(1) of the employment agreement for the remainder of the month in which the member dies and the subsequent three months. However, this shall be limited to the scheduled termination of the employment agreement if the member had not died.

REMUNERATION SYSTEM OF THE SUPERVISORY BOARD

The Supervisory Board was constituted on 2 January 2013 with nine members. At the proposal of the Management Board and the Supervisory Board of LEG Immobilien AG, the Annual General Meeting on 25 June 2014 resolved to reduce the number of Supervisory Board members to six.

On 18 September 2015 the Supervisory Board resolved a time limit for membership of 15 years (first-time appointment plus two re-elections).

In accordance with the Articles of Association, all remuneration for Supervisory Board work is payable after the end of the fiscal year. Supervisory Board members who are only on the Supervisory Board or a committee of the Supervisory Board for part of the fiscal year receive corresponding remuneration on a pro rata basis for this fiscal year.

In accordance with the Articles of Association of LEG Immobilien AG, the following applies in accordance with Article 8.10: The Supervisory Board members receive a fixed annual basic remuneration of EUR 50,000.00. The chairperson of the Supervisory Board receives double this amount, the deputy chairperson receives one-and-a-half times this amount. Members of a Supervisory Board committee receive an additional fixed annual remuneration of EUR 15,000; the committee chairperson receives double this. Each member receives an additional payment of EUR 2,000 for each Supervisory Board or committee meeting where physical attendance is required. No remuneration is paid for membership or chairing of the nomination committee. Remuneration for the Supervisory Board is fixed and not success-based.

Members of the Supervisory Board are also reimbursed for appropriate expenses and travel costs. VAT is reimbursed by the company to the extent that the members of the Supervisory Board are entitled to invoice VAT to the company separately and that they exercise this right.

The company had also concluded D&O insurance for the members of the Supervisory Board with an appropriate insured amount and deductible. Since 1 January 2014, the D&O insurance has provided for a deductible of 10% of the individual claim amount to be paid by the Supervisory Board members up to a maximum of 1.5 times their fixed annual remuneration for all claims within a year, as recommended in the German Corporate Governance Code.

T44 – Breakdown of Supervisory Board remuneration
Remuneration paid or to be paid to the members of the Supervisory Board for the fiscal year 2017

in €	*Supervisory Board*		*Audit Committee*		*Executive Committee*		*Nomination Committee*	*Total*
Name of member	*Remuneration*	*Attendance Fee*	*Remuneration*	*Attendance Fee*	*Remuneration*	*Attendance Fee*		
Michael Zimmer	100,000	6,000			30,000	6,000	0	142,000
	Chairman				Chairman		Chairman	
Stefan Jütte	75,000	8,000	30,000	8,000	15,000	6,000	0	142,000
	Deputy Chairman		Chairman		Deputy Chairman		Deputy Chairman	
Dr Johannes Ludewig	50,000	6,000			15,000	6,000	0	77,000
	Member				Member			
Dr Jochen Scharpe	50,000	8,000	15,000	8,000	0	0	0	81,000
	Member		Deputy Chairman		Substitute member			
Natalie Hayday	50,000	8,000	15,000	8,000				81,000
	Member		Member					
Dr Claus Nolting	50,000	8,000						58,000
	Member							
TOTAL	**375,000**	**44,000**	**60,000**	**24,000**	**60,000**	**18,000**		**581,000**

Total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.6 million in 2017 (2016: EUR 0.6 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2017 financial year.

NON-FINANCIAL DECLARATION IN ACCORDANCE WITH SECTION 315B HGB

In place of a non-financial declaration in accordance with section 315b HGB, LEG Immobilien AG prepares a separate non-financial Group report that satisfies the content requirements of section 315c HGB in conjunction with section 289c HGB and, no later than four months after the end of the reporting period, is published on the company's website at *www.leg.ag*, where it will be accessible for at least ten years.

CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289F HGB AND SECTION 315D HGB

As a listed stock corporation, LEG Immobilien AG issues a corporate governance declaration in accordance with section 289f HGB and 315d of the German Commercial Code (HGB). This includes (i) the declaration of compliance in accordance with section 161(1) of the German Stock Corporation Act (AktG), (ii) relevant information on corporate governance practices exceeding statutory requirements, (iii) a description of the working methods of the Management Board and the Supervisory Board plus the composition and working methods of their committees, (iv) targets for the participation of women in managerial positions and (v) a description of the diversity concept.

In light of this, LEG Immobilien AG issues the following corporate governance declaration:

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161(1) AKTG

The Management Board and the Supervisory Board of LEG Immobilien AG submitted the following declaration in accordance with section 161 AktG in November 2017:

"The Management Board and Supervisory Board of LEG Immobilien AG (the "Company") hereby declare that the Company has complied with the recommendations of the "Government Commission for the German Corporate Governance Code" (version dated 7 February 2017, "Code") published by the German Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 without exception since submitting its last declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) in November 2016.

Furthermore, the Management Board and Supervisory Board of LEG Immobilien AG declare that the Company currently complies with the recommendations of the Code without exception and that it will continue to do so in future.

Dusseldorf, November 2017

The Management Board of LEG Immobilien AG
The Supervisory Board of LEG Immobilien AG"

RELEVANT DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES EXCEEDING STATUTORY REQUIREMENTS

LEG Immobilien AG is geared towards sustainable, successful portfolio management and growth. This is inseparably tied to value-driven corporate governance and corporate social responsibility, to which LEG Immobilien AG has expressed its commitment. Customer orientation, reliability and social commitment are core elements of the company's corporate philosophy. They ensure the lasting high utilisation and value of the portfolios and maintain or create a basis of trust with tenants as well as private and public-sector partners.

Promotion of local social projects

LEG Immobilien AG and its subsidiaries are committed to a number of local projects, such as tenant and district festivals and supporting cultural or social institutions and sports clubs. These measures actively promote social structures and neighbourhoods in order to strengthen the sense of identity and the bond between tenants and with the company, which in turn leads to a long-term rental partnership and appreciation that maintains value and a sense of responsibility for the neighbourhood.

LEG NRW Tenant Foundation

The charitable LEG NRW Tenant Foundation was created in 2010. With endowment assets of EUR 5.0 million, it supports individual tenants of the Group who require support on account of acute economic distress or due to their emotional, physical or mental state. Local social projects, schools and charitable initiatives are also aided on an individual and specific basis. The aim of this commitment is to create specific value added for tenants, estates and the public, for example in the form of easy access apartments or pro-integration or intercultural events.

Corporate Governance Code of the German Real Estate Industry Association

LEG Immobilien AG is a member of the Corporate Governance Initiative of the German Real Estate Industry Association. At *www.immo-initiative.de*, the Corporate Governance Initiative of the German Real Estate Industry Association published a "Corporate Governance Code of the German Real Estate Industry" (as at July 2017, "ICGK"), which contains recommendations going beyond the German Corporate Governance Code. The Supervisory Board and the Management Board of LEG Immobilien AG agree that – with the exception of the provisions of item 5.3.2i – the recommendations of the ICGK should also be complied with.

Item 5.3.2.i of the ICGK recommends that the Supervisory Board, the Audit Committee or a separate valuation committee be entrusted with the valuation of the property portfolio and the selection of the valuation experts. The Rules of Procedure of the Management Board of LEG Immobilien AG currently stipulate that fundamental changes to valuation methods require the approval of the Supervisory Board. In addition, the Supervisory Board and the Audit Committee of the Supervisory Board comprehensively monitor and review the preparation of the annual financial statements in accordance with the statutory provisions and the recommendations of the German Corporate Governance Code and, in connection with this, the valuation of the property portfolio. The valuation of the property portfolio itself is performed by the company but is validated by an external property valuation expert. Both the auditor and the external property valuation expert regularly participate in meetings of the Supervisory Board and the Audit Committee of the Supervisory Board.

Code of Conduct

The LEG Group has established a Code of Conduct with the aim of minimising the risk of compliance breaches. To this end, the LEG Group has not only created a Code of Conduct that must be acknowledged by its business partners, but has also appointed an anti-corruption officer and an ombudsman.

DESCRIPTION OF THE WORKING METHODS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD AND THE COMPOSITION AND WORKING METHODS OF THEIR COMMITTEES

As a stock corporation under German law, LEG Immobilien AG has a dual management system consisting of the Management Board and the Supervisory Board. Executive management and control are clearly separated in a dual management system.

The Management Board

The Management Board manages LEG Immobilien AG on its own responsibility in accordance with the provisions of law, the Articles of Association and the Rules of Procedure for the Management Board. The Rules of Procedure for the Management Board were most recently amended by the Supervisory Board on 8 March 2017. Among other things, these stipulate that certain transactions of particular significance require the prior approval of the Supervisory Board or one of its committees. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all issues of strategy, planning, business performance, the risk situation, risk management and compliance relevant to the company. The Management Board performs its management duties as a collective body. Regardless of their overall responsibility, the individual members of the Management Board manage the departments assigned to them in the context of Management Board resolutions on their own responsibility. The allocation of duties among the members of the Management Board is based on the assignment plan.

The Supervisory Board

The Supervisory Board has six members and monitors and advises the Management Board. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning. Its duties and rights are determined by the legal provisions, the Articles of Association and the Rules of Procedure for the Supervisory Board. The Supervisory Board most recently amended the Rules of Procedure at its ordinary meeting on 25 March 2014.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board work together closely for the good of the company. The intensive and constant dialogue between the bodies is the basis for efficient and targeted business management. The Management Board develops the strategic orientation of LEG Immobilien AG, coordinates this with the Supervisory Board and ensures its implementation. The Management Board discusses the status of the strategy implementation with the Supervisory Board at regular intervals.

The Chairman of the Supervisory Board maintains regular contact with the Management Board, particularly with the Chairman of the Management Board, and advises it on issues of strategy, planning, business performance, the risk situation, risk management and compliance at the company. The Chairman of the Supervisory Board is immediately informed by the Chairman of the Management Board of key events significant to the assessment of the position and development of the company and Group companies and their management. The Chairman of the Supervisory Board then reports to the Executive Committee or the Supervisory Board and convenes extraordinary meetings if necessary.

COMMITTEES OF THE SUPERVISORY BOARD

The Supervisory Board had three committees in the 2017 financial year: the Executive Committee, the Nomination Committee and the Audit Committee. Further committees can be formed if required.

Executive Committee of the Supervisory Board

The Executive Committee discusses key issues and prepares resolutions by the Supervisory Board. In particular, the Executive Committee discusses resolutions by the Supervisory Board on the following matters:

- The appointment and dismissal of members of the Management Board, naming of the Chairman of the Management Board
- The conclusion, amendment and termination of employment agreements with members of the Management Board;
- The structure of the remuneration system for the Management Board, including the key contract elements and the total compensation paid to the individual members of the Management Board; and
- The acquisition of property portfolios.

The Executive Committee regularly discusses long-term succession planning for the Management Board with the involvement of the Management Board. In place of the Supervisory Board but subject to the above and other mandatory responsibilities of the Supervisory Board, the Executive Committee passes resolutions on the following matters:

- Transactions with members of the Management Board in accordance with section 112 AktG
- Approval of transactions with a value in excess of EUR 25,000 between the company or one of its Group companies on the one hand and a member of the Management Board or persons or undertakings related to a member of the Management Board on the other
- Consent to other activities by a member of the Management Board in accordance with section 88 AktG and approval of other additional employment, in particular holding supervisory board mandates and mandates in similar executives bodies of companies outside the Group
- Granting loans to the persons named under sections 89, 115 AktG
- Approval of contracts with Supervisory Board members in accordance with section 114 AktG
- Any other approval required in accordance with the Articles of Association of the company or the Rules of Procedure for the Management Board for measures by the Management Board if the matter cannot be delayed and a resolution by the Supervisory Board cannot be passed in a timely manner

The members of the Executive Committee are the Chairman of the Supervisory Board, Mr Michael Zimmer, his deputy, Mr Stefan Jütte and Dr Johannes Ludewig. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. Dr Jochen Scharpe has been elected deputy member (in the case of absence).

Nomination Committee

The Nomination Committee meets as required and suggests suitable candidates to the Supervisory Board for its nominations for the Annual General Meeting. The members of the Nomination Committee are the members of the Executive Committee (Mr Michael Zimmer, Mr Stefan Jütte, Dr Johannes Ludewig). The Chairman of the Supervisory Board is also the Chairman of the Nomination Committee.

Audit Committee

In particular, the Audit Committee deals with the monitoring of the accounting process, the effectiveness of the internal control system and the internal audit system, the audit of the financial statements, including in particular the independence of the auditor, the other services performed by the auditor, the granting of the audit mandate to the auditor, the determination of the key areas of the audit, the fee agreement and compliance. The Audit Committee also deals with the non-financial declaration in accordance with section 315b HGB. The Audit Committee prepares the resolutions by the Supervisory Board on the annual financial statements (and the consolidated financial statements where applicable) and the agreements with the auditor (in particular, the granting of the audit mandate to the auditor, the determination of the key areas of the audit and the fee agreement). The Audit Committee takes appropriate measures to determine and monitor the independence of the auditor. Thus, the Audit Committee released a white list of a limited number of non-audit services that can be provided by the auditor. If the auditor is commissioned to perform further tasks, the Audit Committee’s approval will be required. In addition, on the Audit Committee’s behalf, the company has established a process to ensure that no prohibited non-audit services are contracted to the current auditor or potential future auditors. The work of the Audit Committee is based on particular Rules of Procedure that were most recently amended on 17 June 2016.

The members of the Audit Committee are Mr Stefan Jütte (Chairman), Dr Jochen Scharpe (Deputy Chairman), Ms Natalie C. Hayday. The Chairman of the Audit Committee is independent and has special expertise and experience in the application of accounting policies and internal control procedures.

Detailed information on the work of the Supervisory Board and the composition of the committees of the Supervisory Board in the 2017 financial year can be found in the Report of the Supervisory Board from page 33 of this annual report.

TARGETS FOR THE PARTICIPATION OF WOMEN

In accordance with section 76(4) and section 111(5) of the German Stock Corporation Act, the Supervisory Board and the Management Board are required to set targets for the participation of women in (i) the Supervisory Board, (ii) the Management Board and (iii) the two management levels below the Management Board, to stipulate a timeframe for when this goal must be achieved, to report on the achievement of this goal, or give reasons in the event of non-achievement of this goal.

Supervisory Board

At its meeting on 8 March 2017 the Supervisory Board, based on the six-person Supervisory Board of LEG Immobilien AG and given the current composition of the Supervisory Board, resolved a ratio of 16.6% (corresponds to one woman on the six-person Supervisory Board). The deadline for achieving this goal was set as 31 December 2021.

Management Board

Also at its meeting on 8 March 2017, the Supervisory Board of LEG Immobilien AG set a goal for the share of women on the Management Board of 0.0%, in particular on account of the extension of Management Board appointments until 2021 (Mr Hegel and Mr Schultz) and 2019 (Mr Hentschel) just in March 2015. The goal was therefore for the current status. The deadline for achieving this goal was set as 31 December 2021.

Management levels below Management Board

LEG Immobilien AG itself has no employees. Hence it is not possible to set goals for employees that it does not have. However, at the Management Board meeting of 6 March 2017 the Management Board of LEG Immobilien AG voluntarily set Group-wide targets for the appointment of women to management positions. The Management Board is standing by its goal of a share of women of 30% in the first and second management levels below the Management Board, and is aiming to achieve this by 31 December 2021.

DIVERSITY CONCEPT

The diversity concept in accordance with section 289 f(2) no. 6 HGB for the Supervisory Board has been established by the Supervisory Board's objectives for its own composition – in line with the necessary professional requirements (competence profile); please also see the information on the published objectives and their implementation in the chapter "Corporate Governance" (page 38). The Supervisory Board's objectives for its own composition have been fulfilled; the diversity concept has therefore been implemented and its requirements satisfied.

Regarding the executive body with power of representation, the "Management Board", it should be noted that appointments were extended in March 2015 to 2021 (Mr Hegel and Mr Schultz) and to 2019 (Mr Hentschel). Targets for the share of women on the Management Board were also set (see – Targets for the participation of women – Management Board). The goal was achieved and will be reviewed again as at 31 December 2021. Furthermore, the Management Board should be composed in a way that the Board as a whole does not only have entrepreneurial and managerial competence but also knowledge of property management and extensive expertise concerning regional housing markets. Moreover, the composition of the Management Board should allow it to have financial markets expertise as well as social competence, e.g., in the area of social and neighbourhood management, also to assume the company's responsibility as a housing provider for many people. This goal has likewise been achieved.

The corporate governance declaration in accordance with section 289f and section 315d HGB, including the above declaration in accordance with section 161 AktG and the other disclosures on corporate governance can also be found on the homepage of LEG Immobilien AG at *www.leg.ag*.

TAKEOVER DISCLOSURES IN ACCORDANCE WITH SECTION 315A HGB

Composition of issued capital

There are 63,188,185 no-par-value ordinary shares admitted to trading on the Frankfurt Stock Exchange. The shares are registered shares and do not differ in terms of the securitised rights and obligations.

The Authorized Capital amounts to EUR 31,594,092.00. The Contingent Capital amounts to EUR 31,594,092.00.

Restrictions relating to voting rights and transfers of shares

There are no further restrictions on voting rights, the exercise of voting rights or the transfer of shares beyond the statutory provisions.

Interests in capital with shares of voting rights exceeding 10%

As of 31 December 2017, BlackRock, Inc. and its affiliated companies held 11.60% of the share capital of the company, and hence also of the voting rights (notification in accordance with section 21, 22 of the German Securities Trading Act (WpHG). As a material investor, BlackRock notified LEG of the objectives pursued with the investment and the origin of the funds used in the acquisition in accordance with section 27a WpHG. LEG published this notification on 27 March 2015.

Bearers of shares with special rights granting powers of control

The shares issued by LEG do not have special rights granting powers of control.

Rules for the appointment and dismissal of members of the Management Board and amendments to the Articles of Association

Members of the Management Board are appointed and dismissed in accordance with the provisions of section 84 of the German Stock Corporation Act (AktG). There are no material supplementary or divergent provisions in the Articles of Association or Rules of Procedure.

Amendments to the Articles of Association are effected in accordance with the provisions of the AktG. There are no material supplementary or divergent provisions in the Articles of Association or Rules of Procedure.

Authority of the Management Board to issue shares

The Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company by up to a total of EUR 31,594,092.00 by issuing up to 31,594,092 new shares until 16 May 2022 (Authorized Capital 2017).

The share capital is contingently increased by up to EUR 31,594,092.00 through the issue of up to 31,594,092 new shares (Contingent Capital 2013/2017). The contingent capital increase is subject to the proviso that the conditions for the conversion rights issued in 2014 or 2017 or in future are exercised and serviced by way of the corresponding utilisation of contingent capital.

Authorisation on the acquisition and utilisation of treasury shares

On 17 Mai 2017, the Annual General Meeting of LEG Immobilien AG authorised the Management Board in accordance with section 71(1) no. 8 AktG to acquire treasury shares up to a total of 10% of the share capital in place as at the time of the authorisation. The shares acquired on the basis of this authorisation, together with other shares of the company that the company has already acquired and still holds or that are attributable to it, cannot account for more than 10% of the share capital at any time. The authorisation applies until 16 May 2022 and can be exercised in full or in part on one or more occasions. At the discretion of the Management Board, the shares must be acquired in accordance with the principle of equal treatment (section 53a AktG) on the stock exchange or by means of a public invitation to all shareholders to submit offers to sell, in which case the principle of equal treatment of shareholders must also be upheld, unless the disapplication of the right to tender is permitted, (section 52a AktG), or by granting tender rights.

If the shares are acquired on the stock market, the acquisition price (not including incidental costs of acquisition) must not be 10% higher or 20% less than the arithmetic average of the price of the shares on the stock exchange in Frankfurt/Main on the last three trading days before the acquisition or the assumption of an acquisition obligation.

If acquired by way of a public purchase offer made to all shareholders or a public invitation to all shareholders of the company to submit offers for sale, the acquisition price (not including incidental costs of acquisition) paid to shareholders must not be 10% more or 20% less than the arithmetic average of the price of the shares on the stock exchange in Frankfurt/Main on the last three trading days before the publication of the offer or, if acquired otherwise, before the acquisition.

If the shares are acquired by granting tender rights, the consideration paid per share by the company (not including incidental costs of acquisition) must not be 10% higher or 20% less than the average share price on the stock exchange in Frankfurt/Main on the last three stock exchange trading days before the date offers of sale are accepted or the date that tender rights are granted.

The authorisation can be exercised for any purpose allowed by law. The Management Board was also authorised to use the shares acquired on the basis of the acquisition authorisation – subject to other requirement – as follows, in particular: (i) to withdraw shares, (ii) for resale on the stock exchange, (iii) to offer for subscription to shareholders, (iv) for disposal in a manner other than on the stock exchange or by way of offer to all shareholders if the acquired shares are sold against cash payment at a price not significantly less than the stock market price within the meaning of section 186(3) sentence 4 AktG, whereby this authorisation is limited to a pro rata amount of share capital totalling not more than 10% of the share capital as of the time of the resolution by the Annual General Meeting or – if lower – 10% of the share capital as of the time of the disposal of the shares, (v) as part of a merger or for the acquisition of companies, parts of companies or equity investments in companies, including increases of existing holdings, or of other eligible assets such as properties, property portfolios and receivables from the company, and (vi) to fulfil option or conversion rights/obligations, whereby this authorisation is limited to a pro rata amount of the share capital of not more than 10% of the share capital of LEG Immobilien AG at the time of the resolution of the Annual General Meeting regarding this authorisation or – if this value is lower – 10% of the share capital at the time of the disposal of the shares. Shareholders' pre-emption rights can be disapplied in certain cases, including for fractional amounts.

The statutory provisions also apply.

Material agreements of the company for the event of a change of control following a takeover bid

In April 2014 and in August 2017, LEG Immobilien AG issued convertible bonds with a volume of EUR 300 million or EUR 400 million respectively. In the event of a change of control, the terms and conditions of the convertible bonds state that the bondholders shall be entitled to receive an increased number of shares at a correspondingly adjusted conversion price if the conversion is exercised within a defined period following the change of control. Prior to a change of control taking place, bondholders may submit their convertible bonds for conversion when a corresponding takeover bid is published subject to the condition precedent of the change of control taking place. The extent of the adjustment to the conversion price shall fall during the term of the convertible bond; this is defined in greater detail in the terms and conditions of the convertible bonds. A change of control in accordance with these conditions is considered to have taken place if a person or persons acting in concert hold 30% or more of the shares in LEG Immobilien AG or are otherwise able to exercise control over the company.

In addition, there are some financing agreements in place that contain a termination clause for the benefit of the financing banks, following such a change of control.

Compensation agreements concluded by the company with employees or members of the Management Board in the event of a takeover bid

No compensation agreements have been concluded with employees or members of the Management Board in the event of a takeover bid.

Dusseldorf, 6 March 2018

LEG Immobilien AG, Dusseldorf

The Management Board

THOMAS HEGEL
ECKHARD SCHULTZ
HOLGER HENTSCHEL

CHAPTER

4

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T45 – Consolidated statement of financial position
Assets

€ million	*Notes*	**31.12.2017**	*31.12.2016*
Non-current assets		**9,633.0**	**8,164.5**
Investment properties	E.1	9,460.7	7,954.9
Prepayments for investment properties		–	27.3
Property, plant and equipment	E.2	63.4	63.2
Intangible assets	E.3	85.4	77.0
Investments in associates		9.5	9.1
Other financial assets	E.4	3.0	2.8
Receivables and other assets	E.5	2.3	13.9
Deferred tax assets	E.13	8.7	16.3
Current assets		**349.1**	**214.4**
Real estate inventory and other inventory		5.3	3.9
Receivables and other assets	E.5	56.4	41.5
Income tax receivables	E.13	2.0	2.3
Cash and cash equivalents	E.6	285.4	166.7
Assets held for sale	E.7	**30.9**	**57.0**
TOTAL ASSETS		**10,013.0**	**8,435.9**

Equity and liabilities

€ million	*Notes*	**31.12.2017**	*31.12.2016*
Equity	E.8	**4,112.4**	**3,436.7**
Share capital		63.2	63.2
Capital reserves		611.2	611.2
Cumulative other reserves		3,413.0	2,740.1
Equity attributable to shareholders of the parent company		4,087.4	3,414.5
Non-controlling interests		25.0	22.2
Non-current liabilities		**4,980.2**	**4,092.6**
Pension provisions	E.9	148.6	154.8
Other provisions	E.10	9.4	12.0
Financing liabilities	E.11	3,821.4	3,222.3
Other liabilities	E.12	145.6	115.4
Deferred tax liabilities	E.13	855.2	588.1
Current liabilities		**920.4**	**906.6**
Pension provisions	E.9	7.0	6.9
Other provisions	E.10	12.9	15.8
Provisions for taxes	E.13	0.2	0.4
Financing liabilities	E.11	478.2	552.0
Other liabilities	E.12	413.6	316.5
Tax liabilities	E.13	8.5	15.0
TOTAL EQUITY AND LIABILITIES		**10,013.0**	**8,435.9**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T46 – Consolidated statement of comprehensive income

€ million	*Notes*	**01.01.–31.12.2017**	*01.01.–31.12.2016*
Net rental and lease income	F.1	**399.4**	**373.1**
Rental and lease income		795.8	763.3
Cost of sales in connection with rental lease income		–396.4	–390.2
Net income from the disposal of investment properties	F.2	**–1.4**	**7.6**
Income from the disposal of investment properties		66.5	159.0
Carrying amount of the disposal of investment properties		–67.4	–150.3
Cost of sales in connection with disposed investment properties		–0.5	–1.1
Net income from the remeasurement of investment properties	F.3	**1,036.8**	**616.6**
Net income from the disposal of real estate inventory		**–2.3**	**–2.4**
Income from the real estate inventory disposed of		0.2	1.9
Carrying amount of the real estate inventory disposed of		–0.2	–1.2
Costs of sales of the real estate inventory disposed of		–2.3	–3.1
Net income from other services	F.4	**6.3**	**3.7**
Income from other services		12.2	10.3
Expenses in connection with other services		–5.9	–6.6
Administrative and other expenses	F.5	**–41.3**	**–78.2**
Other income		**1.4**	**16.4**
OPERATING EARNINGS		**1,398.9**	**936.8**
Interest income		7.4	0.9
Interest expenses	F.6	–152.3	–177.2
Net income from investment securities and other equity investments		4.1	2.2
Net income from associates		0.4	0.3
Net income from the fair value measurement of derivatives	F.7	–138.2	16.6
EARNINGS BEFORE INCOME TAXES		**1,120.3**	**779.6**
Income taxes	F.8	–275.5	–200.4
NET PROFIT OR LOSS FOR THE PERIOD		**844.8**	**579.2**
Change in amounts recognised directly in equity		**19.4**	**–14.7**
Thereof recycling			
Fair value adjustment of interest rate derivatives in hedges		**17.1**	**–5.0**
Change in unrealised gains/(losses)		23.2	–6.5
Income taxes on amounts recognised directly in equity		–6.1	1.5
Thereof non-recycling			
Actuarial gains and losses from the measurement of pension obligations		**2.3**	**–9.7**
Change in unrealised gains/losses		3.6	–13.9
Income taxes on amounts recognised directly in equity		–1.3	4.2
TOTAL COMPREHENSIVE INCOME		**864.2**	**564.5**
Net profit or loss for the period attributable to:			
Non-controlling interests		3.5	1.1
Parent shareholders		841.3	578.1
Total comprehensive income attributable to:			
Non-controlling interests		3.5	1.1
Parent shareholders		860.7	563.4
EARNINGS PER SHARE (BASIC) IN €	F.9	**13.31**	**9.17**
EARNINGS PER SHARE (DILUTED) IN €	F.9	**13.31**	**8.28**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

T47 – Statement of changes in consolidated equity

			Cumulative other reserves					
€ million	*Share capital*	*Capital reserves*	*Revenue reserves*	*Actuarial gains and losses from the measurement of pension obligations*	*Fair value adjustment of interest derivatives in hedges*	*Equity attributable to shareholders of the Group*	*Noncontrolling interests*	*Consolidated equity*
AS OF 01.01.2016	**62.8**	**779.2**	**2,189.8**	**–30.1**	**–33.9**	**2,967.8**	**17.2**	**2,985.0**
Net profit or loss for the period	–	–	578.1	–	–	578.1	1.1	579.2
Other comprehensive income	–	–	–	–9.8	–4.9	–14.7	–	–14.7
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**578.1**	**–9.8**	**–4.9**	**563.4**	**1.1**	**564.5**
Change in consolidated companies	–	–	–	–	–	–	11.4	11.4
Capital increase	0.4	32.0	200.0	–	–	232.4	1.2	233.6
Withdrawals from reserves	–	–200.0	–	–	–	–200.0	–0.8	–200.8
Change in put options	–	–	–7.2	–	–	–7.2	–	–7.2
Distributions	–	–	–141.9	–	–	–141.9	–7.9	–149.8
Contribution in connection with Management and Supervisory Board	–	–	–	–	–	–	–	–
AS OF 31.12.2016	**63.2**	**611.2**	**2,818.8**	**–39.9**	**–38.8**	**3,414.5**	**22.2**	**3,436.7**
AS OF 01.01.2017	**63.2**	**611.2**	**2,818.8**	**–39.9**	**–38.8**	**3,414.5**	**22.2**	**3,436.7**
Net profit or loss for the period	–	–	841.3	–	–	841.3	3.5	844.8
Other comprehensive income	–	–	–	2.3	17.1	19.4	–	19.4
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**841.3**	**2.3**	**17.1**	**860.7**	**3.5**	**864.2**
Change in consolidated companies/other	–	–	–	–	–	–	1.2	1.2
Capital increase	–	–	1.0	–	–	1.0	1.0	2.0
Withdrawals from reserves	–	–	–14.4	–	–	–14.4	–2.9	–17.3
Change in put options	–	–	–	–	–	–	–	–
Distributions	–	–	–174.4	–	–	–174.4	–	–174.4
Contribution in connection with Management and Supervisory Board	–	–	–	–	–	–	–	–
AS OF 31.12.2017	**63.2**	**611.2**	**3,472.3**	**–37.6**	**–21.7**	**4,087.4**	**25.0**	**4,112.4**

See section E.8 of the notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

T48 – Consolidated statement of cash flows

€ million		**01.01. – 31.12.2017**	*01.01. – 31.12.2016*
Operating earnings		**1,398.9**	**936.8**
Depreciation on property, plant and equipment and amortisation on intangible assets		9.2	10.5
(Gains)/Losses from the remeasurement of investment properties		–1,036.8	–616.6
(Gains)/Losses from the disposal of assets held for sale and investment properties		0.9	–8.7
(Gains)/losses from the disposal of intangible assets and property, plant and equipment		0.0	0.2
(Decrease)/Increase in pension provisions and other non-current provisions		–5.2	–1.3
Other non-cash income and expenses		6.8	–9.2
(Decrease)/Increase in receivables, inventories and other assets		–15.1	–6.8
Decrease/(Increase) in liabilities (not including financing liabilities) and provisions		3.8	–2.1
Interest paid		–81.3	–83.4
Interest received		0.4	0.2
Received income from investments		2.7	2.1
Income taxes received		0.6	0.2
Income taxes paid		–15.3	–14.9
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**269.6**	**207.0**
Cash flow from investing activities			
Investments in investment properties		–467.8	–629.2
Proceeds from disposals of non-current assets held for sale and investment properties		22.0	63.6
Investments in intangible assets and property, plant and equipment		–5.7	–7.8
Acquisition of shares in consolidated companies		0.2	–104.8
Proceeds from disposals of investments in affiliated consolidated entities		–	112.5
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**–451.3**	**–565.7**
Cash flow from financing activities			
Borrowing of bank loans		339.8	673.2
Repayment of bank loans		–752.5	–249.4
Repayment of lease liabilities		–4.4	–4.3
Issue of convertible/corporate bonds		891.2	–
Other payments		–	–9.3
Distribution to shareholders		–174.4	–141.9
Other proceeds		0.7	4.3
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**300.4**	**272.6**
Change in cash and cash equivalents		**118.7**	**–86.1**
Cash and cash equivalents at beginning of period		166.7	252.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**285.4**	**166.7**
Composition of cash and cash equivalents			
Cash in hand, bank balances		285.4	166.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**285.4**	**166.7**

See section G of the notes.

NOTES

A. GENERAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS OF LEG IMMOBILIEN AG

1. Basic information on the Group

LEG Immobilien AG, Dusseldorf (hereinafter: "LEG Immo"), its subsidiary LEG NRW GmbH, Dusseldorf (hereinafter: "LEG") and the subsidiaries of the latter company (hereinafter referred to collectively as the "LEG Group") are among the largest residential companies in Germany. The LEG Group held a portfolio of 131,341 units (residential and commercial) on 31 December 2017.

LEG Immo and its subsidiaries engage in two core activities as an integrated property company: the value-adding long-term management of its residential property portfolio in connection with the strategic acquisition of residential portfolios in order to generate economies of scale for its management platform and the expansion of tenant-oriented services.

These consolidated financial statements were approved for publication by LEG Immo's Management Board on 8 March 2018.

2. Consolidated financial statements

The consolidated financial statements of the LEG Group as at 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as applicable in the European Union. The consolidated financial statements have been prepared in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002, concerning the application of international accounting standards in conjunction with section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the additional provisions of commercial law.

Individual items of the statement of comprehensive income and the statement of financial position have been aggregated to improve the clarity of presentation. These items are discussed in the notes to the consolidated financial statements. The statement of comprehensive income has been prepared using the cost of sales method.

The consolidated financial statements have been prepared in euro. Unless stated otherwise, all figures have been rounded to millions of euro (EUR million). For technical reasons, tables and references can include rounded figures that differ from the exact mathematical values.

The consolidated financial statements are prepared on the basis of accounting for assets and liabilities at amortised cost. Exceptions to this are investment property, securities held for sale and derivative financial instruments, which are carried at their fair value as at the end of the reporting period.

The consolidated financial statements and the Group management report are published in the Bundesanzeiger (Federal Gazette).

The preparation of consolidated financial statements in accordance with IFRS requires estimates and judgements on the part of management. Areas with greater scope for judgement or areas in which assumptions and estimates are of material importance to the consolidated financial statements are listed in D.22 and D.23.

The consolidated financial statements of LEG Immo constitute exempting consolidated financial statements within the meaning of section 291 HGB for LEG Holding GmbH and LEG NRW GmbH, Ruhr-Lippe Wohnungsgesellschaft mbH and Wohnungsgesellschaft Münsterland mbH. These companies are not required to prepare subgroup financial statements as they are included in the consolidated financial statements of LEG Immo, no non-controlling interests have applied for the preparation of consolidated financial statements and a Group management report in accordance with section 291(3) sentence 1 no. 2 HGB, and the other conditions of section 291(2) no. 2 and no. 3 HGB have been met.

The exemption provisions set out in section 264(3) HGB were exercised by Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH, LEG Wohnungsbau Rheinland GmbH, LEG Rheinland Köln GmbH, Wohnungsgesellschaft Münsterland GmbH, Ruhr-Lippe Wohnungsgesellschaft mbH, Ravensberger Heimstättengesellschaft mbH, LEG Management GmbH, LEG Wohnen NRW GmbH and WohnServicePlus GmbH, TSP-TechnikServicePlus GmbH and LEG Siebte Grundstücksverwaltung GmbH.

B. NEW ACCOUNTING STANDARDS

1. International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) that have been published but that are not yet effective

The IASB has published the following IFRS and IFRIC that are not yet effective and that will be relevant to the LEG-Group: *Table* **T49**

LEG Immo does not adopt new standards early.

IFRS 9

The IASB completed its project to replace IAS 39, Financial Instruments: Recognition and Measurement, in July 2014 with the publication of the final version of IFRS 9, Financial Instruments. The standard therefore replaces all earlier versions of IFRS 9 and is effective for the first time for reporting periods beginning on or after 1 January 2018. LEG Immobilien AG applies IFRS 9 from 1 January 2018, the effective date of the new standard. There will be no restatement of the comparative periods. Differences between the old and new carrying amounts are recognised in retained earnings.

IFRS 9 combines the three project phases of accounting for financial instruments "Classification and measurement", "Impairment" and "Hedge accounting". A qualitative and quantitative assessment of its effects led to the following results:

Classification and Measurement

The amended provisions on classification and measurement relate to equity investments in corporations and partnerships without control or significant influence over the investment property. These financial assets were previously carried at cost. Under IFRS 9, these instruments are measured at fair value.

In the consolidated financial statements, shares in partnerships constitute debt instruments, changes in the fair value of which will be recognised in profit or loss from 1 January 2018. Shares in corporations constitute equity instruments. LEG does not exercise the OCI option in these cases, i.e. changes in the fair value of these equity instruments are recognised in profit or loss from 1 January 2018. Fair value adjustments from the realisation of hidden reserves for the equity investments in question of EUR 9.7 million were recognised on first-time adoption of IFRS 9 and reported directly in equity (revenue reserves).

Impairment

The amended provisions on loss allowances for financial assets essentially relate to rent receivables and receivables from operating and heating costs not yet invoiced in the LEG Group.

The financial assets of LEG Immobilien AG measured at amortised cost are subject to the new impairment requirements of IFRS 9 – the expected credit loss (ECL) model, which is replacing the incurred loss model of IAS 39. The new expected credit loss model takes potential impairment into account at initial recognition of a receivable. The first-time adoption of the expected credit loss model as at 1 January 2018 will therefore increase loss allowances by around EUR 1.9 million, reported directly in equity (revenue reserves).

T49 – Published IFRS and IFRIC that are not yet effective

	Content	*Effective for reporting periods beginning on*
New standards		
IFRS 9	"Financial Instruments: Classification and Measurement"	01.01.2018
IFRS 15	"Revenue from Contracts with Customers"	01.01.2018
IFRS 16	"Leases"	01.01.2019
IFRIC 23	"Uncertainty over income tax treatments"	01.01.2019*
Amendments to standards		
IFRS 15	"Clarifications to IFRS 15 Revenue from Contracts with Customers"	01.01.2018
IFRS 2	"Classification and Measurement of Share-based Payment Transactions"	01.01.2018*
Various standards	"Annual Improvements to IFRS Standards 2014–2016" – IAS 28 und IFRS 1	01.01.2018
Various standards	"Annual Improvements to IFRS Standards 2015–2017"	01.01.2019 *
IFRS 9	"Prepayment features with negative compensation"	01.01.2019 *
IAS 28	"Long-term interests in associates and Joint Ventures"	01.01.2019 *
IAS 19	"Plan Amendment, Curtailment or Settlement"	01.01.2019 *
IAS 40	"Transfers of Investment Property"	01.01.2018*

* (not yet endorsed)

Depending on the age and status of the lease, the following estimates were applied until 31 December 2017 to measure the amount of impairment:

T 50 – Impairment rates for rent receivables – IAS 39

Age of rent receivable / overdue period (days)	*Status of lease*	*Impairment in %*
0 to 60	active	–
61 to 90	active	25.0
91 to 120	active	50.0
121 to 180	active	75.0
more than 180	active	100.0
0 to 60	past	–
more than 60	past	100.0

In calculating the impairment rates for rent receivables, location-specific risk profiles are also taken into account within the individual past due ranges. This includes both the historical default rate for outstanding rent receivables and an assessment of the future development of a location as forward looking element.

Locations are divided into three categories (good, medium, poor), giving rise to the following impairment matrix in accordance with IFRS 9 as at 1 January 2018:

T 51 – Impairment rates for rent receivables – IFRS 9

		Impairment in %		
Age of rent receivable / overdue period (days)	*Status of lease*	*Good location*	*Medium location*	*Poor location*
0 to 60	active	–	25.0	45.0
61 to 90	active	8.0	35.0	55.0
91 to 120	active	10.0	37.0	57.0
121 to 180	active	13.0	40.0	60.0
more than 180	active	18.0	45.0	65.0
0 to 60	past	43.0	70.0	90.0
more than 60	past	60.0	87.0	100.0

The first-time adoption of IFRS 9 increases impairment losses from EUR 13.7 million to EUR 15.6 million.

Hedge accounting

There will be no significant effect on hedge accounting. The more extensive disclosures in the notes on hedge accounting will essentially lead to more detailed disclosure on the performance of hedges in the financial year. In future, disclosures will include the performance of ineffective portions of a hedge and the amount of negative initial values and their distribution over the term.

IFRS 15

In May 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the previous IFRS provisions on revenue recognition: IAS 18 and IAS 11. The goal of the new standard on revenue recognition is to compile the many regulations already contained in various standards and interpretations into a uniform model of revenue recognition. The standard establishes a five-step model to help determine the amount and timing of revenue recognition. Other changes can arise on account of the new regulations for revenue recognition on transfer of control, multi-component transactions with revenue recognised over the period of performance and extended disclosures in the notes. The standard is effective for reporting periods beginning on or after 1 January 2018. IFRS 15 is applied using the modified retrospective approach. This has no effect on the recognition of rental income as this is covered by IFRS 16 rather than IFRS 15. Individual allocable operating cost types do not satisfy the requirements for a contract with a customer in accordance with IFRS 15, and in future will be reported under rental income as part of the consideration for the lease component. Furthermore, regarding allocable operating costs, isolated items were identified in which the LEG Group qualifies as an agent under IFRS 15, unlike under IAS 18. The following overview summarises the future assessment of whether a contract with a customer satisfied the definition of IFRS 15 and whether the LEG Group qualifies as a principal (gross revenue) or an agent (net revenue) in sales: *Table* **T 52**

Thus, there are expected to be changes in the reporting of individual allocable operating costs, which will lead to a reduction of EUR 67.3 million in the revenue reported and the corresponding cost of sales. There will therefore be no material effect on the results of operations.

IFRS 16

The IASB completed its project to replace IAS 17, Leases, in January 2016 with the publication of the final version of IFRS 16, Leases. IFRS 16 establishes a new accounting model based on the right to use an asset for leases in the lessee's financial statements. The current classification system that distinguishes between operating and finance leases will be replaced for lessees in future ("one-model approach"). For lessees, all leases will be shown "on-balance". Thus, lessees will recognise a "right of use" asset and a lease liability for all leases. The standard is effective for reporting periods beginning on or after 1 January 2019.

T 52 – Allocable operating costs

€ million	Customer contract acc. to IFRS 15 Lease contract acc. to IFRS 16	Principal – agent relations acc. to IFRS 15	31.12.2017
Operating costs – land tax	IFRS 16	-	23.5
Operating costs – cold water supply	IFRS 15	Agent	36.6
Operating costs – draining	IFRS 15	Agent	24.9
Operatings costs – hot water supply	IFRS 15	Principal	0.9
Operatings costs – elevator	IFRS 15	Principal	3.2
Operatings costs – waste disposal	IFRS 15	Principal	31.8
Operatings costs – vermin control	IFRS 15	Principal	0.4
Operatings costs – gardening	IFRS 15	Principal	15.4
Operatings costs – chimney sweep	IFRS 15	Principal	1.2
Operatings costs – caretaker	IFRS 15	Principal	0.3
Operatings costs – property and liability insurance	IFRS 16	–	24.4
Operatings costs – washing facilites	IFRS 16	–	0.2
Operatings costs – smoke alarms	IFRS 16	–	–5.1
Operatings costs – heating costs / heat supply	IFRS 15	Principal	53.3
Operatings costs – street cleaning	IFRS 15	Agent	5.8
Operatings costs – cleaning of building	IFRS 15	Principal	4.7
Operatings costs – lightning	IFRS 15	Principal	5.4
Operatings costs – cabel and TV multimedia	IFRS 15	Principal	2.8

The LEG Group is currently reviewing the exact implications of the standard as part of a project. The recognition of previous operating leases "on-balance" will lead to a minor improvement in FFO and a slight increase in LTV. The main classes of assets at LEG affected by the regulation are likely to be rented land and buildings in addition to vehicle leases. For most of the potential classes of assets, LEG is unlikely to use the practical expedient for low-value assets (in particular measurement and reporting technology). Overall, it is assumed that the recognition of previous operating leases will increase total assets by a low seven- or eight-figure amount. The effects on the results of operations are considered low (low to medium seven-figure amount per year). For an overview of previous unrecognised operating lease obligations, please refer to section F.5 (Rental expenses) and section I.9 (Other financial commitments).

2. International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) effective for the first time

The adoption of IAS 7 has no impact on the net assets, financial position and results of operations of the LEG Group. The only changes will be disclosures in the notes.

The IASB published final amendments to IAS 12, Income Taxes, on 19 January 2016. The IASB has come to the conclusion that the differences in practice in the recognition of deferred tax assets from assets at fair value are essentially due to uncertainty in connection with the application of some principles of IAS 12. The amendment/clarification has no effect on the consolidated financial statements of the LEG Group as at 31 December 2017 as no change in previous accounting practice is required in this context.

Only the IFRS and interpretations that affect the LEG Immo consolidated financial statements are explained in more detail below.

T 53 – Amendments to standards

	Content	Effective for reporting periods beginning on
IAS 7	"Disclosure Initiative"	01.01.2017
IAS 12	"Recognition of deferred tax assets for unrealised losses"	01.01.2017
Various standards	"Annual Improvements to IFRSs 2014–2016" – IFRS 12	01.01.2017

C. BASIS OF CONSOLIDATION AND CONSOLIDATION METHODS

1. Consolidation methods

a) Subsidiaries

The consolidated financial statements of the LEG Group contain all the material subsidiaries LEG Immo controls within the meaning of IFRS 10.

Subsidiaries are consolidated from the date at which LEG Immo first obtains control. Subsidiaries are deconsolidated as soon as LEG Immo no longer controls them.

The financial statements of subsidiaries are prepared using uniform accounting policies and as at the end of the same reporting period as LEG Immo's financial statements.

Capital is consolidated in accordance with the acquisition method, whereby the cost at the time of acquisition is offset against the pro rata share of net assets. Non-controlling interests represent the share of profit and net assets not attributable to the shareholders of LEG Immo. Non-controlling interests are reported separately in the consolidated statement of comprehensive income and the consolidated statement of financial position. They are reported in the consolidated statement of financial position under equity but separately from the equity attributable to the shareholders of the parent company.

All intragroup receivables and liabilities, income and expenses and gains and losses from intragroup transactions are eliminated.

b) Associates

Associates are equity interests whose financial and operating policies can be significantly influenced by the LEG Group. Associates are accounted for using the equity method. Owing to their immateriality for the net assets, financial position and results of operations of the Group, certain individual associates are measured at fair value or, if the fair value cannot be reliably determined for unlisted equity instruments, at cost and reported in other non-current financial assets.

A list of the LEG Group's shareholdings can be found in section J.

2. Changes in the Group

a) Subsidiaries

Changes in the companies included in the consolidated financial statements of the LEG Group were as follows:

T54 – Number of consolidated subsidiaries

	2017	2016
AS OF 01.01.	**61**	**54**
Additions	5	10
Disposals	0	–3
AS OF 31.12.	**66**	**61**

TSP-TechnikServicePlus GmbH was acquired and consolidated for the first time as at 1 January 2017. The acquisition of the shares constitutes a business combination (see section C.3).

LEG Holding GmbH was founded as at 1 July 2017.

Düsseldorfer Ton- und Ziegelwerke AG was acquired and included in consolidation for the first time as at 1 November 2017 as part of a portfolio acquisition (see section E.1).

GeWo Beteiligungsgesellschaft mbH, Dusseldorf, and Ravensberger Heimstättenbeteiligungsgesellschaft mbH, Düsseldorf, were acquired and included in consolidation for the first time as at 31 December 2017.

b) Associates

The following table shows the development of associates accounted for using the equity method:

T55 – Number of associates accounted for using the equity method

	2017	2016
AS OF 01.01.	**2**	**3**
Additions/Disposals	0	–1
AS OF 31.12.	**2**	**2**

3. Business combinations

On 14 December 2016, LEG Immo signed a purchase agreement with B&O Service und Messtechnik AG to acquire 51% of shares in TSP-TechnikServicePlus GmbH (formerly: B&O Service West GmbH). 280 employees were taken on in the context of the transaction. Following antitrust approval, the transaction was closed as at 1 January 2017.

As at 1 January 2017, the acquisition of the company is treated as a business combination as defined by IFRS 3 as significant business processes had been acquired.

The purchase price allocation was finalised as at 30 June 2017. The consideration for the business combination breaks down as follows:

T56 – Consideration

€ million	*01.01.2017 final*	*01.01.2017 provisional*	*Change*
Net purchase price	9.2	9.2	–
Previous business relation	–2.4	0.0	–2.4
TOTAL CONSIDERATION	**6.8**	**9.2**	**–2.4**

The purchase price can be allocated to the assets and liabilities acquired, measured at fair value, as follows:

T57 – Purchase price allocation

€ million	*01.01.2017 final*	*01.01.2017 provisional*	*Change*
Technical equipment and machinery	0.5	0.5	–
Factory and office equipment	0.0	0.0	–
Receivables and other assets	0.4	0.4	–
Cash and cash equivalents	0.2	0.2	–
TOTAL ASSETS	**1.1**	**1.1**	**–**
Provisions	0.8	0.8	–
Other financing liabilities	1.2	1.2	–
Other liabilities	1.0	1.0	–
TOTAL LIABILITIES	**3.0**	**3.0**	**–**
Net assets at fair value	–1.9	–1.9	–
Non-controlling interests	0.2	0.2	–
Net assets at fair value without non-controlling interests	–2.1	–2.1	–
CONSIDERATION	**6.8**	**9.2**	**–2.4**
GOODWILL	**8.9**	**11.3**	**–2.4**

Synergies from tax and cost benefits of an estimated lower seven-figure amount per year are expected.

As anticipated, goodwill is not tax-deductible.

The purchase price allocation presented in the notes to the consolidated financial statements as at 31 December 2017 was still provisional with respect to the following items:

— Contingent liabilities
— Accounting for leases
— Deferred taxes.

After the conclusion of the purchase price allocation, adjustments were made retrospectively as at the acquisition date of 1 January 2017. The following changes were made in comparison to the provisional purchase price allocation:

Pre-existing business relationships: Work in progress was derecognised owing to adjustments to accounting policies.

The transaction costs of the business combination amount to EUR 0.1 million and essentially include legal and consulting expenses as well as expenses for the application for the cartel office which are recorded as administrative and other expenses.

4. IFRS 12 disclosures

a) Disclosures on subsidiaries included in consolidation

An overview of the subsidiaries in which LEG Immo holds investments as at 31 December 2017 (IFRS 12.10 et seq.) can be found in section J.

The direct and indirect shares of capital held by LEG Immo in the subsidiaries are also equal to its shares of the voting rights. The companies not included in consolidation are not considered material in terms of the key performance indicators net profit for the year, total assets and revenue, and are therefore not included in the consolidated group.

b) Disclosures on subsidiaries with significant non-controlling interests

The financial information on significant, non-controlling interests in subsidiaries is summarised below (IFRS 12. B10). Intragroup transactions were not eliminated in the amounts disclosed.

EnergieServicePlus GmbH and TSP-TechnikServicePlus GmbH are the only subsidiaries with significant non-controlling interests as at 31 December 2017.

EUR 0.7 million of consolidated net profit relates to the significant non-controlling interests of Energie ServicePlus GmbH and EUR 1.8 million to the significant non-controlling interests of TSP-TechnikService-Plus GmbH in 2017. The carrying amount in the Group recognised for the non-controlling interests in Energie ServicePlus GmbH as at 31 December 2017 was EUR 3.7 million. The carrying amount in the Group recognised for the non-controlling interests in TSP-Technik ServicePlus GmbH as at 31 December 2017 was EUR 0.0 million on account of the obligation to pay a guaranteed dividend.

T58 – Statement of financial position

	TSP-TechnikServicePlus GmbH		EnergieServicePlus GmbH	
€ million	**2017**	2016	**2017**	2016
Non-current				
Assets	0.5	n/a	4.9	3.2
Liabilities	0.0	n/a	–3.4	–4.0
Non-current net assets	0.5	n/a	1.5	–0.8
Current				
Assets	7.4	n/a	15.1	9.3
Liabilities	–5.2	n/a	–10.2	–5.4
Current net assets	2.2	n/a	4.9	3.9

T59 – Statement of profit or loss

	TSP-TechnikServicePlus GmbH		EnergieServicePlus GmbH	
€ million	**2017**	2016	**2017**	2016
Revenue/other operating income	39.4	n/a	21.6	11.1
Earnings before income taxes	2.8	n/a	2.2	0.1
Net profit from continued operations	2.5	n/a	1.5	0.1
Net profit	2.5	n/a	1.5	0.1
TOTAL COMPREHENSIVE INCOME	**2.5**	**n/a**	**1.5**	**0.1**
Attributable to: interests without significant influence	1.8	n/a	0.7	0.1
Paid dividend to owner without significant interest	0.0	n/a	0.0	0.0

T60 – Statement of cash flows

	TSP-TechnikServicePlus GmbH		EnergieServicePlus GmbH	
€ million	**2017**	2016	**2017**	2016
Net cash from/used in				
Operating activities	0.7	n/a	–0.2	2.6
Investing activities	–0.4	n/a	–2.0	–1.8
Financing activities	0.0	n/a	1.2	4.7
CHANGE IN CASH AND CASH EQUIVALENTS	**0.3**	**n/a**	**–1.0**	**5.5**

c) Disclosures on associates

1. Disclosures on significant associates

The investments in associates affect the statement of financial position and the statement of comprehensive income of the LEG Group as follows:

T61 – Investments in associates

€ million	**2017**	2016
Recognition	9.5	9.1
Total comprehensive income	0.4	0.3

The disclosures on the equity investments in associates classified as material are listed below.

T62 – Material associates

	Share of capital in %	Equity € million*	Result € million*
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	20.5	1.1
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3.6	0.0

* For Beckumer Wohnungsgesellschaft mbH, these figures are the separate HGB equity and results as at 31 December 2017, for Kommunale Haus und Wohnen GmbH the separate HGB equity and results as at 31 December 2016.

The companies listed above perform property management activities.

The relationships with the associates are of an operational nature. All the companies listed above are recognised in the consolidated financial statements using the equity method. There are no quoted market prices.

The compiled financial information for the key associates of the Group is shown below. The financial information shown below is consistent with the amounts in the financial statements of the associates.

T63 – Statement of financial position (associates)

	Kommunale Haus und Wohnen GmbH		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2017*	*31.12.2016*	*31.12.2017*	*31.12.2016*	*31.12.2017*	*31.12.2016*
Non-current assets	42.0	42.0	7.1	7.4	49.1	49.4
Current assets	3.2	3.2	0.6	0.6	3.8	3.8
Cash and cash equivalents	1.8	1.8	1.0	1.1	2.8	2.9
Other assets	–	–	–	–	–	–
Non-current liabilities	21.2	21.2	4.4	4.8	25.6	26.0
Current liabilities	5.4	5.4	0.7	0.7	6.1	6.1
Financing liabilities	–	–	–	–	–	–
Non-financing liabilities	–	–	–	–	–	–
Net assets	**20.4**	**20.4**	**3.6**	**3.6**	**24.0**	**24.0**

T64 – Statement of profit or loss (associates)

	Kommunale Haus und Wohnen GmbH		*Beckumer Wohnungsgesellschaft mbH*		*Total*	
€ million	*31.12.2017*	*31.12.2016*	*31.12.2017*	*31.12.2016*	*31.12.2017*	*31.12.2016*
Revenue	6.3	6.3	1.3	1.3	7.6	7.6
Depreciation	1.1	1.1	0.3	0.3	1.4	1.4
Interest income	–	–	–	–	–	–
Interest expense	0.5	0.5	0.1	0.1	0.6	0.6
Income taxes	–	–	–	–	–	–
Net profit from continued operations	1.1	1.1	0.0	0.0	1.1	1.1
Net profit from discontinued operations	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**1.1**	**1.1**	**0.0**	**0.0**	**1.1**	**1.1**

Statement of reconciliation from compiled financial information to carrying amount of the equity investments: *Table* **T65**

T65 – Reconciliation (associates)

	Kommunale Haus und Wohnen GmbH		Beckumer Wohnungsgesellschaft mbH		Total	
€ million	*31.12.2017*	*31.12.2016*	*31.12.2017*	*31.12.2016*	*31.12.2017*	*31.12.2016*
Net assets of associates as of 01.01.	19.3	19.3	3.6	3.6	22.9	22.9
Net profit/loss	1.1	1.1	0.0	0.0	1.1	1.1
Addition to reserves	–	–	–	–	–	–
Dividend	–	–	–	–	–	–
Net assets of associates as of 31.12.	20.4	20.4	3.6	3.6	24.0	24.0
Group share in %	40.62	40.62	33.37	33.37	–	–
Interest in net assets of associates	8.3	8.3	1.2	1.2	9.5	9.5
Carrying amount of the investment	**8.3**	**8.3**	**1.2**	**1.2**	**9.5**	**9.5**

The annual financial statements of Kommunale Haus und Wohnen GmbH as at 31 December 2017 are not yet available and therefore the figures as at 31 December 2016 have also been used for 2017.

D. ACCOUNTING POLICIES

1. Investment property

Investment property consists of the LEG Group's properties that are held to earn rentals or for capital appreciation or both, rather than for owner occupancy or sale in the ordinary course of business. Investment property includes land with residential and commercial buildings, undeveloped land, land with transferable leasehold land interests, parking spaces and garages.

In accordance with IFRS 5, investment property that is held for sale and that is highly likely to be sold within the next 12 months is recognised as an asset held for sale under current assets. Its measurement is consistent with the measurement of investment property.

Mixed-used properties are separated into the owner-occupied part and the part rented to third parties to the extent that it is legally possible to separate the property in question, and neither the owner-occupied portions nor the portions rented to third parties are immaterial. The portion rented to third parties is allocated to investment property, while the owner-occupied portion is recognised under property, plant and equipment. The ratio of the respective areas is used to allocate the components.

Property is transferred from investment property when there is a change in use evidenced by the commencement of owner-occupancy or the development with a view to sale.

Unless acquired as part of a business combination, investment property is recognised at cost including incidental costs on acquisition. In accordance with the option provided by IAS 40 in conjunction with IFRS 13, investment property is subsequently recognised at fair value. IFRS 13.9 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value assumes the sale of an asset (exit price). It corresponds to the (theoretical) price to be paid to the seller in the event of a (hypothetical) sale of a property at the measurement date, regardless of an entity's specific intention or ability to sell. The concept of highest and best use of the property is assumed in calculating fair value (IFRS 13.27 et seq.). This implies the use or value maximisation of the asset as far as it is physically possible, legally permissible and financially feasible. Further details can be found in section D.18. Changes in the fair value of property are recognised in profit or loss for the period in which they occur.

Prepayments for property acquisitions are presented as prepayments for investment property. Prepayments for investment property that is acquired as part of a business combination are presented as prepayments for investment property (in case of an asset deal) or as other financial assets (in case of a share deal).

Subsequent costs for extension, partial replacement or maintenance of properties (IAS 40.17) are capitalised if they constitute the replacement of parts of a unit in accordance with the component approach (IAS 40.19) and the costs can be reliably determined. In addition, such costs are capitalised if the activities will result in increased future benefits and the costs can be reliably determined. Capitalised costs are not depreciated, as depreciation is not generally recognised in connection with the fair value option provided by IAS 40.

Individual units are sold to tenants, owner-occupants and private investors as part of portfolio optimisation measures.

Fair values are calculated internally by LEG Immo. In addition to the fair values calculated internally by LEG Immo, the property portfolio was valued by an independent, third-party expert as at 30 June 2017 and 31 December 2017. LEG uses the third-party valuation to check the plausibility of its own calculations and as a general confirmation of the value of the portfolio as a whole through a second opinion.

The properties are reviewed individually by LEG Immo at the level of individual building entrances in terms of their location, condition, fixtures and fittings, current contractual rent and potential for development. The fair values calculated are consistent with the IFRS market values, i.e. the amount for which the respective property could be exchanged between market participants under current market conditions on the measurement date parties in an orderly transaction (IAS 40.5 rev. in conjunction with IFRS 13.15).

The fair values of investment property and properties held for sale are calculated on the basis of the forecast net cash flows from property management using the discounted cash flow (DCF) method. For properties with no positive net cash flow (generally vacant buildings), the fair value is calculated using a liquidation value method. Undeveloped land is usually valued on the basis of an indirect comparison of indicative land values.

A detailed planning period of ten years was applied in DCF measurement. After the end of the tenth year, a sales value is recognised that is calculated by capitalising the forecast annual net profit for the eleventh period, taking the property-specific remaining useful life into account. It is assumed that the minimum and maximum remaining useful lives of the individual properties are 25 years and 80 years respectively. The contractually agreed rental income for the respective property and other property-specific value parameters are applied in the first year of the detailed planning period.

The average monthly in-place rent for the rented apartments in the property portfolio (referring here and hereinafter to both investment property and properties held for sale) used for the measurement in buildings used primarily for residential purposes was EUR 5.52 per square metre as at the end of the reporting period (2016: EUR 5.27 per square metre). These properties can also contain commercial units of minor significance in some cases. The future development of annual rent was projected on the basis of individual assumptions for the planning period. A distinction was made between rental income from existing tenancies and new lettings due to forecast fluctuation. During the detailed planning period market rent increases annually at an individually determined rate. For new lettings, rent in the amount of the assumed market rent is applied. The market rent growth applied ranges from 0.37% to 1.78%, 1.02% on average (2016: 0.27% to 1.82%, on average 0.97%) depending on the assessment of the respective market and property. Rent from existing tenancies is projected on the basis of the statutory environment and the assessment of the respective market and property, and is assumed to converge with the overall market trend over time. The vacancy rate in terms of rental and usable space used for measurement was 3.65% as at the measurement date (2016: 3.40%), adjusting to an assumed stabilised vacancy rate of 3.03% (2016: 3.04%) over a period of four years. The assumptions with regard to the future development of the vacancy rate are based on location and individual property characteristics.

Publicly subsidised properties are treated differently depending on the existence and duration of potential rent control. If rent control is set to end within the ten-year detailed planning period, a rent adjustment towards the market rent is assumed for the subsequent year, taking into account the statutory requirements. For the remaining subsidised properties for which rent control will expire by 2100 at the latest, a discount on the capitalisation rate was recognised depending on the remaining duration of rent control.

Average annual maintenance costs of EUR 13.37 per square metre are assumed for reactive and periodical maintenance work depending on the condition and year of construction of the respective properties used predominantly for residential purposes (2016: EUR 11.24 per square metre).

Administrative costs are applied at a flat rate per residential unit of EUR 290.15 p.a. (2016: EUR 284.46 p.a.) and per parking or garage space of EUR 37.84 p.a. (2016: EUR 37.10 p.a.). For residential buildings with a commercial component or other type of use, administrative costs for the non-residential component are calculated at 1% (2016: 1%) of gross commercial income.

Management costs are largely based on the cost rates from the Second Rent Computation Ordinance (II BV, 1 January 2017). The II BV management costs have been adjusted in relation to the change in the consumer price index every three years since 2005 (2014: around 5.76%; 2017 around 1.89%). For continuity, the measurement model applies a standard increase in management costs in accordance with II BV as an annual increase distributed over three years (for 2017: 2.00%).

In addition, the development of maintenance and management costs was dynamic in the period under review. The cost increase of 2% per year is derived from the increase in the consumer price index expected in the medium term.

Around 1.30% (2016: 1.25%) of the units in the portfolio are classified as commercial properties. In some cases, these properties can also contain residential units, but they are characterised by their primarily commercial character. Owing to the differing rent terms and market conditions compared to the residential portfolio, these properties are also subject to different assumptions with regard to the key parameters affecting their value.

The average rent of the primarily commercial properties is EUR 7.08 per square metre (2016: EUR 6.95 per square metre), with average maintenance costs of EUR 10.39 per square metre (2016: EUR 7.22 per square metre) in the detailed planning period. The vacancy rate in terms of usable space was 12.99% as at the measurement date (2016: 12.54%). Administrative costs are calculated at 1% (2016: 1%) of gross commercial income.

Cash flows are discounted using standard market discount rates with matching maturities of 5.33% on average (weighted average; 2016: 5.52%) and standard market capitalisation rates for perpetuals of 6.34% (weighted average; 2016: 6.64%); this takes into account the property-specific management cost ratio and reflects the individual risk/opportunity profile of the respective property. In addition to location criteria, the determination of an appropriate interest rate takes into account the property type, property condition, age, potential rental growth, the forecast for the location and potential government subsidies in particular.

Owing to the limited availability of market data, i.e. data and measurement parameters not directly observable on the market, the complexity of property valuation and the level of specification of property, the fair value measurement of investment property is assigned to level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). Further details can be found in section D.18.

In measurement, investment property is broken down into categories defined by type of use:

— Residential assets,
— Commercial assets,
— Garages, underground garages or parking spaces/other properties,
— Leasehold and undeveloped land.

Commercial property is defined as property upwards of 1,000 square metres of useable space or in which 50% of the building is used for commercial purposes. Other properties are essentially units with outside advertising media and wireless antennas. Properties are also broken down according to three market clusters using a scoring system: growth markets ("orange"), stable markets ("green") and higher yielding markets ("purple").

The *Table* **T66** shows the measurement method used to determine the fair value of investment property and the material unobservable inputs used:

T66 – Information about fair value measurements using significant unobservable inputs (Level 3) 2017

			Discount rate (*sqm-weighted, in %*) [4]			**Capitalisation rate** (*sqm-weighted, in %*) [4]		
Segment € million	**GAV assets**	**Valuation technique** [3]	*min.*	*avg.*	*max.*	*min.*	*avg.*	*max.*
Residential assets [1]								
High-growth markets	4,174	DCF	3.9	5.1	6.1	2.6	5.6	11.9
Stable markets	2,838	DCF	4.0	5.3	6.1	3.2	6.5	12.3
Higher-yielding markets	1,923	DCF	4.3	5.5	6.5	3.3	6.9	12.7
Non NRW	146	DCF	4.0	5.2	5.8	3.8	6.4	8.6
Commercial assets [2]	198	DCF	5.0	6.4	10.0	4.1	7.0	12.5
Parking + other assets	167	DCF	4.9	–	6.2	3.6	–	12.8
Leasehold + land values	33	Earnings/ reference value method						
TOTAL IAS 40/ IFRS 5 [5]	**9,479**	**DCF**	**3.9**	**5.3**	**10.0**	**2.6**	**6.3**	**12.8**

[1] Excluding 375 residential units in commercial buildings; including 425 commercial and other units in mixed residential assets.
[2] Excluding 425 commercial units in mixed residential assets; including 375 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] Sqm-weighted interest rates refer to residential and commercial assets.
[5] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

The table below shows the measurement method used to determine the fair value of investment property as at 31 December 2016:

T67 – Information about fair value measurements using significant unobservable inputs (Level 3) 2016

			Discount rate (*sqm-weighted, in %*) [4]			**Capitalisation rate** (*sqm-weighted, in %*) [4]		
Segment € million	**GAV assets**	**Valuation technique** [3]	*min.*	*avg.*	*max.*	*min.*	*avg.*	*max.*
Residential assets [1]								
High-growth markets	3,324	DCF	4.1	5.4	7.1	2.4	6.0	9.1
Stable markets	2,439	DCF	4.3	5.5	6.5	3.3	6.7	9.5
Higher-yielding markets	1,754	DCF	4.5	5.7	6.8	3.5	7.2	13.4
Non NRW	131	DCF	4.3	5.4	6.1	4.1	6.9	9.3
Commercial assets [2]	179	DCF	5.0	6.4	10.0	4.0	6.9	10.2
Parking + other assets	149	DCF	5.1	–	6.7	3.7	–	13.2
Leasehold + land values	33	Earnings/ reference value method						
TOTAL IAS 40/ IFRS 5 [5]	**8,009**	**DCF**	**4.1**	**5.5**	**10.0**	**2.4**	**6.6**	**13.4**

[1] Excluding 328 residential units in commercial buildings; including 324 commercial and other units in mixed residential assets.
[2] Excluding 290 commercial units in mixed residential assets; including 321 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] Sqm-weighted interest rates refer to residential and commercial assets.
[5] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

	Sensitivities GAV *(variance discount rate, in %)*		**Sensitivities GAV** *(variance discount rate, in %)*		**Estimated rental development Residential** *(sqm-weighted, in %)*			**Estimated vacancy development Residential** *(sqm-weighted, in %)*
	−25 bp	*+25 bp*	*−25 bp*	*+25 bp*	*min.*	*avg.*	*max.*	T_0
	5.0	−4.6	3.1	−2.7	0.7	1.4	1.8	2.0
	4.0	−4.1	2.2	−2.3	0.5	0.9	1.4	3.2
	3.8	−3.8	1.9	−2.0	0.4	0.7	1.2	6.1
	4.1	−3.9	2.2	−2.1	0.5	1.1	1.5	1.1
	2.9	−2.1	2.4	−1.6				
	5.1	−4.5	2.0	−1.6				
	4.4	**−4.2**	**2.5**	**−2.4**	**0.4**	**1.0**	**1.8**	**3.9**

	Sensitivities GAV *(variance discount rate, in %)*		**Sensitivities GAV** *(variance discount rate, in %)*		**Estimated rental development Residential** *(sqm-weighted, in %)*			**Estimated vacancy development Residential** *(sqm-weighted, in %)*
	−25 bp	*+25 bp*	*−25 bp*	*+25 bp*	*min.*	*avg.*	*max.*	T_0
	4.6	−4.4	2.6	−2.5	0.6	1.4	1.8	1.5
	3.8	−3.8	2.0	−2.1	0.5	0.9	1.4	3.0
	3.5	−3.9	1.5	−2.0	0.3	0.7	1.2	5.7
	3.8	−3.7	1.9	−2.0	0.5	1.1	1.5	2.3
	2.8	−2.0	2.4	−1.5	–	–	–	–
	4.7	−4.4	1.9	−1.8	–	–	–	–
	4.1	**−4.1**	**2.1**	**−2.2**				

With the acquisition of the shares in LEG from "Beteiligungsverwaltungsgesellschaft des Landes Nordrhein-Westfalen and NRW-Bank, Anstalt des öffentlichen Rechts", effective 29 August 2008, the LEG Group undertook to uphold social conditions including compliance with the usual provisions on tenant protection and safeguarding the property portfolio in question.

These social conditions include the following obligations:

Under the terms of the Social Charter, tenants have a right of first refusal at preferential conditions in certain cases. Planned sales of rented buildings or complexes with more than one rented residential unit can only go ahead if certain conditions are met.

In some cases, the operating companies of the LEG Group are subject to restrictions on rent increases with respect to certain tenants with rights of first refusal and in connection with assistance in the form of loans at below-market rates of interest or investment subsidies. Legal requirements with regard to the privatisation of residential properties must also be observed. The company is required to spend a predetermined average amount per square metre on maintenance and value-adding measures. Certain parts of the portfolio are also subject to unconditional restrictions on sale.

2. Property, plant and equipment

Property, plant and equipment is recognised at cost and depreciated on a straight-line basis over its expected useful life.

Any subsidies received are deducted in calculating cost.

Depreciation is recognised using the following useful lives, which are applied uniformly throughout the Group:

T68 – Useful life of property, plant and equipment

in years	**2017**	*2016*
Owner-occupied residential properties	80	80
Owner-occupied commercial properties	50	50
Technical equipment and machinery/Other operating and office equipment	3 to 23	5 to 23

In accordance with the tax regulation on the depreciation of low-value assets that has been in place since January 2010, low-value assets with a net value of up to EUR 150 are written off in full in the year of their acquisition. Assets with a net value of between EUR 150.01 and EUR 1,000 are assigned to an omnibus item and depreciated on a straight-line basis over a period of five years. Deviations from the economic life of the respective assets are considered immaterial.

3. Intangible assets and goodwill

Purchased intangible assets are capitalised at cost. Such assets are software licenses with a definite useful life. Software licenses are amortised on a straight-line basis over an expected economic life of between three and five years from the date on which they are provided.

The goodwill resulting from purchase price allocation (PPA) is allocated to the cash-generating units (CGUs) expected to benefit from the business combination. The partial goodwill method is applied in calculating goodwill.

The added value anticipated from the acquisition of TSP-TechnikServicePlus GmbH lies in cost and tax savings. The resulting goodwill was therefore allocated to the existing CGU groups.

There are therefore four CGUs to which goodwill has been allocated within the LEG Group as at 31 December 2017. In addition to the CGU groups "Vitus" and "Residential like-for-like", the property portfolios "Bismarck"(acquired from Sahle Wohnen GmbH&Co. KG by way of purchase agreement dated 30 November 2015) and "Charlie" (acquired by way of purchase agreement dated 22 December 2015) now also have goodwill. The portion of goodwill resulting from deferred tax liabilities is allocated to the respective CGU that holds the assets and liabilities. The following goodwill amounts therefore relate to the CGU groups as at 31 December 2017:

— "Vitus": EUR 34.0 million (previous year: EUR 33.3 million)
— "Residential like-for-like": EUR 49.7 million (previous year: EUR 42.6 million)
— "Bismarck": EUR 0.2 million (previous year: EUR 0 million)
— "Charlie": EUR 0.9 million (previous year: EUR 0 million)

The synergies anticipated from the business combinations essentially consist of planned cost savings, additional income potential and tax savings, which are allocated proportionately to the respective CGUs.

In the goodwill impairment test, the recoverable amount is represented by the fair value less costs of disposal (FVLCOD). The FVLCOD is calculated as the present value of the free cash flows before interest and after taxes expected from continuing a CGU or a group of CGUs. A general tax rate of 31.2% (previous year: 31.2%) is applied to EBIT here. The cash flow forecast reflects past experience and takes into account management expectations of future market developments. These cash flow forecasts are based on the resolved medium-term planning, which covers a horizon of five years (detailed planning period). Administrative costs are accounted for appropriately.

There is also a cash flow forecast going beyond the five-year planning horizon. This is prepared by deriving a sustainable free cash flow from the detailed planning period and extrapolating this using a growth rate based on the specific market development.

A weighted average cost of capital that reflects the capital market's return requirements for debt and equity to the LEG Group is used to discount the free cash flows. A cost of capital after taxes is also used on the basis of the calculated free cash flows after taxes. Risks of free cash flows are taken into account by a matched risk capitalisation rate.

A uniform capitalisation rate of 2.8% (previous year: 2.9%) was used for the CGUs analysed in the goodwill impairment test, representing a corresponding pre-tax capitalisation rate of 3.1% (previous year: 3.2%), taking into account a typical tax rate on EBIT of 31.2%.

The changes in the capitalisation rates as against the previous year result from current forecasts for the medium and long-term development of the capital market.

A sustainable growth rate of 0.75% p.a. is assumed for all CGUs.

The goodwill impairment tests performed did not give rise to any impairment requirements.

The key premises and assumptions influencing impairment on a CGU were reviewed in the form of standardised sensitivity analyses.

EBIT margin

The risk of a 10% reduction in the EBIT margin was analysed for the reduced earnings scenario analysis. This calculation did not give rise to impairment requirements for any CGU groups.

Weighted costs of capital

The risks from assumptions regarding the capitalisation rate used as standard to calculate the present value of FVLCOD were tested by simulating impairment on each CGU group with a change in the costs of capital of +/– 50 BP. This scenario analysis did not give rise to impairment requirements for any CGU groups.

4. Impairment of assets

The LEG Group tests intangible assets and property, plant and equipment in accordance with IAS 36 for impairment losses at least once a year. Impairment testing is performed at the level of individual assets. If largely independent future cash flows cannot be determined for individual assets, cash-generating units (CGUs) are formed as groups of assets whose future cash flows are interdependent.

As there were no triggering events for impairment in the "Biomasse" CGU in the financial year and Biomasse Heizkraftwerk GmbH&Co. KG improved its results of operations, the "Biomasse" CGU was not tested for impairment.

Investment property is not subject to impairment testing in accordance with IAS 36 as it is recognised at fair value.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised immediately in profit or loss.

5. Other financial assets

The LEG Group recognises financial assets as at the trade date.

In accordance with IAS 39, subsidiaries that are not consolidated due to immateriality are classified as available-for-sale financial assets for measurement purposes.

Available-for-sale financial assets are recognised at fair value as at the end of the reporting period or, if this cannot be reliably determined, at cost. Shares in unconsolidated subsidiaries or subsidiaries recognised using the equity method are not quoted. Owing to the considerable volatility and the lack of an active market, the fair value of these instruments cannot be reliably determined. There is currently no intention to sell these shares in the near future.

Available for sale financial instruments are measured at fair value on acquisition.

Gains and losses on subsequent measurement at fair value are reported directly in equity (cumulative other reserves).

On disposal of a financial asset, the cumulative net gain or loss on remeasurement previously recognised in other reserves is reversed and recognised in profit or loss in the statement of comprehensive income.

If the fair value cannot be reliably determined they are recognised at cost.

In the event of any impairment, the impairment loss in other reserves is corrected in profit or loss. If impairment is reversed, the respective amount is recognised in profit or loss for debt instruments and recognised directly in equity for equity instruments. Impairment cannot be reversed on AFS instruments at cost; any impairment is recognised in profit or loss.

6. Accounting for leases as the lessee

Leased assets for which beneficial ownership lies with the LEG Group (finance leases in accordance with IAS 17) are recognised as non-current assets at the lower of the present value of minimum lease payments or the fair value of the leased property, and are depreciated on a straight-line basis. Leases for which beneficial ownership does not lie with the LEG Group are classified as operating leases.

7. Accounting for leases as the lessor

Leases for residential properties grant tenants an option to terminate the agreement at short-notice on the basis of the statutory regulations. In accordance with IAS 17, these agreements are classified as operating leases as the significant risks and rewards remain with the LEG Group. The same applies to the current agreements for commercial property.

Income from operating leases is recognised in the statement of comprehensive income in rental and lease income on a straight-line basis over the term of the respective leases.

8. Receivables and other assets

On initial recognition, trade receivables and other financial assets are carried at their fair value plus transaction costs. Subsequent measurement is at amortised cost.

9. Receivables and liabilities from operating costs not yet invoiced

Operating costs that can be passed on but that have not yet been invoiced as at the end of the reporting period are shown under other receivables in the LEG Group and reduced by the amount of tenant advances received for operating costs. Costs that can be capitalised and passed on are reported net of the tenant advances received. A financial liability is reported if liabilities exceed assets.

10. Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, other short-term, highly liquid financial assets with original maturities of three months or less and bank overdrafts. Utilised bank overdrafts are shown in the statement of financial position in current financial liabilities.

11. Assets held for sale

In accordance with IFRS 5, assets held for sale consist solely of those assets for which a decision on disposal has been made as at the end of the reporting period, the disposal of the property within twelve months of the decision is considered to be highly likely and active marketing activities have been initiated.

In accordance with IFRS 5, assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. Items of investment property classified as assets held for sale are measured at fair value in accordance with IAS 40.

12. Pension provisions

Pension and similar obligations result from commitments to employees. Obligations arising from defined benefit plans are measured in accordance with the projected unit credit method. Using this method, forecast future increases in salaries and benefits are taken into consideration in addition to benefits and entitlements known at the end of the reporting period. The biometric basis is provided by the 2005G Heubeck mortality tables.

The Group has both defined benefit and defined contribution plans. The amount of the pension benefits payable under defined benefit plans is based on the qualifying period of employment and the pensionable income.

In Germany, the regulatory framework is the Betriebsrentengesetz (Company Pension Act), according to which pensions rise in line with the rate of inflation. LEG bears the actuarial risks, such as the longevity risk, the interest rate risk and the inflation risk. There are no additional plan-specific risks at LEG.

Remeasurement components in connection with defined benefit plans, which cover actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income in the period in which they arise. No past service costs were incurred in the year under review or the previous year.

The interest effect included in pension expenses is shown in interest expenses in the consolidated statement of comprehensive income. Past service costs are shown under operating result in the individual functions.

13. Other provisions

Other provisions are recognised if the LEG Group has a present legal or constructive obligation as a result of past events that is uncertain with regard to settlement and/or amount. They are recognised at the present value of the expected settlement amount.

Non-current provisions are carried at their discounted settlement amount as at the end of the reporting period on the basis of corresponding market interest rates with matching maturities.

14. Financial liabilities

On initial recognition, financial liabilities are carried at fair value plus transaction costs and adjusted for any premiums or discounts. The fair value at the grant date is the present value of future payment obligations based on a market interest rate with matching maturity and risk.

In subsequent periods financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is determined on initial recognition of the financial liability.

Changes in terms affecting the amount and timing of interest and principal payments result in the remeasurement of the carrying amount of the liability in the amount of the present value on the basis of the effective interest rate originally calculated. Any differences compared to the previous carrying amount are recognised in profit or loss. If changes in terms lead to significant differences in contractual conditions in accordance with IAS 39.AG 62, the original liability is treated as if it had been repaid in full in accordance with IAS 39.40 and a new liability is recognised at fair value.

15. Derivative financial instruments

The LEG Group uses derivative financial instruments to hedge interest rate risks arising from property financing.

Derivative financial instruments are recognised at fair value. Changes in the fair value of derivatives are recognised in profit or loss unless the respective instruments are designated as hedges in accordance with IAS 39. Derivatives accounted for as hedging instruments are used to hedge uncertain future cash flows. The LEG Group is exposed to future cash flow risks as a result of floating-rate financial liabilities in particular.

Changes in fair value are divided into an effective and an ineffective portion. Effectiveness is determined using the dollar offset method. The effective portion is the portion of the gain or loss on remeasurement that is recognised as an effective hedge against the cash flow risk. The effective portion, net of deferred taxes, is recognised directly in other comprehensive income (equity).

The ineffective portion of the gain or loss on remeasurement is reported in net finance costs in the consolidated statement of comprehensive income. The amounts recognised directly in equity are transferred to the consolidated statement of comprehensive income if gains or losses in connection with the underlying are recognised in profit or loss. In the event of the early termination of the hedge, the amounts recognised in equity are reclassified to profit or loss if gains or losses in connection with the underlying are recognised in profit or loss. If the underlying is terminated, then the amounts remaining in other comprehensive income are immediately recognised in profit or loss.

16. Fair values of financial instruments

The fair values of financial instruments are determined on the basis of corresponding market values or measurement methods. For cash and cash equivalents and other short-term primary financial instruments, the fair value is approximately the same as the carrying amount at the end of the respective reporting period.

For non-current receivables, other assets and liabilities, the fair value is calculated on the basis of the forecast cash flows, applying the reference interest rates as at the end of the reporting period. The fair values of derivative financial instruments are calculated using the reference interest rates as at the end of the reporting period plus own risk or counterparty risk.

For financial instruments at fair value, the discounted cash flow method is used to determine fair value using corresponding quoted market prices, with individual credit ratings and other market conditions being taken into account in the form of standard credit and liquidity spreads when calculating present value. If no quoted market prices are available, the fair value is calculated using standard measurement methods applying instrument-specific market parameters.

When calculating the fair value of derivative financial instruments, the input parameters for the measurement models are the relevant market prices and interest rates observed as at the end of the reporting period, which are obtained from recognised external sources. Accordingly, derivatives are assigned to level 2 of the fair value hierarchy set out in IFRS 13.72 et seq. (measurement on the basis of observable inputs). Please see section 18.

Both the Group's own risk and the counterparty risk were taken into account in the calculation of the fair value of derivatives in accordance with IFRS 13.

17. Put options

LEG is the writer of several put options on the basis of which non-controlling shareholders can tender their interests in companies controlled by LEG to LEG Immo.

They are recognised as financial liabilities in the amount of the present value of the claim to payment of the option holder (fair value). The liability is recognised against the equity attributable to the writer (LEG), if material risks and rewards of the interest remain with the non-controlling shareholders. If LEG can avoid repurchase by appointing a third party, at least the corresponding opportunity costs are recognised. There is no additional reporting of the put options as independent derivatives in this case. The financial instruments are subsequently measured at amortised cost using the effective interest method.

18. Calculation of fair value

Fair value measurement of investment property is assigned to level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). For information on the measurement of investment property, please see the comments in section D.1. For the measurement of derivative financial instruments, please see section D.16 and section I.3.

The fair value hierarchy can be summarised as follows:

T69 – Fair value hierarchy

	Level 1	*Level 2*	*Level 3*
Purchase price allocation in the context of business combinations			X
Investment properties			X
Financing liabilities		X	
Other liabilities (particularly derivative)		X	

There were no transfers between the fair value hierarchy.

19. Revenue recognition

Income is recognised when it is probable that the economic benefit will flow to the Group and the amount of the income can be measured reliably. The following recognition criteria must also be met in order for income to be recognised:

a) Rental and lease income

Income from the rental and lease of properties for which the corresponding rental and lease agreements are classified as operating leases is recognised on a straight-line basis over the term of the respective lease agreement. When incentives are provided to tenants, the cost of the incentive is recognised over the lease term, on a straight-line basis, as a reduction of rental and lease income.

Rental and lease income also includes tenant payments for utilities and service charges if the costs and the amount of the income can be reliably determined and the services have been provided.

b) Income from the disposal of property

Income from the disposal of property is recognised when the LEG Group transfers substantially all the risks and rewards incident to ownership to the buyer. A transfer is assumed to take place when the LEG Group transfers title and effective control of the property sold to the buyer and it is probable that the income from the disposal will flow to the LEG Group.

By contrast, income is not recognised if the LEG Group assumes return guarantees, grants a right of return to the buyer or enters into other material obligations with respect to the buyer that prevent the transfer of risks and rewards of ownership to the buyer.

c) Income from services and third-party management

Income from the performance of service projects is recognised in the period in which the service is provided. This is determined in accordance with the percentage of completion of the respective project and the ratio of the services rendered as at the end of the reporting period to the total services to be provided.

Income from third-party management is only recognised once the corresponding services have been rendered.

d) Interest and similar income

Interest income is recognised using the effective interest method in the period in which it arises.

20. Government grants

The LEG Group has primarily received government grants in the form of loans at below-market interest rates.

These loans at below-market rates are property loans and are reported as financial liabilities. They provide benefits compared to regular loans, such as lower interest rates or periods free of interest and principal payments. The loans were measured at fair value when the company was acquired in 2008 and carried at amortised cost in subsequent periods.

On initial recognition, new investment loans and loans at below-market rates are measured at their present value based on the applicable market interest rate at the grant date. The difference between the nominal amount and the present value of the loan is recognised as deferred income and reversed on a straight-line basis over the remaining term of the corresponding loan, which is measured at amortised cost in subsequent periods.

21. Income taxes

The income tax expense represents the total of the current tax expense and the deferred taxes.

LEG is only subject to taxation in Germany. Some judgements have to be made in assessing income tax receivables and liabilities. It cannot be ruled out that the tax authorities will make a different assessment. The uncertainty this entails is taken into account by only recognising uncertain tax receivables and liabilities when LEG considers their probability of occurrence to be higher than 50%. Any changes in judgements, e.g. due to final tax assessments, affect current and deferred tax items. The best estimate of the provisionally expected tax payment is used for recognised uncertain income tax items.

The current tax expense is calculated on the basis of the taxable income for the year. Taxable income differs from the consolidated net profit for the period, as shown in the consolidated statement of comprehensive income, due to income and expenses that are only taxable or tax-deductible in future periods, if at all. The Group's liabilities and provisions for current taxes are calculated on the basis of the applicable tax rates.

Deferred taxes are recognised for the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base for the purpose of calculating taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised. Deferred tax assets also include reductions in taxes resulting from the expected utilisation of existing tax loss carryforwards (or similar items) in subsequent periods if realisation is reasonably assured.

In addition, deferred taxes are recognised for outside basis differences if the relevant conditions are met. In accordance with IAS 12, a company must recognise deferred taxes (outside basis differences) for taxable and deductible temporary differences between the consolidated IFRS net assets and the carrying amount in the tax accounts of interests in subsidiaries, associates and joint arrangements under certain conditions.

Deferred tax liabilities and deferred tax assets are calculated on the basis of the tax rates (and tax legislation) that are expected to be in force when the liability is settled or the asset is realised. This is based on the tax legislation in force or adopted by the Bundestag (Lower House of the German Parliament) and, where applicable, the Bundesrat (Upper House of the German Parliament) as at the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the Group expects to settle the deferred tax liabilities or realise the deferred tax assets as at the end of the reporting period.

Current or deferred taxes are recognised in profit or loss unless they relate to items that are recognised in other comprehensive income or recognised directly in equity. In this case, the corresponding current and deferred taxes are recognised in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority and to the same taxable entity. In addition, only deferred taxes that relate to items of the statement of financial position with the same maturity are netted.

22. Judgements

The management is required to use judgement in applying the accounting policies. This applies in particular to the following items:

- For assets held for sale, it must be determined whether the assets can be sold in their present condition and whether their disposal can be considered highly likely within the meaning of IFRS 5. If this is the case, the assets and any corresponding liabilities are reported and measured as assets and liabilities held for disposal.
- It must be determined whether property should be classified as inventories or investment property depending on the intended use.
- Buildings that are both owner-occupied and used by third parties must be reported as separate assets in accordance with IAS 16 and IAS 40, unless the owner-occupied component is immaterial.
- In the context of portfolio acquisitions, non-controlling interests are reported if material risks and rewards lie with the minority shareholder.
- Derivatives accounted for as hedging instruments are used to hedge uncertain future cash flows. The LEG Group is exposed to future cash flow risks as a result of floating-rate financial liabilities in particular. When calculating the fair value of derivative financial instruments, the input parameters for the measurement models are the relevant market prices and interest rates observed as at the end of the reporting period, which are obtained from recognised external sources.

23. Use of estimates

The preparation of IFRS consolidated financial statements requires assumptions and estimates affecting the carrying amounts of the assets and liabilities recognised, income and expenses and the disclosure of contingent liabilities.

Among other things, these assumptions and estimates relate to:

— Measurement of investment property: significant measurement parameters include the expected cash flows, the assumed vacancy rate and the discount and capitalisation rates. If market values cannot be derived from transactions for similar properties, they are measured using the DCF method, under which future cash flows are discounted to the end of the reporting period. These estimates involve assumptions concerning the future. In light of the large number of properties affected and their geographical distribution, individual measurement uncertainties are subject to statistical smoothing. Measurement is performed on the basis of publicly available market data (e.g. property market reports by expert committees, data from the service provider INWIS, etc.) and the extensive knowledge of the LEG Group and its subsidiaries in the respective regional submarkets.

— Recognition and measurement of provisions for pensions and similar obligations: Provisions for pensions and similar obligations are measured on the basis of actuarial calculations, applying assumptions with regard to interest rates, future wage and salary increases, mortality tables and future pension growth.

— Recognition and measurement of other provisions: Recognition and measurement is subject to uncertainty concerning future price growth and the amount, timing and probability of utilisation of the respective provision.

— Measurement of financial liabilities: The measurement of financial liabilities depends in particular on estimates of future cash flows and potential changes in terms. Estimates of the company-specific risk premium are also required.

— Recognition of deferred tax assets: Deferred tax assets are recognised if it is probable that future tax benefits will be realised. The actual taxable income in future financial years, and hence the extent to which deferred tax assets can be utilised, can deviate from the estimates made when the deferred tax assets are recognised. Deferred tax assets for tax loss carryforwards are recognised on the basis of future taxable income for a planning period of five financial years.

— Share-based payment (IFRS 2): Assumptions and judgements regarding the development of performance indicators and fluctuation are required in accounting for stock option plans. They are calculated using option pricing models.

— Goodwill impairment test: The calculation of the FVLCOD requires assumptions and judgements regarding future EBIT development and sustainable growth rates in particular.

— When accounting for business combinations, all identifiable assets, liabilities and contingent liabilities are carried at fair value to the acquisition date. There is estimation uncertainty relating to the determination of these fair values. Land and buildings are generally measured on the basis of an independent valuations, technical equipment and machinery at estimated replacement cost. Identifying and measuring intangible assets takes place in line with the type of intangible asset and the complexity of determining fair values using appropriate measurement techniques.

Further information on assumptions and estimates made by management can be found in the disclosures to the individual items of the financial statements. All assumptions and estimates are based on the prevailing circumstances and assessments as at the end of the reporting period.

The estimation of future business development also takes into account the future economic environment that is currently assumed to be realistic in the industries and regions in which the LEG Group operates.

Although the management considers assumptions and estimates applied to be appropriate, unforeseeable changes to these assumptions could affect the Group's net assets, financial position and results of operations.

24. Share-based payment

The LEG Group has share-based remuneration plans (share option plans) for members of the Management Board of LEG Immo. In line with IFRS 2, the share option plans in the context of the long-term incentive programme are treated as cash-settled share-based remuneration. The provisions for these obligations are established at the level of the expected expense, with them being distributed pro rata across the defined vesting period. The fair value of the options is determined using recognised financial models.

Details of share-based payment can be found in section I.6.

E. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. Investment property

Investment property developed as follows in the 2017 and 2016 financial years:

T70 – Investment properties

€ million	2017	2016
CARRYING AMOUNT AS OF 01.01.	**7,954.9**	**6,398.5**
Acquisitions	396.8	1,064.2
Other additions	112.7	76.8
Reclassified to assets held for sale	–41.0	–96.3
Reclassified from assets held for sale	–	0.0
Disposal of carrying amount	–	–103.3
Reclassified to property, plant and equipment	–4.4	–2.2
Reclassified from property, plant and equipment	4.9	0.6
Fair value adjustment	1,036.8	616.6
CARRYING AMOUNT AS OF 31.12.	**9,460.7**	**7,954.9**

The acquisitions include the following portfolios:

Portfolio acquisition 1

The acquisition of a property portfolio of around 322 residential units was notarised on 17 August 2016. The portfolio generates annual net cold rent of initially around EUR 2.0 million. The average in-place rent is EUR 4.62 per square metre; the initial vacancy rate is 2.1%. The transaction was closed on 1 January 2017. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Portfolio acquisition 2

The acquisition of a property portfolio of around 1,792 residential units was notarised on 10 May 2017. The portfolio generates annual net cold rent of around EUR 9.6 million. The average in-place rent is around EUR 8.07 per square metre and the initial vacancy rate is around 20.6%. The transaction was closed on 1 July 2017. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Portfolio acquisition 3

The acquisition of a property portfolio of around 1,145 residential units was notarised on 23 August 2017. The portfolio generates annual net cold rent of around EUR 3.5 million. The average in-place rent is around EUR 5.5 per square metre and the initial vacancy rate is around 32.5%. The transaction was closed on 1 October 2017. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Portfolio acquisition 4

In addition, the property portfolio of Düsseldorfer Ton- und Ziegelwerke AG was purchased by way of a takeover offer to the shareholders of the company. The LEG Group acquired a high quality portfolio of around 250 residential units, mainly in the Dusseldorf area. The portfolio generates annual net cold rent of around EUR 2.1 million. The average in-place rent is around EUR 8.12 per square metre and the initial vacancy rate is around 0.1%. The transaction was closed on 1 November 2017. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

Other additions in the financial year essentially relate to investments in existing properties. The biggest investments in 2017 include the energy modernisation of properties and increasing the wheelchair accessibility of properties in Cologne, Dortmund, Leverkusen and Monheim.

Investment property broke down as follows in the 2017 and 2016 financial years:

T71 – Composition of investment properties

	31.12.2017		31.12.2016	
€ million	Investment properties	Properties held for sale	Investment properties	Properties held for sale
Developed land	9,255.1	27.9	7,779.2	55.8
Undeveloped land	25.1	2.3	21.8	0.2
Other	180.5	0.7	153.9	1.0
TOTAL	**9,460.7**	**30.9**	**7,954.9**	**57.0**

The situation on the property markets is still characterised by relatively low returns on purchase prices. The monitoring of market transactions performed in the year under review is reflected in the calculation of fair values with corresponding discount rates. The measurement methods selected take into account both the general market environment and LEG's typically strong operating activities.

Sensitivities were as follows as at 31 December 2017:

T72 – Sensitivity analysis 2017

			Sensitivities GAV (variance discount rate, in %)		Sensitivities GAV (variance cap rate, in %)	
€ million						
Segment	*GAV assets*	*Valuation technique*[3]	*–25 bp*	*+25 bp*	*–25 bp*	*+25 bp*
Residential assets[1]						
High-growth markets	4,174	Discounted cash flows	5.0	–4.6	3.1	–2.7
Stable markets	2,838	Discounted cash flows	4.0	–4.1	2.2	–2.3
Higher-yielding markets	1,923	Discounted cash flows	3.8	–3.8	1.9	–2.0
Non NRW	146	Discounted cash flows	4.1	–3.9	2.2	–2.1
Commercial assets[2]	198	Discounted cash flows	2.9	–2.1	2.4	–1.6
Parking + other assets	167	Discounted cash flows	5.1	–4.5	2.0	–1.6
Leasehold + land values	33	Earnings/ reference value method	–	–	–	–
TOTAL IAS 40/IFRS 5[4]	**9,479**	**Discounted cash flows**	**4.4**	**–4.2**	**2.5**	**–2.4**

[1] Excluding 375 residential units in commercial buildings; including 425 commercial and other units in mixed residential assets.
[2] Excluding 425 commercial units in mixed residential assets; including 375 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

Sensitivities were as follows as at 31 December 2016:

T73 – Sensitivity analysis 2016

			Sensitivities GAV (variance discount rate, in %)		Sensitivities GAV (variance cap rate, in %)	
€ million						
Segment	*GAV assets*	*Valuation technique*[3]	*–25 bp*	*+25 bp*	*–25 bp*	*+25 bp*
Residential assets[1]						
High-growth markets	3,324	Discounted cash flows	4.6	–4.4	2.6	–2.5
Stable markets	2,439	Discounted cash flows	3.8	–3.8	2.0	–2.1
Higher-yielding markets	1,754	Discounted cash flows	3.5	–3.9	1.5	–2.0
Non NRW	131	Discounted cash flows	3.8	–3.7	1.9	–2.0
Commercial assets[2]	179	Discounted cash flows	2.8	–2.0	2.4	–1.5
Parking + other assets	149	Discounted cash flows	4.7	–4.4	1.9	–1.8
Leasehold + land values	33	Earnings/ reference value method	–	–	–	–
TOTAL IAS 40/IFRS 5[4]	**8,009**	**Discounted cash flows**	**4.1**	**–4.1**	**2.1**	**–2.2**

[1] Excluding 324 residential units in commercial buildings; including 328 commercial and other units in mixed residential assets.
[2] Excluding 328 commercial units in mixed residential assets; including 324 residential units in commercial buildings.
[3] Valuation technique information without consideration of IAS 16 assets. In exceptional cases liquidation value approach.
[4] The IAS 40 carrying amount in the balance sheet also includes finance leases and prepayments/assets under construction that are not subject to a measurement according to IFRS 13 and are therefore not included in the sensitivity analysis.

Some investment property is let under the terms of commercial rental agreements and leases. These rental agreements and leases generally have a term of ten years and contain extension options for a maximum of two-times five years.

The Group also has land with third-party heritable building rights with an original contractual term that is generally between 75 and 99 years.

There are also leases for advertising space.

The rental agreements for residential property concluded by the LEG Group can generally be terminated by the tenant giving three months' notice to the end of the month. Accordingly, fixed cash flows in the amount of three monthly rents are expected from these rental agreements.

The following amounts are expected to be due over the coming years based on the minimum lease instalments for long-term rental agreements for commercial property and leases for advertising space that were in place as at 31 December 2017:

T74 – Amount based on minimum lease instalments for long-term rental agreements

€ million	*Remaining term up to 1 year*	*Remaining term >1 to 5 years*	*Remaining term >5 years*	**Total**
31.12.2017	17.5	35.6	25.1	78.2
31.12.2016	16.1	26.4	20.8	63.3

Investment property is used almost exclusively as collateral for financial liabilities – see also E.10.

2. Property, plant and equipment

The development of property, plant and equipment is shown in the consolidated statement of changes in assets (Annex I).

Assets under finance leases had the following net carrying amounts as at the end of the reporting period:

T75 – Assets under finance leases

€ million	**31.12.2017**	*31.12.2016*
Heat-generating plants	8.8	10.6
Measuring instruments	5.8	6.6
Smoke alarms	3.8	3.0
Software	0.6	–
Power lines	–	0.7
TOTAL	**19.0**	**20.9**

The year-on-year decline in the net carrying amounts primarily resulted from depreciation in the financial year.

3. Intangible assets

The development of intangible assets is shown in the consolidated statement of changes in assets (Annex I).

4. Other financial assets

Other financial assets are composed as follows:

T76 – Other financial assets

€ million	**31.12.2017**	*31.12.2016*
Investments in affiliates not included in consolidation	0.1	0.1
Investments in equity investments and associates	1.1	1.2
Other financial assets	1.8	1.5
TOTAL	**3.0**	**2.8**

Details of other financial assets can be found in section I.3.

5. Receivables and other assets

Receivables and other assets are composed as follows:

T77 – Receivables and other assets

€ million	31.12.2017	31.12.2016
Trade receivables, gross	37.1	33.4
Impairment losses	–14.6	–14.1
TOTAL	**22.5**	**19.3**
Thereof attributable to rental and leasing	9.1	7.2
Thereof attributable to property disposals	6.0	5.9
Thereof attributable to other receivables	7.4	6.2
Thereof with a remaining term up to 1 year	22.5	15.2
Thereof with a remaining term of between 1–5 years	–	4.1

€ million	31.12.2017	31.12.2016
Receivables from uninvoiced operating costs	11.3	8.9
Other financial assets	13.5	20.7
Other miscellaneous assets	11.4	6.5
TOTAL	**36.2**	**36.1**
Thereof with a remaining term up to 1 year	33.9	26.3
Thereof with a remaining term of between 1–5 years	2.3	9.8
TOTAL RECEIVABLES AND OTHER ASSETS	**58.7**	**55.4**

Details of related parties can be found in section I.7.

6. Cash and cash equivalents

T78 – Cash and cash equivalents

€ million	31.12.2017	31.12.2016
Bank balances	285.4	166.7
Cash on hand	0.0	0.0
CASH AND CASH EQUIVALENTS	**285.4**	**166.7**
Restricted disposal balances	1.1	4.2

Bank balances have variable interest rates for overnight deposits. Short-term deposits are made for periods of between one day and three months, depending on the Group's liquidity requirements. Cash and cash equivalents include balances with a fixed purpose. These are reported as balances with restricted access.

7. Assets held for sale

T79 – Assets held for sale

€ million	2017	2016
CARRYING AMOUNT AS OF 01.01.	**57.0**	**6.7**
Reclassified from investment properties	41.0	96.3
Reclassified from property, plant and equipment	–	0.4
Disposal due to sale of land and buildings	–67.4	–14.9
Disposal due to sale of companies	–	–32.5
Other additions	0.3	1.0
CARRYING AMOUNT AS OF 31.12.	**30.9**	**57.0**

Investment property was sold again in the reporting period for the purposes of selective portfolio streamlining.

For information on reclassifications from investment property, please see section E.1.

The item "Disposals due to the sale of land and buildings" includes developed and undeveloped land and residential and commercial buildings. The disposals essentially relate to two block sales and several smaller individual sales.

See also section F.2.

8. Equity

The change in equity components is shown in the statement of changes in equity.

a) Share capital

The Annual General Meeting of 17 May 2017 revoked Authorised Capital 2016 and created new Authorised Capital 2017. It also amended the Contingent Capital 2013/2016 resolved by the Annual General Meeting on 19 May 2016 and revised Article 4.1 and Article 4.2 of the Articles of Association accordingly.

By way of resolution of the Annual General Meeting on 17 May 2017, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions by up to a total of EUR 31,594,092 by issuing up to 31,594,092 new registered shares against cash or non-cash contributions by 16 May 2022 (Authorised Capital 2017).

The share capital is contingently increased by up to EUR 31,594,092 through the issue of up to 31,594,092 new no-par value bearer shares (Contingent Capital 2013/2017).

In addition, on the Annual General Meeting on 17 May 2017 the Management Board was authorised to issue convertible bonds and/or warrants and/or profit participation rights with option or conversion rights (or a combination of these instruments).

The notifications in accordance with section 160(1) no. 8 AktG can be found in Annex III.

b) Cumulative other reserves

Cumulative other reserves consist of the Group's retained earnings and other reserves.

Retained earnings are composed of the net profits generated by the companies included in consolidation in prior periods and the current period, to the extent that these have not been distributed.

Other reserves consist of adjustments to the fair values of derivatives used as hedging instruments and actuarial gains and losses from the remeasurement of pension provisions.

In the 2017 financial year, there was a distribution to the shareholders of the company for 2016 in the form of a dividend of EUR 174.4 million (EUR 2.76 per share).

In addition, cumulative other reserves declined by a net amount of EUR 14.4 million in the 2017 financial year due to the recognition of an obligation for future guarantee payments. This obligation to the non-controlling interest in TSP-TechnikServicePlus GmbH will exist for a period of ten years.

c) Non-controlling interests

Non-controlling interests in other comprehensive income were composed as follows:

T80 – Non-controlling interest in other comprehensive income

€ million	**31.12.2017**	*31.12.2016*
Actuarial gains and losses from the measurement of pension obligations	0.0	0.0
Fair value adjustment of interest rate derivatives in hedges	0.0	0.0
NON-CONTROLLING INTEREST IN OTHER COMPREHENSIVE INCOME	**0.0**	**0.0**

9. Pension provisions

Expenses for defined contribution plans amounted to EUR 4.5 million in the year under review (2016: EUR 4.4 million). These essentially comprise contributions to the statutory pension scheme.

In connection with defined benefit plans, the LEG Group uses actuarial calculations by actuaries to ensure that future developments are taken into account in the calculation of expenses and obligations. Among other things, these calculations are based on assumptions regarding the discount rate and future wage and salary developments.

In accordance with IAS 19, provisions for pensions for defined benefit plans are calculated on the basis of actuarial assumptions. The following parameters were applied in the financial years:

T81 – Calculation of pension provisions

in %	**31.12.2017**	*31.12.2016*
Discounting rate	1.60	1.50
Salary trend	2.75	2.75
Pension trend	2.00	2.00

A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows as at 31 December 2017 (present value of obligation as at 31 December 2017: EUR 155.6 million):

T82 – Sensitivity of pension provisions 2017

€ million		
Discounting rate (increase and decrease by 0.5% pts.)	144.7	167.8
Salary trend (increase and decrease by 0.5% pts.)	157.2	154.0
Mortality (increase and decrease by 10%)	149.6	162.3
Pension trend (increase and decrease by 0.25% pts.)	160.0	151.3

A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows as at 31 December 2016 (present value of obligation as at 31 December 2016: EUR 161.7 million):

T83 – Sensitivity of pension provisions 2016

€ million		
Discounting rate (increase and decrease by 0.5% pts.)	150.2	174.8
Salary trend (increase and decrease by 0.5% pts.)	163.5	160.1
Mortality (increase and decrease by 10%)	155.6	168.8
Pension trend (increase and decrease by 0.25% pts.)	166.4	157.3

Increases or reductions in the discount rate, the salary trend, the pension trend and mortality do not affect the calculation of the defined benefit obligation (DBO) with the same absolute amount.

If several assumptions are changed at the same time, the total amount is not necessarily the same as the total of the individual effects resulting from the changes in assumptions. It should also be noted that the sensitivities reflect a change in the DBO only for the specific respective degree of the change in assumptions (e.g. 0.5%). If the assumptions change to a different extent this will not necessarily have a straight-line impact on the DBO.

The following table shows the development of pension obligations. In the absence of plan assets, the present value of the obligation in both years is the same as both the recognised provision and the plan deficit.

T84 – Development of pension obligations

€ million	**2017**	*2016*
PRESENT VALUE OF OBLIGATIONS AS OF 01.01.	**161.7**	**149.8**
Service cost	1.7	1.6
Interest expenses	2.4	3.2
Disposals	–	–
Payments	–6.6	–6.9
Remeasurement	–3.6	13.9
Thereof losses (gains) from changes in experience	–1.3	–2.2
Thereof losses (gains) arising from changes in financial assumptions	–2.3	16.1
Thereof losses (gains) arising from changes in demographic assumptions	–	–
PRESENT VALUE OF OBLIGATIONS AS OF 31.12.	**155.6**	**161.7**

EUR 46.8 million of the present value of the obligation relates to current employees covered by the plan (2016: EUR 49.6 million), EUR 11.8 million to employees who have left the company and whose rights are not yet vested (2016: EUR 14.0 million) and EUR 96.9 million to pensioners (2016: EUR 98.1 million).

A pension payment of EUR 7.0 million (2016: EUR 6.9 million) is expected for 2017. The duration of the defined benefit obligation is 14.2 years (2016: 15.4 years).

10. Other provisions

Other provisions are composed as follows:

T85 – Other provisions

€ million	**31.12.2017**	*31.12.2016*
Provisions for partial retirement	1.0	1.2
STAFF PROVISIONS	**1.0**	**1.2**
Construction book provisions	2.8	4.0
Provisions for other risks	14.7	19.2
Provisions for litigation risks	1.8	1.3
Provisions for lease properties	0.7	0.8
Provision for costs of annual financial statements	0.9	0.9
Archiving provision	0.4	0.4
OTHER PROVISIONS	**21.3**	**26.6**

Details of the development of provisions can be found in Annex II.

Construction book provisions contain amounts for outstanding measures and guarantees relating to development projects and property development measures.

The other provisions essentially relate to obligations from a former residential property development project with 47 detached houses.

The cash outflows from provisions are expected to amount to EUR 12.9 million within one year (previous year: EUR 15.8 million) and EUR 9.4 million after one year (previous year: EUR 13.1 million).

11. Financing liabilities

Financing liabilities are composed as follows:

T86 – Financing liabilities

€ million	**31.12.2017**	*31.12.2016*
Financing liabilities from real estate financing	4,273.9	3,746.0
Financing liabilities from lease financing	25.7	28.3
FINANCING LIABILITIES	**4,299.6**	**3,774.3**

Financing liabilities from property financing serve the financing of investment properties.

The consolidated financial statements of LEG Immobilien AG reported financial liabilities from real estate financing of EUR 4,273.9 million as at 31 December 2017.

Financing liabilities from real estate financing include the placement of the convertible bond with a nominal value of EUR 300.0 million and an IFRS carrying amount of EUR 274.9 million as well as the placement in the third quarter of 2017 of a convertible bond with a nominal value of EUR 400 million and an IFRS carrying amount of EUR 382.7 million as at 31 December 2017. The convertible bonds were classified as a financial liability on account of the issuer's contractual cash settlement option and recognised in accordance with IAS 39. There are several embedded and separable derivatives that are treated as a single compound derivative in accordance with IAS 39.AG29 and carried at fair value. The underlying debt instrument is recognised at amortised cost.

Furthermore, financing liabilities from real estate financing were increased by the issue of a corporate bond with a nominal value of EUR 500.0 million and an IFRS carrying amount of EUR 500.8 million as at 31 December 2017.

In addition to the bonds issued, financing liabilities rose as a result of further new loans of EUR 41.8 million, commercial papers in the amount of EUR 100 million and the amortisation effects of the effective interest method of EUR 57.8 million. This was offset by the repayment of subsidised loans in the amount of EUR 288.5 million, the repayment of bank loans in the amount of EUR 193.8 million and scheduled and unscheduled repayments of EUR 72.5 million.

The equity interests in individual companies and rent receivables also serve as security for certain loan agreements. The expected rent pledged as security amounted to EUR 467.1 million in the 2017 financial year (2016: EUR 537.0 million).

In addition to security in the form of land charges, potential receivables from buildings insurance have been pledged to the creditors of the respective land charges. By contrast, the security provided in the form of pledged rent receivables is increased by the corresponding receivables for incidental costs. For certain loan agreements there are also additional surety bonds and the joint and several liabilities of additional LEG companies to the bank.

a) Financing liabilities from real estate financing

The maturities shown in the consolidated financial statements are based on the contractually agreed maturities.

The remaining terms of financing liabilities from real estate financing are composed as follows: *Table* **T87**

The main drivers for the changes in maturities of financing liabilities as against 31 December 2016 are the issue of the corporate bond and the repayments of loans.

b) Financing liabilities from lease financing

Financing liabilities from lease financing are composed as follows: *Table* **T88**

T87 – Maturity of financing liabilities from real estate financing

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2017	472.5	784.4	3,017.0	4,273.9
31.12.2016	545.7	761.4	2,438.9	3,746.0

T88 – Maturity of financing liabilities from lease financing

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total**
31.12.2017	5.6	12.6	7.5	25.7
31.12.2016	6.3	13.3	8.7	28.3

Future minimum lease payments are derived as follows as at 31 December 2017: *Table* **T89**

The reconciliation as at 31 December 2016 is as follows: *Table* **T90**

Detailed information on lease financing can be found in section E.2.

T89 – Future minimum lease payments as at 31.12.2017

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	**Total 31.12.2017**
Minimum lease payments	5.3	15.5	23.7	44.5
Financing costs	–0.3	2.9	16.2	18.8
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	5.6	12.6	7.5	25.7

T90 – Future minimum lease payments as at 31.12.2016

€ million	*Remaining term < 1 year*	*Remaining term > 1 and 5 years*	*Remaining term > 5 years*	*Total 31.12.2016*
Minimum lease payments	6.1	16.5	25.4	48.0
Financing costs	–0.2	3.2	16.7	19.7
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	6.3	13.3	8.7	28.3

12. Other liabilities

Other liabilities are composed as follows: *Table* **T91**

The increase in other liabilities resulting from derivative financial instruments resulted primarily from the changes in the fair value of the derivatives from the convertible bonds. Other liabilities from advance payments received declined largely due to purchase prices for sales of properties which were received by 31 December 2016 and were only disposed of in the 2017 financial year.

T91 – Other liabilities

€ million	**31.12.2017**	*31.12.2016*
Interest derivatives	321.0	192.2
Advance payments received	42.7	82.0
Liabilities from shareholder loans	0.5	0.3
Trade payables	89.2	68.1
Rental and lease liabilities	20.6	15.1
Liabilities from other taxes	1.1	0.9
Liabilities to employees	10.9	9.0
Social security liabilities	0.4	0.5
Operating cost liabilities	0.9	0.6
Interest benefit recognised as a liability	2.8	6.1
Other miscellaneous liabilities	69.1	57.1
OTHER LIABILITIES	**559.2**	**431.9**
Thereof with a remaining term up to 1 year	413.6	316.5
Thereof with a remaining term of between 1 – 5 years	18.3	19.3
Thereof with a remaining term of more than 5 years	127.3	96.1

13. Tax liabilities

In addition to the provision for current income taxes, in the previous year current tax liabilities of EUR 8.5 million (2016: EUR 15.0 million) also included the present value of the settlement of the "EK 02" taxable equity of several Group companies in the amount of EUR 9.3 million. Under the 2008 German Annual Tax Act, the previous distribution-based regulation on the treatment of "EK 02" equity was repealed and flat-rate instalment payments were introduced in its place. The resulting tax amount was to be paid in equal annual instalments over a ten-year period from 2008 to 2017. The last instalment was paid in the 2017 financial year, with the result that the balance as at 31 December 2017 is accounted for solely by provisions for current taxes.

Deferred tax assets and liabilities result from temporary differences between the IFRS and tax carrying amounts and tax loss carryforwards and are broken down as follows:

T92 – Deferred tax assets and liabilities

	31.12.2017		*31.12.2016*	
€ million	*Deferred tax assets*	*Deferred tax liabilities*	*Deferred tax assets*	*Deferred tax liabilities*
Non-current assets				
Investment properties	1.6	920.3	5.7	662.0
Other miscellaneous non-current assets	2.3	7.4	2.7	7.9
Current assets	**2.7**	**3.4**	**4.3**	**4.7**
Non-current liabilities				
Pension provisions	24.5	–	26.4	–
Other provisions	2.5	–	2.0	0.6
Other non-current liabilities	13.6	34.2	21.3	44.7
Current liabilities				
Other provisions	1.2	19.4	1.9	14.6
Other current liabilities	34.7	0.4	26.6	0.5
TOTAL DEFERRED TAXES FROM TEMPORARY DIFFERENCES	**83.1**	**985.1**	**90.9**	**735.0**
Deferred taxes on loss carryforwards	55.5	–	72.3	–
TOTAL DEFERRED TAXES	**138.6**	**985.1**	**163.2**	**735.0**
Netting	129.9	129.9	146.9	146.9
CARRYING AMOUNT	**8.7**	**855.2**	**16.3**	**588.1**

The deferred taxes from non-current assets and non-current liabilities in the table above are expected to reverse more than twelve months after the end of the reporting period.

T93 – Deferred tax assets from tax loss

€ million	**31.12.2017**	*31.12.2016*
Corporation tax	28.9	39.1
Trade tax	26.6	33.2
TOTAL	**55.5**	**72.3**

Deferred tax assets from unused tax losses are recognised in the same amount as deferred tax liabilities from temporary differences. Deferred tax assets from unused tax losses in excess of this amount are recognised to the extent that it is probable that the company will generate taxable income. No deferred tax assets were recognised on tax loss and interest carryforwards of EUR 387.5 million as at the end of the reporting period (2016: EUR 365.1 million). Tax loss carryforwards are generally not vested.

Interest expenses are tax-deductible up to the amount of interest income. Above and beyond this amount, deductibility is limited to 30% of taxable EBITDA for the financial year (interest barrier), unless the exemption limit or the equity escape clause comes into force.

Non-deductible interest expenses in the current financial year are carried forward to subsequent periods. Deferred tax assets are only recognised for interest carried forward to the extent that it is probable that the interest expenses can be utilised in subsequent financial years. Owing to the effective conclusion of profit transfer agreements between the subsidiaries that hold the property portfolios and the Group company LEG NRW GmbH in 2012 and the resulting fiscal entity for corporation and trade tax purposes, the interest barrier does not apply to the (extended) fiscal entity, as was the case in the previous year.

In the 2017 financial year, the remeasurement of primary and derivative financial instruments reduced equity by EUR 6.1 million (2016: increase in equity of EUR 1.5 million), while actuarial gains and losses reduced equity by EUR 1.4 million (2016: increase in equity of EUR 4.3 million). As at the end of the reporting period, deferred tax assets recognised directly in equity amounted to EUR 22.7 million (2016: EUR 30.2 million).

No deferred tax liabilities were recognised on temporary differences in connection with shares in subsidiaries, associates and joint ventures that are not expected to reverse in the foreseeable future in accordance with IAS 12.39 of EUR 8.0 million (2016: EUR 14.5 million).

F. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1. Net rental and lease income

The LEG Group increased its net rental and lease income by EUR 23.0 million (4.5%) in the reporting period. In-place rent per square metre rose by 3.3% on a like-for-like basis in the reporting period.

As a result of the acquisition of 51% of the shares in TechnikServicePlus GmbH (TSP) and its subsequent consolidation as at 1 January 2017, the LEG Group now performs a significant amount of its ongoing maintenance by itself. Staff and non-staff operating costs therefore rose by EUR 19.8 million while the costs of purchased maintenance decreased.

T94 – Net rental and lease income

€ million	**2017**	*2016*
Net cold rent	534.7	511.7
Net income from operating costs	–2.8	–1.6
Maintenance expenses for externally procured services	–51.2	–72.0
Employee benefits	–55.8	–42.2
Impairment losses on rent receivables	–7.2	–7.2
Depreciation	–6.1	–5.3
Others	–12.2	–10.3
NET RENTAL AND LEASE INCOME	**399.4**	**373.1**
NET OPERATING INCOME MARGIN (IN %)	**74.7**	**72.9**
Non-recurring project costs – rental and lease	3.4	2.7
Depreciation	6.1	5.3
ADJUSTED NET RENTAL AND LEASE INCOME	**408.9**	**381.1**
ADJUSTED NET OPERATING INCOME – MARGIN (IN %)	**76.5**	**74.5**

Adjusted for the effect of maintenance work performed by the Group itself, at an increase of 2.0%, staff costs in relation to rental income developed at a slower rate than in-place rent.

Adjusted net rental and lease income rose by 7.3%, much more strongly than the rental trend. As a result, the net operating income (NOI) margin was correspondingly stronger in the 2017 financial year.

Investing activities in the period under review focused on major projects and measures aimed at facilitating the new letting of vacant apartments. They thus contributed to the EUR 37.9 million increase in total investment to EUR 187.5 million.

New portfolios acquired in 2017 accounted for EUR 2.6 million of total investment.

2. Net income from the disposal of investment properties

Net income from the disposal of investment properties is composed as follows:

T95 – Net income from the disposal of investment properties

€ million	**2017**	*2016*
Income from the disposal of investment properties	66.5	159.0
Carrying amount of investment properties disposed of	–67.4	–150.3
INCOME/LOSS FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–0.9**	**8.7**
Valuation gains due to disposal	2.1	9.7
ADJUSTED INCOME/LOSS FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**1.2**	**18.4**
€ million	**2017**	*2016*
Staff costs	–0.4	–0.7
Other operating expenses	–0.1	–0.4
Purchased services	–	–
COST OF SALE IN CONNECTION WITH INVESTMENT PROPERTIES SOLD	**–0.5**	**–1.1**
NET INCOME FROM THE DISPOSAL OF INVESTMENT PROPERTIES	**–1.4**	**7.6**

Income generated from disposals of investment property in the reporting period was EUR 92.5 million lower than in the same period of the previous year.

Income from disposals essentially relates to sales of properties that were reported as assets held for sale and were remeasured to the agreed property value as at 31 December 2016.

A subsequent purchase price adjustment of EUR –0.7 million was recognised in the second quarter of 2017 for a block sale as at 31 December 2016.

3. Changes in value of investment properties

Net income from the remeasurement of investment property amounted to EUR 1,036.8 million in 2017 (2016: EUR 616.6 million). Based on the property portfolio as at the beginning of the financial year (including acquisitions), this corresponds to an increase of 12.4% (2016: 8.4%).

The average value of residential investment property (including IFRS 5 properties) was EUR 1,091 per square metre as at 31 December 2017 (31 December 2016: EUR 930 per square metre) including acquisitions and EUR 1,077 per square metre not including acquisitions. Including investments in modernisation and maintenance work, the average portfolio value thus developed by 15.8% in the financial year (2016: 10.2%).

The increase in the value of the portfolio is largely a result of the positive development of in-place rents. In the current financial year this was affected by the end of rent control on subsidised property holdings, for which subsidised loans were repaid early on 30 November 2017. Compared to the development in rents, the reduction in the discount and capitalisation rate contributed much less to performance.

4. Net income from other services

Net income from other services is composed as follows:

T96 – Net income from other services

€ million	2017	2016
INCOME FROM OTHER SERVICES	**12.2**	**10.3**
Purchased services	–0.9	–1.3
Other operating expenses	–1.8	–2.2
Employee benefits	–0.8	–0.8
Depreciation, amortisation and write-downs	–2.4	–2.3
EXPENSES IN CONNECTION WITH OTHER SERVICES	**–5.9**	**–6.6**
NET INCOME FROM OTHER SERVICES	**6.3**	**3.7**

Other services include electricity and heat fed to the grid, IT services for third parties and management services for third-party properties.

Thanks to the excellent order situation and the further drop in commodity prices, operating earnings from electricity and heat generation increased significantly in the financial year.

5. Administrative and other expenses

Administrative and other expenses are composed as follows:

T97 – Administrative and other expenses

€ million	2017	2016
Other operating expenses	–17.4	–52.6
Staff costs	–22.2	–21.6
Purchased services	–1.1	–1.1
Depreciation, amortisation and write-downs	–0.6	–2.9
ADMINISTRATIVE AND OTHER EXPENSES	**–41.3**	**–78.2**

The other operating expenses contained in the table above are composed as follows:

T98 – Other operating expenses

€ million	2017	2016
Legal and consulting costs	–6.8	–10.5
Rent and other costs of business premises	–4.5	–4.6
Annual financial statement, accounting and audit costs	–1.6	–1.4
Expenses for postage, telecommunications, IT	–0.5	–0.6
Temporary staff	–1.0	–0.5
Vehicles	–0.4	–0.4
Travel expenses	–0.5	–0.3
Advertising expenses	–0.5	–0.4
Other expenses	–1.2	0.5
Others	–0.4	–34.4
OTHER OPERATING EXPENSES	**–17.4**	**–52.6**

The main driver for the decline in administrative and other expenses of EUR 36.9 million was the absence of non-recurring incidental acquisition and integration costs for the acquisition of property portfolios, which led to a decline in project costs of EUR 35.8 million in the comparative period.

Current administrative expenses rose only moderately by 3.7% to EUR 33.3 million against the previous year that included a positive non-recurring effect of EUR 0.5 million.

6. Interest expenses

Interest expenses are composed as follows:

T99 – Interest expenses

€ million	2017	2016
Interest expenses from real estate and bond financing	–68.9	–68.4
Interest expense from loan amortisation	–57.8	–81.3
Prepayment penalty	–0.4	–1.1
Interest expense from interest derivatives for real estate financing	–12.4	–14.9
Interest expense from change in pension provisions	–2.4	–3.2
Interest expense from interest on other assets and liabilities	–0.4	–1.8
Interest expenses from lease financing	–0.9	–1.6
Other interest expenses	–9.1	–4.9
INTEREST EXPENSES	**–152.3**	**–177.2**

The decline in interest expense from loan amortisation results in particular from the effects of the replacement of subsidised loans in the 2017 financial year. The early refinancing of subsidised loans on 28 February 2017 resulted in an additional expense from loan amortisation of around EUR 60.0 million as at 31 December 2016. Further subsidised loans were repaid in the financial year, which increased interest expenses from loan amortisation by around EUR 41.0 million.

The decline in other interest expenses results from a higher number of interest rate derivatives replaced in the previous year. The non-recurring effects from the replacement of interest rate derivatives amounted to EUR −9.1 million in the past financial year (previous year: EUR −4.9 million). The lower number of interest rate derivatives also had the effect of reducing interest expenses from interest rate derivatives.

Interest expenses from loan amortisation include the measurement effect of convertibles bond and the corporate bond of EUR 8.3 million (previous year: EUR 6.6 million).

7. Net income from the fair value measurement of derivatives

The gains and losses on the remeasurement of standalone derivatives and the ineffective portion of interest hedging instruments are reported in net income from the fair value measurement of derivatives.

The net income from the fair value measurement of derivatives in the past financial year was EUR −138.2 million (previous year: EUR 16.6 million).

The net income from the fair value measurement of derivatives in the reporting period primarily results from changes in the fair value of the embedded derivative from the convertible bond of EUR −138.8 million (previous year: EUR 18.5 million).

Ineffective hedges of EUR 0.2 million (previous year: EUR 0 million) were reportable for the 2017 financial year.

8. Income taxes

Income tax expense and income are broken down by origin as follows:

T100 – Income taxes

€ million	**2017**	*2016*
Current income taxes	−8.2	−5.0
Deferred taxes	−267.3	−195.4
INCOME TAXES	**−275.5**	**−200.4**
Tax reimbursement for prior years	0.1	–

Based on the consolidated net profit before income taxes and the expected income tax expense, the reconciliation to current income taxes is as follows:

T101 – Reconciliation to current income tax expenses

€ million	**2017**	*2016*
IFRS earnings before income taxes	1,120.3	779.6
Group tax rate in %	31.2	31.2
FORECAST INCOME TAXES	**−349.5**	**−243.2**
Tax reduction due to tax-free income and off-balance sheet deductions	119.8	52.4
Additional taxes due to non-deductible expenses and off-balance sheet additions	−6.2	−4.7
Tax effect due to deferred tax assets on tax loss carryforwards and not recognised deferred tax assets due to lack of recoverability	−48.5	−1.7
Tax expenses relating to prior periods	−5.3	−0.9
Tax increase / reduction due to change of tax rates	18.0	–
Others	−3.8	−2.3
INCOME TAXES AS PER STATEMENT OF COMPREHENSIVE INCOME	**−275.5**	**−200.4**
Effective tax rate in %, adjusted	24.6	25.7

The deferred taxes from non-current assets and non-current liabilities are expected to reverse after more than twelve months after the end of the reporting period.

The tax rate applied in calculating theoretical income tax takes into account the current and expected future tax rates for corporate income tax (15%), the solidarity surcharge (5.5% of corporate income tax) and trade tax (15.4%) based on a basic rate of 3.5% and an average assessment rate of 440% (city of Dusseldorf).

9. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the shareholders by the average number of shares outstanding during the financial year.

T102 – Earnings per share (basic)

	2017	*2016*
Net profit or loss attributable to shareholders in € million	841.3	578.1
Average numbers of shares outstanding	63,188,185	63,013,853
EARNINGS PER SHARE (BASIC) IN €	**13.31**	**9.17**

T103 – Earnings per share (diluted)

	2017	2016
Net profit or loss attributable to shareholders in € million	841.3	578.1
Convertible bond coupon after taxes	2.0	1.1
Measurement of derivatives after taxes	138.8	–18.5
Amortisation of the convertible bond after taxes	6.3	4.9
Net profit or loss for the period for diluted earnings per share	988.4	565.6
Average weighted number of shares outstanding	63,188,185	63,013,853
Number of potentially new shares in the event of exercise of conversion rights	6,956,023	5,277,945
Number of shares for diluted earnings per share	70,144,208	68,291,798
INTERMEDIATE RESULT	**14.09**	**8.28**
DILUTED EARNINGS PER SHARE IN €	**13.31**	**8.28**

As at 31 December 2017, LEG AG had potential ordinary shares from a convertible bond, which authorise the bearer to convert it into up to 7.0 million shares.

Diluted earnings per share are calculated by increasing the average number of shares outstanding by the number of all potentially dilutive shares. The net profit/loss for the period is adjusted for the expenses no longer incurring for the interest coupon, the measurement of the embedded derivatives and the amortisation of the convertible bond and the resulting tax effect in the event of the conversion rights being exercised in full.

Owing in particular to the expenses no longer incurring in the event of conversion for the measurement of the embedded derivative, the potential ordinary shares from the convertible bond are not dilutive within the meaning of IAS 33.41 as at 31 December 2017.

The diluted earnings per share are therefore equal to basic earnings per share.

EPRA earnings per share – not an IFRS indicator

The following table shows earnings per share according to the best practice recommendations by EPRA (European Public Real Estate Association):

T104 – EPRA-earnings per share

€ million	*Q4 2017*	*Q4 2016*	**01.01.–31.12.2017**	*01.01.–31.12.2016*
Net profit or loss for the period attributable to parent shareholders	384.4	492.5	841.3	578.1
Changes in value of investment properties	–555.7	–607.2	–1,036.8	–616.6
Profits or losses on disposal of investment properties, development properties held for investment, other interests and sales of trading properties including impairment charges in respect of trading properties	0.6	1.5	3.7	–5.2
Tax on losses on disposals and real estate inventory	–0.5	–1.2	1.6	0.7
Changes in fair value of financial instruments and associated close-out costs	75.0	–48.3	138.2	–16.6
Acquisition costs on share deals and non-controlling joint venture interests	0.9	1.1	1.7	37.2
Deferred tax in respect of EPRA-adjustments	132.0	188.9	262.3	190.1
Refinancing expenses	35.5	60.6	41.0	60.9
Other interest expenses	2.7	0.6	9.1	4.9
Non-controlling interests in respect of the above	–0.7	3.3	–0.1	3.5
EPRA EARNINGS	**74.2**	**91.8**	**262.0**	**237.0**
Weighted average number of shares outstanding	63,188,185	63,188,185	63,188,185	63,013,853
= EPRA earnings per share (undiluted) in €	1.18	1.45	4.15	3.76
Potentially diluted shares	5,455,398	5,277,945	5,455,398	5,277,945
Interest coupon on convertible bond after taxes	0.2	0.2	1.1	1.1
Amortisation expenses convertible bond after taxes	1.2	1.1	4.9	4.9
EPRA earnings (diluted)	75.6	93.1	268.0	243.0
Number of diluted shares	68,643,583	68,466,130	68,643,583	68,291,798
= EPRA EARNINGS PER SHARE (DILUTED) IN €	**1.10**	**1.36**	**3.90**	**3.56**

G. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

1. Composition of cash and cash equivalents

The cash and cash equivalents shown in the statement of cash flows correspond to the cash and cash equivalents reported in the statement of financial position, i.e. cash on hand and bank balances.

2. Other notes to the statement of cash flows

LEG Immo had acquired the majority of shares in TechnikServicePlus GmbH for EUR 9.2 million in 2016. The transfer date and date of first-time consolidation was 1 January 2017. The proceeds of EUR 0.2 million under "Cash payments for acquisition of shares in consolidated companies" relate to the cash and cash equivalents acquired in 2017.

LEG Immo received EUR 495.0 million from the issue of a corporate bond and EUR 396.2 million from the issue of a convertible bond in the financial year.

In addition, LEG Immo received EUR 0.7 million in capital contributions from ESP.

The cash outflow for the repayment of bank loans also included prepayment penalties and payments for the reversal of hedges incurred due to early loan repayments.

T105 – Reconciliation financial liabilities 2017

			Non-Cash Changes				
€ million	*01.01.2017*	*Cash Flows*	*Acquisition*	*Changes in fair value*	*Amortisation from effective interest method*	*Others*	*31.12.2017*
Financial liabilities	3,746.0	478.6	–	–	57.8	–8.5	4,273.9
Lease liabilities	28.3	–4.4	0.9	–	0.9	–	25.7
TOTAL	**3,774.3**	**474.2**	**0.9**	**–**	**58.7**	**–**	**4,299.6**

T106 – Reconciliation financial liabilities 2016

			Non-Cash Changes				
€ million	*01.01.2016*	*Cash Flows*	*Acquisition*	*Changes in fair value*	*Amortisation from effective interest method*	*Others*	*31.12.2016*
Financial liabilities	3,215.0	423.8	–	–	81.3	25.9	3,746.0
Lease liabilities	26.6	–4.3	4.4	–	1.6	–	28.3
TOTAL	**3,241.6**	**419.5**	**4.4**	**–**	**82.9**	**–**	**3,774.3**

H. NOTES ON GROUP SEGMENT REPORTING

As a result of the revision of internal management reporting, LEG Immo has no longer been managed as two segments since the 2016 financial year. The Group is now managed as one segment.

I. OTHER DISCLOSURES

1. Overview of cost types

The following cost types are contained in the various functions:

T107 – Cost types

€ million	2017	2016
Purchased services	304.7	323.2
Employee benefits	80.9	66.7
Depreciation, amortisation and write-downs	9.2	10.5
Other operating expenses	**51.9**	**45.9**

Other operating expenses include income from the reversal of write-downs and provisions.

T108 – Employee benefits

€ million	2017	2016
Wages and salaries	67.6	56.3
Social security	11.7	9.4
Pension and other benefits	1.6	1.0
TOTAL	**80.9**	**66.7**

2. Capital management

The aim of the Group's capital management is to ensure the continued existence of the company as a going concern while generating income for its shareholders, in addition to providing all other stakeholders of the LEG Group with the benefits to which they are entitled. Overall, the aim is to increase the value of the Group as a whole.

This end-to-end capital management strategy has not changed since the previous year.

As is typical for the industry, the LEG Group monitors capital on the basis of loan-to-value (LTV). LTV describes the ratio of net debt to the fair value of investment property. Net debt is calculated by deducting cash and cash equivalents from financing liabilities.

As in the previous year, the Group's goal in the financial year was to maintain an appropriate level of gearing in order to ensure continued access to debt financing in the long term at economically appropriate costs. LTV as at 31 December 2017 and 31 December 2016 was calculated as follows:

T109 – Net gearing (LTV)

€ million	31.12.2017	31.12.2016
Financing liabilities	4,299.6	3,774.3
Cash and cash equivalents	285.4	166.7
NET DEBT	**4,014.2**	**3,607.6**
Investment properties	9,460.7	7,954.9
Assets held for sale	30.9	57.0
Prepayments for investment properties	–	27.3
TOTAL	**9,493.6**	**8,039.2**
NET GEARING (LTV) IN %	**42.3**	**44.9**

The assets held for sale shown in the above table relate solely to investment property.

The Group is subject to external capital requirements that were not breached in either the year under review or the previous year. The aims of capital management were achieved in the year under review.

Details of restricted funds can be found in section E.6.

3. Financial instruments

a) Other disclosures on financial instruments

The following table shows the financial assets and liabilities broken down by measurement category and class. Receivables and liabilities from finance leases and derivatives used as hedging instruments are included even though they are not assigned to an IAS 39 measurement category. Non-financial assets and non-financial assets are also included for the purposes of reconciliation even though they are not covered by IFRS 7:

T110 – Classes of financial instruments for financial assets and liabilities 2017

		Measurement (IAS 39)		*Measurement*	
€ million	*Carrying amounts as per statement of financial positions 31.12.2017*	*Amortised cost*	*Fair value through profit or loss*	*IAS 17*	*Fair value 31.12.2017*
Assets					
Other financial assets	**3.0**				**3.0**
LaR	0.1	0.1	0.0		0.1
AfS	2.6	2.6			n/a
Hedge accounting derivatives	0.3				0.3
Receivables and other assets	**58.7**				**58.7**
LaR	49.8	49.8			49.8
Other non-financial assets	8.9				8.9
Cash and cash equivalents	**285.4**				**285.4**
LaR	285.4	285.4			285.4
TOTAL	**347.1**	**337.9**	**0.0**		**347.1**
Of which IAS 39 measurement categories					
LaR	335.3	335.3			335.3
AfS	2.6	2.6			n/a
Equity and liabilities					
Financial liabilities	**–4,299.6**				**–4,586.2**
FLAC	–4,273.9	–4,273.9			–4,560.0
Liabilities from lease financing	–25.7			–25.7	–26.2
Other liabilities	**–559.2**				**–560.3**
FLAC	–102.2	–102.2			–103.3
Derivatives HFT	–289.7		–289.7		–289.7
Hedge accounting derivatives	–31.3				–31.3
Other non-financial liabilities	–136.0				–136.0
TOTAL	**–4,858.8**	**–4,376.1**	**–289.7**	**–25.7**	**–5,146.5**
Of which IAS 39 measurement categories					
FLAC	–4,376.1	–4,376.1			–4,663.3
Derivatives HFT	–289.7		–289.7		–289.7

LaR = Loans and Receivables
HFT = Held for Trading
AfS = Available for Sale
FLAC = Financial Liabilities at Cost
FAHFT = Financial Assets Held for Trading
FLHFT = Financial Liabilities Held for Trading

T111 – Classes of financial instruments for financial assets and liabilities 2016

		Measurement (IAS 39)		*Measurement*	
€ million	*Carrying amounts as per statement of financial positions 31.12.2016*	*Amortised cost*	*Fair value through profit or loss*	*IAS 17*	*Fair value 31.12.2016*
Assets					
Other financial assets	**2.8**				**2.8**
LaR	0.1	0.2	0.0		0.1
AfS	2.7	2.7			n/a
Hedge accounting derivatives	–				–
Receivables and other assets	**55.4**				**55.4**
LaR	49.8	49.8			49.8
Other non-financial assets	5.6				5.6
Cash and cash equivalents	**166.7**				**166.7**
LaR	166.7	166.7			166.7
TOTAL	**224.9**	**219.4**	**0.0**		**224.9**
Of which IAS 39 measurement categories					
LaR	216.6	216.6			216.6
AfS	2.7	2.7			n/a
Equity and liabilities					
Financial liabilities	**–3,774.3**				**–4,087.0**
FLAC	–3,746.0	–3,746.0			–4,058.2
Liabilities from lease financing	–28.3			–28.3	–28.8
Other liabilities	**–431.9**				**–431.9**
FLAC	–40.3	–40.3			–40.3
Derivatives HFT	–138.6		–		–138.6
Hedge accounting derivatives	–53.7				–53.7
Other non-financial liabilities	–199.3				–199.3
TOTAL	**–4,206.2**	**–3,786.3**	**–**	**–28.3**	**–4,518.9**
Of which IAS 39 measurement categories					
FLAC	–3,786.3	–3,786.3			–4,098.5
Derivatives HFT	–138.6		–138.6		–138.6

LaR = Loans and Receivables
HFT = Held for Trading
AfS = Available for Sale
FLAC = Financial Liabilities at Cost
FAHFT = Financial Assets Held for Trading
FLHFT = Financial Liabilities Held for Trading

It was not possible to reliably measure the fair value of investments carried at cost (see AfS in the table above). There is no intention of disposal.

The vast majority of trade payables and other liabilities have short remaining terms, hence their carrying amounts approximate their fair value.

Originated financial instruments (liabilities from real estate and corporate financing, FLAC category), whose fair value does not correspond to their carrying amount are classified as financial liabilities. The fair value of loan liabilities is calculated as the present value of the future cash flows, taking into account the applicable risk-free interest rates and the LEG-specific risk premium as at the end of the reporting period.

Net income for each measurement category is broken down as follows:

T112 – Net income

€ million	**2017**	*2016*
LaR	–5.0	–1.9
AfS	3.5	2.4
FAHFT	–	–
FLHFT	–138.8	15.3
FLAC	–127.0	–151.1
TOTAL	**–267.3**	**–135.3**

Net income contains remeasurement effects in addition to interest income and expenses during the financial year.

b) Risk management

Principles of risk management:

The LEG Group is exposed to default risk, liquidity risk and market risk as a result of its use of financial instruments. In order to take these risks into account, the LEG Group has an effective risk management system supported by the clear functional organisation of the risk controlling process.

The effectiveness of the risk management system is reviewed and assessed regularly on a company-wide basis by the Internal Audit and Compliance unit. Where adjustments are necessary or areas for improvement are identified, the Internal Audit and Compliance unit advises on, examines and monitors these activities.

The framework for the Group's financial policy is determined by the Management Board and monitored by the Supervisory Board. The implementation of financial policy is the responsibility of the Corporate Finance and Treasury unit, while ongoing risk management is handled by Controlling and Risk Management. The use of derivative financial instruments is governed by a corresponding Treasury policy adopted by Management Board and acknowledged by the Supervisory Board. Derivative financial instruments can only be used to hedge existing underlyings, future cash flows and planned transactions whose occurrence is reasonably certain. Derivative financial instruments are only concluded to hedge against interest rate risks.

Default risk:

Credit or default risk describes the risk that business partners – primarily the tenants of the properties held by the LEG Group – will be unable to meet their contractual payment obligations and that this will result in a loss for the LEG Group. In order to prevent and control default risk to the greatest possible extent, new lettings are subject to credit checks.

Default risk exists for all classes of financial instruments, and in particular for trade receivables. The LEG Group is not exposed to significant default risk with regard to any individual party. The concentration of default risk is limited due to the Group's broad, heterogeneous tenant base.

There are gross receivables from rental and leasing activities of EUR 22.8 million (previous year: EUR 20.7 million). Allowances of EUR 13.8 million (previous year: EUR 13.5 million) were recognised, hence net rent receivables of EUR 9.0 million were reported as at 31 December 2017 (previous year: EUR 7.2 million). Collateral for receivables (primarily rent deposits) of EUR 15.2 million (previous year: EUR 12.7 million) is taken into account in the offsetting of outstanding receivables if the legal conditions are met in the individual case.

Offsetting is only possible if the receivable being offset:

- is undisputed or
- has been ruled legally binding or
- is manifestly substantiated.

Offsetting by the lessor against receivables that are manifestly disputed or not covered by the lease (such as receivables from operating expenses) is not permitted. In addition, the restrictions of section 9(5) sentence 1 of the Wohnungsbindungsgesetz (WoBindG – German Controlled Tenancy Act) must also be noted in particular.

Allowances on rent receivables were essentially recognised using general allowances without taking collateral into account.

With regard to cash and cash equivalents and derivatives, the LEG Group only enters into corresponding agreements with banks with extremely good credit ratings. The credit ratings of counterparties are monitored and assessed by the LEG Group on an ongoing basis, taking into account external ratings from various agencies (e.g. Standard & Poor's, Moody's, Fitch and others), the findings of internal research and financial market information. Depending on the availability of information with sufficient informative value, the LEG Group refers to one or more of the data sources described above. In the event of a substantial deterioration in the credit rating of a counterparty, the LEG Group takes efforts to ensure that its existing exposure is reduced as quickly as possible and that new exposures are no longer entered into with the respective counterparty.

As shown in the table below, the carrying amounts of recognised financial assets less any write-downs represent the highest default risk. The carrying amount of financial assets represents the maximum default risk. The default risk for interest rate derivatives is limited to the amount of the positive fair values of derivatives.

The table below shows the financial assets determined to be impaired as at the end of the reporting period:

T113 – Impaired financial assets 2017

€ million; classes of financial instruments 31.12.2017	*Carrying amount before impairment*	*Impairment*	*Residual carrying amount*
Loans	0.3	0.0	0.3
Other financial assets	29.0	–1.5	27.5
Trade receivables	37.1	–14.6	22.5
Cash and cash equivalents	285.4	–	285.4
TOTAL	**351.8**	**–16.1**	**335.7**

T114 – Impaired financial assets 2016

€ million; classes of financial instruments 31.12.2016	*Carrying amount before impairment*	*Impairment*	*Residual carrying amount*
Loans	0.4	0.0	0.4
Other financial assets	25.6	–2.1	23.5
Trade receivables	33.4	–14.1	19.3
Cash and cash equivalents	166.7	–	166.7
TOTAL	**226.1**	**–16.2**	**209.9**

Furthermore, the table below shows the maturity structure of the financial assets past due but not impaired as at the end of the reporting period.

T115 – Not impaired financial assets 2017

	Carrying amount	*Of which past due as of end of reporting period but not impaired*		
€ million; classes of financial instruments 31.12.2017		*< 90 days*	*90 – 180 days*	*> 180 days*
Trade receivables	5.4	5.1	0.1	0.2
Other financial assets	0.9	0.7	0.1	0.1
TOTAL	**6.3**	**5.8**	**0.2**	**0.3**

T116 – Not impaired financial assets 2016

	Carrying amount	*Of which past due as of end of reporting period but not impaired*		
€ million; classes of financial instruments 31.12.2016		*< 90 days*	*90 – 180 days*	*> 180 days*
Trade receivables	3.6	2.9	0.2	0.4
Other financial assets	1.2	0.9	0.1	0.2
TOTAL	**4.8**	**3.8**	**0.3**	**0.6**

Regarding the receivables neither past due nor impaired, there were no indications as at the end of the reporting period that the debtors will fail to meet their payment obligations.

The LEG Group also recognises standardised allowances in addition to specific allowances, using various rates depending on the extent to which the respective receivables are past due.

T117 – Impairment losses 2017

€ million	As of 01.01.2017	Change remeasurement	Addition	Utilisation	As of 31.12.2017
Loans and receivables	0.0	–	–	–	0.0
Trade receivables	14.0	–	10.0	–9.5	14.5
Other financial assets	1.5	–	0.8	–0.8	1.5
TOTAL	**15.5**	**–**	**10.8**	**–10.3**	**16.0**

T118 – Impairment losses 2016

€ million	As of 01.01.2016	Change remeasurement	Addition	Utilisation	As of 31.12.2016
Loans and receivables	1.3	–	–	–1.3	0.0
Trade receivables	12.3	–	11.8	–10.1	14.0
Other financial assets	0.9	–	3.9	–3.3	1.5
TOTAL	**14.5**	**–**	**15.7**	**–14.7**	**15.5**

c) Liquidity risks

The LEG Group defines liquidity risk as the risk that the Group will be unable to meet its own payment obligations at a contractually agreed date.

To ensure that this is not the case, the LEG Group's liquidity requirements are monitored and planned on an ongoing basis by the Corporate Finance and Treasury unit. Sufficient cash and cash equivalents to meet the Group's obligations for a defined period are available at all times. The LEG Group currently has credit facilities and bank overdrafts in the amount of around EUR 50 million (previous year: EUR 50.4 million).

The following table shows the contractually agreed (undiscounted) interest and principal payments for the LEG Group's primary financial liabilities and its derivative financial instruments with negative fair value. The maturities are based on the contractually agreed fixed interest periods for the respective financial liabilities.

T119 – Type of liabilities on 31.12.2017

	Carrying amount	Remaining terms		
€ million		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	4,273.9	482.8	873.1	3,471.8
Financing liabilities from lease financing	25.7	–	–	–
Interest rate derivatives	32.2	11.3	23.8	–3.1
Embedded derivatives	288.7	–	–	–
Liabilities to employees	10.9	10.1	–	0.8
Liabilities from operating costs	0.9	0.9	–	–
Rent and lease liabilities	20.6	20.6	–	–
Liabilities from shareholder loans	0.5	0.5	–	–
Trade payables	89.2	85.2	4.0	0.0
Others	62.7	7.2	8.9	46.6
TOTAL	**4,805.3**	**618.6**	**909.8**	**3,516.1**

The embedded derivatives give rise only to indirect cash outflows over the term of the convertible bond. The cash outflows are included in the remaining terms of financial liabilities from loan liabilities and are reported there.

Together with the acquisition financing and refinancing, this led to an increase and shift in the remaining terms of financial liabilities from loan liabilities.

T120 – Type of liabilities on 31.12.2016

	Carrying amount	*Remaining terms*		
€ million		*< 1 year*	*1 – 5 years*	*> 5 years*
Financing liabilities from loan payable	3,746.0	603.5	867.8	3,040.4
Financing liabilities from lease financing	28.3	6.3	13.3	8.7
Interest rate derivatives	57.5	14.4	43.6	0.1
Embedded derivatives	134.7	–	–	–
Liabilities to employees	9.0	8.3	–	0.7
Liabilities from operating costs	0.6	0.6	–	–
Rent and lease liabilities	15.1	15.1	–	–
Liabilities from shareholder loans	0.3	0.3	–	–
Trade payables	68.1	65.2	2.9	0.0
Others	51.9	5.8	7.5	38.6
TOTAL	**4,111.5**	**719.5**	**935.1**	**3,088.5**

All instruments for which payments were contractually agreed as at the end of the reporting period are included. Forecast figures for future new liabilities are not included. Floating-rate interest payments for financial instruments are calculated using the most recent interest rates prior to the end of the reporting period. Financial liabilities that are repayable at any time are always allocated to the earliest repayment date.

Some of the LEG Group's loan agreements contain financial covenants. In the event of a failure to comply with the agreed covenants, the LEG Group generally has the opportunity to resolve the situation; however, certain cases of non-compliance can result in the bank having the right to terminate the loan agreement with immediate effect. In addition, some agreements provide the bank with the possibility of increasing interest and principal payments or demanding further security for compliance with the covenants in the event of noncompliance. In any case, a long-term failure to comply with the agreed covenants means that the financing bank is entitled to terminate the respective agreement. In connection with the first-time issue of a bond in January 2017, covenants were agreed which can lead to termination rights in the case of non-compliance. Compliance with covenants is monitored on an ongoing basis. There were no violations of the agreed covenants in the 2017 financial year.

d) Market risks

The LEG Group is subject to significant interest rate risks on account of its business activities. Interest rate risk results, in particular, from floating-rate liabilities to banks. In order to limit interest rate risk, the LEG Group generally enters into fixed-income loans or floating-rate loans, sometimes in connection with interest payer swaps. Around 91.5% of financial liabilities to banks are hedged in this way.

Derivative financial instruments are used solely to hedge interest rates at the LEG Group. The Treasury policy prohibits the use of derivatives for speculative purposes.

The Group had the following derivative financial instruments as at 31 December 2017:

T121 – Derivatives 2017

€ million on 31.12.2017	Fair value	thereof < 1 year
Derivatives – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivatives – HFT – Liabilities	–289.7	–
thereof from interest rate swaps	–1.0	–
thereof embedded derivatives	–288.7	–
Hedged derivatives	–31.0	–

The Group had the following derivative financial instruments as at 31 December 2016:

T122 – Derivatives 2016

€ million on 31.12.2016	Fair value	thereof < 1 year
Derivatives – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivatives – HFT – Liabilities	–138.5	0.0
thereof from interest rate swaps	–3.8	0.0
thereof embedded derivatives	–134.7	–
Hedged derivatives	–53.7	–

The derivatives entered into by the LEG Group are used as hedging instruments in accordance with IAS 39 if they meet the conditions for hedge accounting. The cash flows from hedged items in cash flow hedge accounting will be received between 2018 and 2028 and will be recognised in profit or loss at the same time.

The following table shows the amount recognised directly in other comprehensive income in the period under review. This corresponds to the effective portion of the change in fair value:

T123 – Equity implication

€ million	**2017**	2016
OPERATING BALANCE AS OF 01.01.	**–51.9**	**–45.4**
Recognised in equity in reporting period	1.0	–24.7
Reserved from equity to statement of comprehensive income	22.2	18.2
CLOSING BALANCE AS OF 31.12.	**–28.7**	**–51.9**

Sensitivities:

In accordance with IFRS 7, interest rate risk is presented using sensitivity analyses to determine the impact that a change in market interest rates would have on the interest income and expense, trading gains and losses and the equity of the LEG Group as at the end of the reporting period.

The effects on the LEG Group's equity and statement of comprehensive income are analysed using a +/– 50 BP parallel shift in the euro yield curve in the sensitivity analysis. The cash flow effects from the shift in the yield curve relate solely to interest expense and income for the next reporting period.

Based on the financial instruments held or issued by the LEG Group as at the end of the reporting period, a hypothetical change in the applicable interest rates for the respective instruments as quantified using sensitivity analysis would have had the following effects (before taxes) as at the end of the reporting period:

T124 – Financial instruments 2017

	Equity effect		Comprehensive income effect	
€ million on 31.12.2017	+50 bp	–50 bp	+50 bp	–50 bp
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	–1.4	1.4
Interest rate derivatives	21.0	–20.6	0.4	–0.4
Embedded derivatives	–	–	–22.0	18.0

bp = basis points

T125 – Financial instruments 2016

	Equity effect		Comprehensive income effect	
€ million on 31.12.2016	+50 bp	–50 bp	+50 bp	–50 bp
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	–2.4	2.4
Interest rate derivatives	25.1	–25.1	0.6	–0.6
Embedded derivatives	–	–	–6.4	6.6

bp = basis points

Embedded derivatives are subject to both interest rate risk and share price risk. Had the market price for the full instrument been 5% higher (lower) at the end of the reporting period as a result of a change in the price of LEG Immobilien AG shares, with the other parameters for the company remaining unchanged, the fair value of the embedded derivatives would have been EUR 46.7 million higher (lower).

e) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting:

T126 – Financial assets

				Related amounts, which are not netted in the balance sheet		
€ million	*Gross amount of the admitted financial assets*	*Gross amount of the admitted financial liabilities, which have been netted in the balance sheet*	*Net amount of the admitted financial assets, which are considered in the balance sheet*	*Financial instruments*	*Received cash deposits*	*Net amount*
31.12.2017						
Inventories in progress	244.4	–233.1	11.3	–	–	11.3
Cash and cash equivalents	285.4	–	285.4	–5.4	–	280.0
TOTAL	**529.8**	**–233.1**	**296.7**	**–5.4**	**–**	**291.3**
31.12.2016						
Inventories in progress	236.1	–227.2	8.9	–	–	8.9
Cash and cash equivalents	166.7	–	166.7	–4.8	–	161.9
TOTAL	**402.8**	**–227.2**	**175.6**	**–4.8**	**–**	**170.8**

The following financial liabilities are subject to offsetting:

T127 – Financing liabilities

				Related amounts, which are not netted in the balance sheet		
€ million	*Gross amount of the admitted financial assets*	*Gross amount of the admitted financial liabilities, which have been netted in the balance sheet*	*Net amount of the admitted financial assets, which are considered in the balance sheet*	*Financial instruments*	*Received cash deposits*	*Net amount*
31.12.2017						
Advanced payments received	–272.2	233.1	–39.1	–	–	–39.1
Financing liabilities from real estate financing	–4,273.9	–	–4,273.9	5.4	–	–4,268.5
TOTAL	**–4,546.1**	**233.1**	**–4,313.0**	**5.4**	**–**	**–4,307.6**
31.12.2016						
Advanced payments received	261.0	227.2	–33.8	–	–	–33.8
Financing liabilities from real estate financing	–3,746.0	–	–3,746.0	4.8	–	–3,741.5
TOTAL	**–3,485.0**	**227.2**	**–3,779.8**	**4.8**	**–**	**–3,775.3**

The contractually agreed terms and conditions of banks for liens give rise to a claim to offset loan utilisation against the credit balances of the individual companies.

4. Number of employees

The average number of employees in the LEG Group developed as follows as against the previous year:

T128 – Average number of employees

	Average number of employees 2017	Employee capacity (FTE) 2017	*Average number of employees 2016*	*Employee capacity (FTE) 2016*
Operations	699	612	699	609
Management	176	158	176	160
Special entities	371	368	80	77
TOTAL	**1,246**	**1,138**	**955**	**846**

5. Total auditor's fees

The total fees paid to the auditor of the consolidated financial statements are composed as follows:

T129 – Total auditor's fees

€ million	**2017**	*2016*
Audits of financial statements	1.2	1.0
Other audit services	0.2	1.6
Other services	0.0	0. 0
TOTAL FEE	**1.4**	**2.6**

The audit services primarily include fees for the audit of the consolidated financial statements and the legally prescribed audits of LEG Immobilien AG and the subsidiaries included in the consolidated financial statements. The fees for other audit services relate mainly to the audit of the social charter and the audit review of the Sustainability Report. Other services include the examination of finance information for EUR 1 thousand.

6. IFRS 2 programmes

The agreements for members of the Management Board provide for a long-term incentive programme to be offered for each financial year. The programme is designed for a four-year period and divided into three performance periods (until the end of the first, second and third financial year following the relevant financial year). The amount of LTI remuneration is dependent on the achievement of certain performance targets. The performance targets in question are total shareholder return and the development of LEG's share price compared to the relevant EPRA Germany Index.

The programme is treated as cash-settled share-based payment in accordance with IFRS 2. On the basis of an assessment of the Management Board on the attainment of 2014 to 2018 performance hurdles, staff costs of EUR 1.4 million (2016: EUR 0.8 million) were recognised as at 31 December 2017. The provision for long-term incentive plans amounted to EUR 2.0 million as at 31 December 2017 (previous year: EUR 1.5 million).

A target level of 60.7% was achieved for LTI 2018 and of 75% for LTI 2017 (LTI 2016: 89.3% LTI 2015: 97.0%; LTI 2014: 100.0%; LTI 2013: 100%). Details on Management Board agreements can also be found in the remuneration report.

The total intrinsic value of liabilities at the end of the reporting period for which the counterparty's right to receive cash and cash equivalents or other assets was vested as at the end of the reporting period was EUR 1,018 thousand as at 31 December 2017 (previous year: EUR 800.6 thousand).

7. Related party disclosures

Related parties are defined as companies and persons that have the ability to control the LEG Group or exercise significant influence over its financial and business policy. The existing control relationships were taken into account when determining the significant influence that related parties can exercise over the LEG Group's financial and business policy.

Related persons

The related persons of LEG Immo include the Management Board and the Supervisory Board of LEG Immobilien AG. The Management Board of LEG Immobilien AG and the Management Team at LEG NRW GmbH consist of the same persons.

Related companies

LEG Immo's related companies include all the subsidiaries and associates of the LEG Group and certain entities not included in consolidated financial statements.

The following table shows the receivables from and liabilities to related companies as at the end of the reporting period and expenses and income involving related companies for the financial year:

T130 – Receivables from and liabilities to related companies

€ million	31.12.2017	31.12.2016
Statement of financial positions		
Liabilities to shareholders	0.5	0.3

T131 – Income from and expenses for related companies

€ million	2017	2016
Statement of comprehensive income		
Income from associates	0.4	0.3
Income from equity investments	**3.2**	**2.1**

a) Related company disclosures

Related companies controlled by LEG Immo or which it significantly influences are included in the consolidated financial statements. Intragroup transactions under existing service and management agreements between the companies are eliminated as part of consolidation.

There was no significant exchange of goods and services with the other unconsolidated subsidiaries or associates.

b) Related person disclosures

Total remuneration of the Management Board is shown in the table below:

T132 – Compensation package of the Management Board

€ thousand	2017	2016
Fixed remuneration	1,338	1,313
Ancillary benefits	87	86
Total fixed benefits	1,425	1,399
Short-Term-Incentive-Programme (STI)	887	862
Long-Term-Incentive-Programme (LTI)	1,061	1,033
Total variable benefits	1,948	1,895
TOTAL	**3,373**	**3,294**

The additional benefits for members of the Management Board amounted to EUR 87 thousand in the past financial year (previous year: EUR 86 thousand).

The basis for calculating the STI is the achievement of the respective consolidated IFRS business plan. The STI consists of an annual payment measured on the basis of the following four targets: net cold rent, net rental and lease income, adjusted EBITDA and funds from operations I per share. The first three targets each account for 20% and the final target for 40% of the STI. The target STI cannot be exceeded overall. For 2017 (2016) an amount of EUR 0.4 million (EUR 0.4 million) was recognised in staff costs for Mr Thomas Hegel, of EUR 0.4 million (EUR 0.3 million) for Mr Eckhard Schultz and EUR 0.3 million (EUR 0.2 million) for Mr Holger Hentschel.

No loans or advances were granted or extended to the members of the Management Board in the 2017 financial year.

Total remuneration of members of the Supervisory Board of LEG Immobilien AG amounted to EUR 0.6 million in 2017 (2016: EUR 0.6 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2017 financial year.

Recognised expenses for the remuneration of members of the Management Board and Supervisory Board in accordance with IAS 24.17 can be summarised as follows:

T133 – Benefits to the Management and Supervisory Board

€ thousand	2017	2016
Current payable benefits	3,026	2,903
Benefits after termination of the employment	31	30
Other long-term payable benefits	–	–
Benefits in cause of the termination of employment	–	–
Share-based payment	1,392	841
TOTAL	**4,449**	**3,774**

Further information can be found in the remuneration report, which forms part of the management report.

8. Guarantees and contingent liabilities

The LEG Group has the following contingent liabilities:

T134 – Contingent liabilities

€ million	31.12.2017	31.12.2016
Land charges	3,097.3	3,620.1
Letters of comfort Amount of maximum utilisation (maximum guarantee)	–	0.5

The warranty agreements relate solely to letters of comfort for Group companies not included in consolidation. Appropriate provisions have been recognised for the rent guarantees issued in conjunction with disposals.

9. Other financial commitments

The Group's other financial commitments are composed as follows:

T135 – Other financial commitments

€ million	31.12.2017	31.12.2016
Future payments under operating leases	79.9	82.5
Factory management obligations	1.9	2.5
Purchase of energy	12.0	12.6
Purchase obligations	35.1	11.5

Future payments under operating leases result, in particular, from obligations for land with third-party heritable building rights in the amount of EUR 68.4 million (2016: EUR 69.5 million) and rental obligations in the amount of EUR 9.5 million (2016: EUR 10.8 million).

Future payment obligations under non-cancellable operating leases are broken down as follows:

T136 – Minimum lease payments

€ million	Remaining term < 1 year	Remaining term > 1 and 5 years	Remaining term > 5 years	Total
31.12.2017	4.5	13.5	61.9	79.9
31.12.2016	4.7	13.8	64.0	82.5

The cost of minimum lease payments was EUR 4.4 million in the 2017 financial year (2016: EUR 3.4 million).

T137 – Factory management obligations

€ million	Remaining term < 1 year	Remaining term > 1 and 5 years	Remaining term > 5 years	Total
31.12.2017	0.6	1.3	–	1.9
31.12.2016	0.6	1.9	–	2.5

10. The Management Board

LEG Immobilien AG is represented by the Management Board, which consists of the following members:

MR THOMAS HEGEL,
CEO of LEG Immobilien AG, Erftstadt

MR ECKHARD SCHULTZ,
CFO of LEG Immobilien AG, Neuss

MR HOLGER HENTSCHEL,
COO of LEG Immobilien AG, Erkrath

Registered office of the company:
Hans-Böckler-Strasse 38
40476 Dusseldorf
Germany
Commercial register: HRB 69386
Dusseldorf

11. Supervisory Board

The Supervisory Board of LEG Immobilien AG consists of six members.

The following members were elected by the shareholders' meeting:

MR MICHAEL ZIMMER
– Chairman –, businessman, Pulheim

MS NATALIE C. HAYDAY,
investment consultant, Obermark GmbH, Kronberg im Taunus,
since 02/2018 Chief Executive Officer of 7Square GmbH, Frankfurt

MR STEFAN JÜTTE,
Deputy Chairman, businessman, Bonn

DR JOHANNES LUDEWIG,
business consultant, Berlin

DR JOCHEN SCHARPE,
managing partner, AMCI GmbH, Munich

DR CLAUS NOLTING,
senior advisor at Lone Star Germany, Frankfurt

12. Events after the end of the reporting period

Portfolio acquisition

The acquisition of a property portfolio of around 304 residential units was notarised on 2 August 2017. The portfolio generates annual net cold rent of around EUR 1.7 million. The average in-place rent is around EUR 6.7 per square metre and the initial vacancy rate is around 1.4%. The transaction was closed on 1 January 2018. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

There were no other transactions of material importance to the Group after the end of the financial year.

13. Declaration of compliance in accordance with section 161 AktG

The Management Board and the Supervisory Board comply with the recommendations of the German Corporate Governance Code as presented in the management report. The declaration of compliance has been made permanently available to shareholders on the company's website at *https://www.leg-wohnen.de/fileadmin/user_upload/Assets/PDFs/Unternehmen/Investor_Relations/Corporate_Governance/Compliance_Statement_161AktG-Nov2017.pdf*

Dusseldorf, 6 March 2018

LEG Immobilien AG

The Management Board

THOMAS HEGEL
ECKHARD SCHULTZ
HOLGER HENTSCHEL

J. LIST OF SHAREHOLDINGS

The following table shows an overview of the basis of consolidation of the LEG Group:

T138 – Consolidated companies

		Share of capital %	Equity * € thousand	Result * € thousand
LEG Immobilien AG, Dusseldorf		Parent company		
Rote Rose GmbH & Co. KG, Dusseldorf	1)	100.00	109,456	0
LEG Holding GmbH, Dusseldorf	1)	100.00	880,734	–29
LEG NRW GmbH, Dusseldorf	2)	99.98	1,204,838	86,729
LEG Wohnen GmbH, Dusseldorf	2)	100.00	559,031	0
LEG Wohnungsbau Rheinland GmbH, Dusseldorf	2)	100.00	112,639	0 ***
Solis GmbH, Dusseldorf	1)	94.90	103,833	0
Rheinweg Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	86,392	0
Luna Immobilienbeteiligungs GmbH, Dusseldorf	1)	94.90	10,196	0
Rheinweg Zweite Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	78,525	0
LEG Rheinland Köln GmbH, Dusseldorf	2)	100.00	33,969	0 ***
Noah Asset 4 GmbH, Dusseldorf	2)	94.90	2,109	305 **
LEG Wohnen Bocholt GmbH, Dusseldorf	2)	100.00	25	0
LEG Bauen und Wohnen GmbH, Dusseldorf	2)	100.00	2,165	0
LCS Consulting und Service GmbH, Dusseldorf	1)	100.00	2,556	0
LEG Consult GmbH, Dusseldorf	3)	100.00	302	0
GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH, Münster	2)	94.86	74,582	0
GeWo Gesellschaft für Wohnungs- und Städtebau mbH, Castrop-Rauxel	2)	94.00	22,542	0
GeWo Beteiligungsgesellschaft mbH, Dusseldorf (former Rheinsee 615. V V GmbH)	2)	100.00	26	0
Hiltrup Grundbesitzverwertungsgesellschaft mbH, Münster	2)	100.00	77	0
LEG Rheinrefugium Köln GmbH, Dusseldorf	2)	94.00	34	0
Calor Caree GmbH, Dusseldorf	2)	94.00	25	0
LEG Beteiligungsverwaltungsgesellschaft mbH, Dusseldorf	1)	100.00	13,745	0
LEG Grundbesitzerwerb 1 GmbH & Co. KG, Dusseldorf	1)	100.00	–836	–355
LEG Grundbesitzerwerb 2 GmbH & Co. KG, Dusseldorf	1)	100.00	–163	–13
LEG Grundbesitzerwerb 3 GmbH & Co. KG, Dusseldorf	1)	100.00	14	–1
LEG Grundstücksverwaltung GmbH, Dusseldorf	2)	100.00	25,863	0
Düsseldorfer Ton- und Ziegelwerke AG, Dusseldorf	2)	97.70	10,511	–248
LEG Management GmbH, Dusseldorf	1)	100.00	1,124	0 ***
LEG Wohnen NRW GmbH, Dusseldorf	1)	100.00	345	0 ***
LEG Wohnen Service GmbH, Dusseldorf	1)	100.00	50	0
LEG Solution GmbH, Dusseldorf	3)	100.00	66,718	0
LEG Wohnviertel Dyk GmbH, Dusseldorf	2)	100.00	64	43
LEG Standort- und Projektentwicklung Köln GmbH, Dusseldorf	2)	100.00	13,753	0
Biomasse Heizkraftwerk Siegerland GmbH & Co. KG, Liebenscheid	5)	94.86	1,222	3,524
LEG Grundstücksentwicklung Münsterland GmbH, Dusseldorf	2)	100.00	5	–11
Grundstücksentwicklungsgesellschaft Ennigerloh Süd-Ost mbH, Cologne	2)	94.90	–7,512	–115
Ravensberger Heimstättengesellschaft mbH, Bielefeld	2)	100.00	89,970	0 ***
Ravensberger Heimstätten Beteiligungsgesellschaft mbH, Düsseldorf (former Rheinsee 614. V V GmbH)	2)	100.00	26	0
Gemeinnützige Bau- und Siedlungsgesellschaft Höxter-Paderborn GmbH, Höxter	2)	100.00	11,909	0
Ruhr-Lippe Wohnungsgesellschaft mbH, Dortmund	2)	100.00	318,566	0 ***
Ruhr-Lippe Immobilien-Dienstleistungsgesellschaft mbH, Dortmund	2)	100.00	7,452	0

T138 – Consolidated companies

		Share of capital %	Equity * € thousand	Result * € thousand
Wohnungsgesellschaft Münsterland mbH, Münster	2)	100.00	164,978	0***
Münsterland Immobilien-Dienstleistungsgesellschaft mbH, Münster	2)	100.00	114	0
LEG Erste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Zweite Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Dritte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Vierte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Fünfte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Sechste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Siebte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0***
LEG Achte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Neunte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
SW Westfalen Invest GmbH, Dusseldorf	2)	94.90	78,957	0
LEG Recklinghausen 1 GmbH, Dusseldorf	2)	94.90	21,277	232
LEG Recklinghausen 2 GmbH, Dusseldorf	2)	94.90	10,094	–407
Erste WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0
WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0***
EnergieServicePlus GmbH, Dusseldorf	4)	51.00	6,296	2,066***
TSP-TechnikServicePlus GmbH, Dusseldorf	4)	51.00	827	0***
Grundstücksgesellschaft DuHa mbH, Dusseldorf	2)	94.90	3,058	0
Gladbau Baubetreuungs- und Verwaltungsgesellschaft mbH, Dusseldorf	2)	94.90	27,875	*** 2,888**
AWM Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	2,318	0
Vitus Service GmbH, Dusseldorf	1)	100.00	29	0
BRE/GEWG GmbH, Dusseldorf	1)	100.00	24,169	0
Gemeinnützige Eisenbahn Wohnungsbaugesellschaft mbH, Dusseldorf	2)	94.90	6,496	0

* Unless indicated otherwise, these figures show the equity and result as taken from the, not yet adopted, separate HGB financial statements as at 31 December 2017. A zero result is shown in the event of there being a profit transfer agreement in place.
** Earnings before loss absorption and after profit transfer
*** Exemption in accordance with section 264(3) HGB

Activities of subsidiaries:

1) Performance of services and management of equity investments within the LEG Group
2) Property management and location development
3) Performance of services for third parties
4) Performance of housing industry services
5) Electricity and heat generation

T139 – Non-consolidated companies

		Share of capital %	*Equity * € thousand*	*Result * € thousand*
Entwicklungsgesellschaft Rhein-Pfalz GmbH, Mainz	2)	100.00	25	0
Entwicklungsgesellschaft Rhein-Pfalz GmbH & Co. KG, Mainz	4)	100.00	1,319	–72
Biomasse Heizkraftwerk Siegerland Verwaltungs GmbH, Dusseldorf	2)	100.00	5	–21
LEG Krefeld-Bockum Verwaltungs GmbH, Dusseldorf	3)	100.00	99	–2
VitalServicePlus GmbH, Dusseldorf	4)	100.00	0	0

* These figures are the separate HGB equity and results as at 31 December 2016, for LEG Krefeld-Bockum Verwaltungs GmbH, Dusseldorf, otherwise the separate HGB equity and results as at 31 December 2017.

Activities of the companies not included in consolidation:

1) Property management
2) General partner in a limited liability company
3) Shell company
4) Performance of services for third parties

T140 – Associates accounted for using the equity method

	Share of capital %	*Equity * € thousand*	*Result * € thousand*
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	20,453	1,051
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	3,617	21

* These figures are the separate HGB equity and results as at 31 December 2017, for Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück, the separate HGB equity and results as at 31 December 2016.

CONSOLIDATED STATEMENT OF CHANGES IN ASSETS / ANNEX I

T141 – Consolidated statement of changes in assets 2017

	Costs								
€ million	*As of 01.01.2017*	*Additions from consolidated companies*	*Additions*	*Disposals*	*Reclassification*	*Additions from investment properties*	*Disposal to investment properties*	*Disposal to assets held for sale*	
Property, plant and equipment	**119.9**	**0.7**	**7.9**	**–3.4**	**0.8**	**2.1**	**–2.1**	**–**	
Land, land rights and buildings	27.6	–	0.1	–	–	2.1	–2.1	–	
Technical equipment and machinery	42.6	0.6	5.0	–1.1	0.7	–	–	–	
Other equipment, operating and office equipment	8.8	0.1	0.5	–0.2	–	–	–	–	
Finance leases	40.9	–	2.3	–2.1	0.1	–	–	–	
Intangible assets	**90.9**	**9.0**	**0.4**	**–**	**–0.8**	**–**	**–**	**–**	
Other intangible assets	15.0	–	0.4	–	–0.8	–	–	–	
Goodwill	75.9	9.0	–	–	–	–	–	–	
TOTAL	**210.8**	**9.7**	**8.3**	**–3.4**	**–**	**2.1**	**–2.1**	**–**	

T142 – Consolidated statement of changes in assets 2016

	Costs								
€ million	*As of 01.01.2016*	*Additions from consolidated companies*	*Additions*	*Disposals*	*Reclassification*	*Additions from investment properties*	*Disposal to investment properties*	*Disposal to assets held for sale*	
Property, plant and equipment	**109.4**	**–**	**11.3**	**–1.9**	**–**	**2.0**	**–0.5**	**–0.4**	
Land, land rights and buildings	26.5	–	0.2	–0.2	–	2.0	–0.5	–0.4	
Technical equipment and machinery	37.6	–	5.4	–0.4	–	–	–	–	
Other equipment, operating and office equipment	8.5	–	0.5	–0.2	–	–	–	–	
Finance leases	36.8	–	5.2	–1.1	–	–	–	–	
Intangible assets	**74.4**	**15.0**	**1.5**	**–**	**–**	**–**	**–**	**–**	
Other intangible assets	13.5	–	1.5	–	–	–	–	–	
Goodwill	60.9	15.0	–	–	–	–	–	–	
TOTAL	**183.8**	**15.0**	**12.8**	**–1.9**	**–**	**2.0**	**–0.5**	**–0.4**	

		Cumulative depreciation, amortisation and write-downs/fair values					*Carrying amounts*	
	As of 31.12.2017	*As of 01.01.2017*	*Additions from consolidated companies*	*Additions*	*Disposals*	**As of 31.12.2017**	**As of 31.12.2017**	*As of 31.12.2016*
	125.9	**–56.7**	**–0.1**	**–9.0**	**3.4**	**–62.4**	**63.5**	**63.2**
	27.7	–4.5	–	–0.6	–	–5.1	22.6	23.1
	47.8	–24.9	–0.1	–3.4	1.1	–27.3	20.5	17.7
	9.2	–7.4	–	–0.6	0.2	–7.8	1.4	1.4
	41.2	–19.9	–	–4.4	2.1	–22.2	19.0	21.0
	99.5	**–13.9**	**–**	**–0.2**	**–**	**–14.1**	**85.4**	**77.0**
	14.6	–13.9	–	–0.2	–	–14.1	0.5	1.1
	84.9	–	–	–	–	–	84.9	75.9
	225.4	**–70.6**	**–0.1**	**–9.2**	**3.4**	**–76.5**	**148.9**	**140.2**

		Cumulative depreciation, amortisation and write-downs/fair values					*Carrying amounts*	
	As of 31.12.2016	*As of 01.01.2016*	*Additions from consolidated companies*	*Additions*	*Disposals*	**As of 31.12.2016**	**As of 31.12.2016**	*As of 31.12.2015*
	119.9	**–50.3**	**–**	**–8.0**	**1.6**	**–56.7**	**63.2**	**59.1**
	27.6	–3.9	–	–0.6	–	–4.5	23.1	22.6
	42.6	–22.4	–	–2.8	0.3	–24.9	17.7	15.2
	8.8	–7.1	–	–0.5	0.2	–7.4	1.4	1.4
	40.9	–16.9	–	–4.1	1.1	–19.9	21.0	19.9
	90.9	**–11.4**	**–**	**–2.5**	**–**	**–13.9**	**77.0**	**63.0**
	15.0	–11.4	–	–2.5	–	–13.9	1.1	2.1
	75.9	–	–	–	–	–	75.9	60.9
	210.8	**–61.7**	**–**	**–10.5**	**1.6**	**–70.6**	**140.2**	**122.1**

CONSOLIDATED STATEMENT OF CHANGES IN PROVISIONS/ANNEX II

T143 – Consolidated statement of changes in provisions 2017

€ million	*As of 01.01.2017*	*Changes in consolidated companies*	*Utilisation*	*Release*	*Reclassification*	
Staff provisions						
Staff provisions	1.2	–	–0.7	–	–	
Other provisions	**26.6**	**0.1**	**–8.9**	**–1.6**	**–**	
Provisions of lease properties	0.8	–	–	–0.2	–	
Construction book provisions	4.0	–	–1.2	–	–	
Litigations risks	1.3	–	–0.1	–0.2	0.1	
Other provisions	20.5	0.1	–7.6	–1.2	–0.1	
TOTAL	**27.8**	**0.1**	**–9.6**	**–1.6**	**–**	

T144 – Consolidated statement of changes in provisions 2016

€ million	*As of 01.01.2016*	*Changes in consolidated companies*	*Utilisation*	*Release*	*Reclassification to assets held for sale*	
Staff provisions						
Staff provisions	1.4	–	–0.7	–0.1	–	
Other provisions	**29.1**	**–**	**–4.7**	**–1.1**	**–**	
Provisions of lease properties	0.8	–	–	–	–	
Construction book provisions	4.3	–	–0.5	–	–	
Litigations risks	2.2	–	–0.6	–0.4	–	
Other provisions	21.8	–	–3.6	–0.7	–	
TOTAL	**30.5**	**–**	**–5.4**	**–1.2**	**–**	

					thereof	
	Addition	*Interest*	*Discounting*	**As of 31.12.2017**	*Non-current*	*Current*
	0.5	–	–	1.0	0.4	0.6
	5.1	**–**	**–**	**21.3**	**9.0**	**12.3**
	–	–	–	0.6	0.4	0.2
	–	–	–	2.8	0.4	2.4
	0.7	–	–	1.8	0.1	1.7
	4.4	–	–	16.1	8.1	8.0
	5.6	**–**	**–**	**22.3**	**9.4**	**12.9**

					thereof	
	Addition	*Interest*	*Discounting*	**As of 31.12.2016**	*Non-current*	*Current*
	0.6	–	–	1.2	0.5	0.7
	3.2	**0.1**	**–**	**26.6**	**11.5**	**15.1**
	–	–	–	0.8	0.5	0.3
	0.2	–	–	4.0	0.5	3.5
	0.1	–	–	1.3	0.4	0.9
	2.9	0.1	–	20.5	10.1	10.4
	3.8	**0.1**	**–**	**27.8**	**12.0**	**15.8**

OVERVIEW OF VOTING RIGHT NOTIFICATIONS/ ANNEX III

T145 – Overview of notifications of major holdings

Company subject to notification	City	Country	Date received	Reason for notification	Date threshold crossed or reached	
Schroders plc	London	United Kingdom	10.01.2017	1, 3	04.01.2017	
Schroders plc	London	United Kingdom	16.01.2017	1	10.01.2017	
AXA S.A.	Paris	France	03.02.2017	1	01.02.2017	
BNP Paribas Investment Partners S.A.	Paris	France	16.02.2017	1	14.02.2017	
BlackRock, Inc.	Wilmington, DE	USA	03.03.2017	1, 4	28.02.2017	
BlackRock, Inc.	Wilmington, DE	USA	06.03.2017	1, 4	01.03.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	06.03.2017	2	01.03.2017	
BlackRock, Inc.	Wilmington, DE	USA	15.03.2017	1, 4	10.03.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	23.03.2017	1, 2	17.03.2017	
Sun Life Financial Inc.	Toronto, Ontario	Canada	27.03.2017	5	24.03.2017	
BlackRock, Inc.	Wilmington, DE	USA	11.04.2017	1, 4	06.04.2017	
BlackRock, Inc.	Wilmington, DE	USA	03.05.2017	2, 4	27.04.2017	
CBRE Clarion Securities LLC	Radnor, PA	USA	04.05.2017	1	03.05.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	18.05.2017	1, 2	15.05.2017	
BlackRock, Inc.	Wilmington, DE	USA	22.05.2017	1, 4	17.05.2017	
BlackRock, Inc.	Wilmington, DE	USA	23.05.2017	1, 4	18.05.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	01.06.2017	1	31.05.2017	
BlackRock, Inc.	Wilmington, DE	USA	05.06.2017	1, 4	31.05.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	05.06.2017	1	01.06.2017	
BlackRock, Inc.	Wilmington, DE	USA	12.06.2017	1, 4	07.06.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	16.06.2017	1	14.06.2017	
BlackRock, Inc.	Wilmington, DE	USA	21.06.2017	1, 2, 4	16.06.2017	
BNP Paribas Asset Management Holding S.A.	Paris	France	21.06.2017	1	16.06.2017	
BlackRock Global Funds	Luxembourg	Luxembourg	22.06.2017	1	19.06.2017	
BlackRock, Inc.	Wilmington, DE	USA	22.06.2017	1, 4	19.06.2017	
BNP Paribas Asset Management Holding S.A.	Paris	France	22.06.2017	1	19.06.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	23.06.2017	1	20.06.2017	
BNP Paribas Asset Management Holding S.A.	Paris	France	26.06.2017	1	21.06.2017	
BNP Paribas Asset Management Holding S.A.	Paris	France	28.06.2017	1	26.06.2017	
BlackRock, Inc.	Wilmington, DE	USA	10.07.2017	1, 2, 4	05.07.2017	
AXA S.A.	Paris	France	12.07.2017	1	06.07.2017	
BlackRock, Inc.	Wilmington, DE	USA	12.07.2017	1, 2, 4	07.07.2017	
BlackRock, Inc.	Wilmington, DE	USA	25.07.2017	1, 2, 4	20.07.2017	
AXA S.A.	Paris	France	28.07.2017	1	25.07.2017	
BlackRock, Inc.	Wilmington, DE	USA	02.08.2017	1, 2, 4	28.07.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	03.08.2017	1	02.08.2017	

		Total voting rights[1]			
		Voting rights attached to shares in % (in absolute terms)			
	Names of shareholders holding 3% or more voting rights	*direct*	*indirect*	*Voting rights through instruments*	*Total voting rights*
	–	0.00% (0)	3.04% (1,919,182)	0.00%	3.04%
	–	0.00% (0)	2.99% (1,887,528)	0.00%	2.99%
	–	0.00% (0)	3.04% (1,918,296)	0.19%	3.23%
	–	0.00% (0)	3.044% (1,923,467)	0.086%	3.13%
	BlackRock Global Funds	0.00% (0)	12.36% (7,810,094)	1.43%	13.79%
	BlackRock Global Funds	0.00% (0)	12.21% (7,715,230)	1.42%	13.63%
	–	0.00% (0)	0.00% (0)	0.00%	0.00%
	BlackRock Global Funds	0.00% (0)	11.94% (7,544,492)	1.39%	13.33%
	–	3.67% (2,318,716)	0.00% (0)	1.57%	5.24%
	–	0.00% (0)	0.00% (0)	0.00%	0.00%
	BlackRock Global Funds	0.00% (0)	11.48% (7,255,281)	1.59%	13.07%
	BlackRock Global Funds	0.00% (0)	11.50% (7,267,679)	1.66%	13.16%
	–	0.00% (0)	2.948% (1,863,005)	0.00%	2.948%
	–	0.00% (0)	0.00% (0)	0.00%	0.00%
	BlackRock Global Funds	0.00% (0)	11.87% (7,501,237)	1.88%	13.75%
	BlackRock Global Funds	0.00% (0)	11.77% (7,434,453)	2.01%	13.77%
	Norges Bank	0.00% (0)	3.005% (1,898,670)	0.20%	3.21%
	BlackRock Global Funds	0.00% (0)	11.90% (7,517,674)	1.88%	13.78%
	–	0.00% (0)	2.53% (1,598,416)	0.20%	2.73%
	BlackRock Global Funds	0.00% (0)	11.87% (7,500,320)	1.94%	13.81%
	Norges Bank	0.00% (0)	3.05% (1,928,822)	0.02%	3.08%
	BlackRock Global Funds	0.00% (0)	11.71% (7,402,432)	1.75%	13.46%
	–	0.00% (0)	2.98% (1,883,027)	0.09%	3.07%
	–	2.94% (1,855,055)	0.00% (0)	0.08%	3.02%
	–	0.00% (0)	11.49% (7,262,471)	1.72%	13.21%
	–	0.00% (0)	3.0009% (1,896,227)	0.09%	3.09%
	–	0.00% (0)	2.94% (1,858,886)	0.26%	3.20%
	–	0.00% (0)	2.97% (1,875,974)	0.09%	3.06%
	–	0.00% (0)	3.001% (1,896,246)	0.09%	3.09%
	–	0.00% (0)	11.45% (7,232,755)	1.37%	12.82%
	–	0.00% (0)	2.99% (1,889,487)	0.21%	3.20%
	–	0.00% (0)	11.19% (7,071,422)	1.38%	12.57%
	–	0.00% (0)	11.44% (7,230,817)	1.41%	12.85%
	–	0.00% (0)	3.004% (1,897,980)	0.22%	3.224%
	–	0.00% (0)	11.40% (7,203,926)	1.41%	12.81%
	Norges Bank	0.00% (0)	3.04% (1,921,139)	0.00%	3.04%

T145 – Overview of notifications of major holdings

Company subject to notification	*City*	*Country*	*Date received*	*Reason for notification*	*Date threshold crossed or reached*	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	08.08.2017	1	04.08.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	08.08.2017	1	07.08.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	09.08.2017	1	08.08.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	11.08.2017	1	10.08.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	15.08.2017	1	14.08.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	18.08.2017	1	17.08.2017	
BlackRock, Inc.	Wilmington, DE	USA	23.08.2017	1, 2, 4	18.08.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	30.08.2017	2	25.08.2017	
Ministry of Finance on behalf of the State of Norway	Oslo	Norway	30.08.2017	1	29.08.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	18.09.2017	1	12.09.2017	
BlackRock, Inc.	Wilmington, DE	USA	20.09.2017	1, 4	15.09.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	25.09.2017	1	19.09.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	27.09.2017	1	22.09.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	13.10.2017	1	10.10.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	20.10.2017	1	17.10.2017	
Deutsche Bank Aktiengesellschaft	Frankfurt	Germany	23.10.2017	1	18.10.2017	

Reason for notification:
1) Acquisition/disposal of shares with voting rights
2) Acquisition/disposal of instruments
3) Voluntary group notification
4) Voluntary group notification with triggered threshold on subsidiary level
5) Disaggregation pursuant to section 22a Securities Trading Act

[1] Number of shares: 63,188,185

		Total voting rights[1]			
		Voting rights attached to shares in % (in absolute terms)			
	Names of shareholders holding 3% or more voting rights	*direct*	*indirect*	*Voting rights through instruments*	*Total voting rights*
	–	0.00% (0)	2.83% (1,790,829)	0.00%	2.83%
	Norges Bank	0.00% (0)	3.01% (1,899,113)	0.00%	3.01%
	–	0.00% (0)	2.48% (1,567,905)	0.00%	2.48%
	Norges Bank	0.00% (0)	3.04% (1,919,135)	0.00%	3.04%
	–	0.00% (0)	2.80% (1,767,938)	0.00%	2.80%
	Norges Bank	0.00% (0)	3.02% (1,907,329)	0.01%	3.03%
	–	0.00% (0)	11.39% (7,197,996)	1.36%	12.75%
	–	3.73% (2,354,321)	0.00% (0)	1.74%	5.47%
	–	0.00% (0)	2.91% (1,836,229)	0.00%	2.91%
	–	5.56% (3,514,858)	0.00% (0)	2.54%	8.10%
	–	0.00% (0)	11.60% (7,331,515)	1.43%	13.04%
	–	4.95% (3,124,710)	0.00% (0)	2.22%	7.17%
	–	5.02% (3,173,528)	0.00% (0)	2.22%	7.24%
	–	4.58% (2,891,813)	0.00% (0)	2.22%	6.80%
	–	5.76% (3,636,582)	0.00% (0)	3.98%	9.73%
	–	4.50% (2,840,739)	0.00% (0)	3.99%	8.48%

INDEPENDENT AUDITOR'S REPORT

To LEG Immobilien AG, Düsseldorf

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of LEG Immobilien AG, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LEG Immobilien AG for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

— the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

— the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to §322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with §317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. **Measurement of investment properties**
2. **Presentation and measurement of primary and derivative financial instruments**

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Measurement of investment properties

1.

In the consolidated financial statements of LEG Immobilien AG as of 31 December 2017 investment properties in the amount of EUR 9,460.7 million are reported. LEG exercises the option set out in IAS 40.30 of accounting for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realized when properties are sold, as well as unrealized changes in market value, are recognized at fair value through profit or loss. In the past financial year, EUR 1,036.8 million in unrealized changes in market value were recognized through profit or loss in the consolidated statement of comprehensive income.

When determining the fair value of investment property, it is assumed that the current use corresponds to the highest and best use of the property. Fair value is determined using a company-internal measurement model based on projections of net cash inflows from the management of the properties which are derived using the discounted cash flow method. A market value is determined for properties with no positive net cash inflows (usually vacant buildings) using the net asset value method. Undeveloped land is usually measured based on an indirect comparison of indicative land values.

To the extent possible, LEG uses data directly observable on the market to determine fair value (sources include property market reports prepared by expert committees and public and subscriptions-based market databases). In addition, a valuation report is prepared by an independent appraiser and is used to verify the plausibility of internal calculations.

The measurement of investment properties is based on a large number of relevant parameters which are in general subject in some respects to uncertainties with regard to estimates and judgments. Significant measurement parameters include in particular expected cash flows, the assumed vacancy rate and the discount and capitalization rate. Even slight changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance for our audit because the measurement of investment properties is in general subject to substantial judgment and estimation uncertainties and there is the risk that the changes in fair value which are recognized through profit or loss do not fall within an appropriate range.

2.

As part of our audit, in collaboration with specialists from our Valuation & Strategy department, we recorded the internal controls in place and assessed whether they were appropriate and effective, among other things. In addition, we assessed the measurement models used by LEG with respect to their compliance with IAS 40 in conjunction with IFRS 13, the homogeneity of the properties being valued, the correctness and completeness of the property portfolio data used and the appropriateness of the valuation parameters used, such as the expected cash flows (market rent per m^2, planned maintenance per m^2), the assumed vacancy rate and the discount and capitalization rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we examined the plausibility of calculations based on a comparison of results at the level of the individual properties as well as at the portfolio level against our expectations.

As part of our audit procedures, we prepared a comparison calculation for specific properties on a sample basis using the DCF method or on the basis of the standardized German income approach [Ertragswertverfahren] pursuant to the German Property Valuation Regulation [Immobilienwertermittlungsverordnung; ImmoWertV)].

The valuation technique applied by the executive directors of LEG is appropriately designed and suitable for calculating fair values in accordance with IFRSs. The underlying assumptions reflect the current market parameters.

3.

Please refer to sections D.1, D.18, D.23, E.1 and F.3 of the notes for information on investment properties.

2. Presentation and measurement of primary and derivative financial instruments

1.

In the consolidated financial statements of LEG Immobilien AG as of 31 December 2017 financial liabilities in the amount of EUR 4,299.6 million (prior year EUR 3,774.3 million) are reported. The increase in the financial liabilities was primarily due to the issue of a convertible bond with a nominal amount of EUR 400 million and a carrying amount in accordance with IFRSs of EUR 382.7 million as of 31 December 2017, the issue of a corporate bond with a carrying amount of EUR 500.8 million, further new borrowings and commercial paper of EUR 141.8 million and amortization effects from the application of the effective interest method of EUR 57.8 million. This was offset by the repayment of development loans of EUR 288.5 million and bank loans of EUR 193.8 million as well as scheduled and unscheduled redemptions amounting to EUR 72.5 million.

The carrying amounts of the outstanding convertible bonds (basic debt component) amounted to EUR 657.6 million (prior year EUR 268.1 million) and the carrying amounts of the embedded derivatives were EUR 288.7 million (prior year EUR 134.7 million). The change over the prior year was due to the issue of a convertible bond for EUR 400 million, which was classified in full as a debt instrument due to the cash settlement option included in the contractual terms. The conversion right incorporated in the convertible bond therefore represents a separable embedded derivative, which was separated from the basic debt component on issue and recognized directly in equity in the amount of EUR 15.2 million. The year-on-year change of the embedded derivatives also resulted from purely valuation-related effects of EUR 138.8 million, reported as net income from the fair value measurement of derivatives.

An interest rate swap with a total volume of EUR 56,0 million was concluded during the financial year to hedge interest rate volatility arising from floating-rate loans. In connection with the refinancing and redemption of previous loans, the associated hedges were unwound. This led to the reversal through profit or loss of the fair value changes of interest rate derivatives recognized until that point in OCI, resulting in an expense of EUR 9.1 million which is included in interest expenses.

Financial liabilities are initially recognized at fair value, taking into account transaction costs as well as premiums and discounts. The fair value at the grant date is equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk. Subsequent measurement takes place at amortized cost using the effective interest method. The effective interest rate is determined at the date on which the financial liabilities are created.

The LEG Group uses derivative financial instruments to hedge interest rate risks incurred in financing its properties. Derivative financial instruments are measured at fair value. Changes in the fair value of derivatives are recognized through profit or loss if no hedging relationship in accordance with IAS 39 exists. Derivatives accounted for as hedges serve to hedge against future uncertain cash flows. The LEG Group is exposed in particular to risks with respect to future cash flows from variable rate financial liabilities.

The input parameters for valuation models used to determine the fair value of derivative financial instruments are the relevant market prices and interest rates observed on the balance sheet date and taken from recognized external sources.

The matters presented above were of particular significance for our audit due to the judgments involved in measuring and appropriately presenting financial instruments, particularly with respect to hedge accounting.

2.

We involved experts from our Corporate Treasury Solutions (CTS) department in the audit of the accounting treatment and measurement of the financial liabilities, including the effects of the derivative financial instruments on equity and profit or loss. With their assistance, among other things we assessed the established internal control system.

New contracts recognized as financial liabilities were selected according to specific risk-oriented criteria and evaluated whether the relevant measurement parameters and any embedded derivatives were properly recorded. In addition, a recalculation of amortized costs was carried out on a sample basis and analytical audit procedures were carried out for all financial liabilities. The outstanding convertible bonds were assessed in full with respect to recognition, measurement and presentation.

As part of our audit of the fair value of primary financial instruments, we assessed the valuations based on the relevant market data (yield curves) and the base data used on a selective sample basis. We also took into account fair value measurement when determining the effectiveness of derivatives in hedge accounting. We assessed whether the documentation of hedge accounting complied with the requirements of IAS 39.

We obtained bank confirmations to assess whether all financial liabilities and financial instruments were recognized in full.

The presentation of financial liabilities and derivative financial instruments by the executive directors of LEG is appropriate. In our view, the measurement method used and the underlying assumptions and valuation parameters are appropriate overall.

3.

Please refer to sections D.14, D.15, D.23, E.11, F.6, F.7 and I.3 of the notes for information on primary and derivative financial instruments.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

— the statement on corporate governance pursuant to §289f HGB and §315d HGB included in a separate section of the group management report
— the separate non-financial group report pursuant to §315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information –, with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

— is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
— otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with §317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

— Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

— Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

— Evaluate the consistency of the group management report with the consolidated f inancial statements, its conformity with German law, and the view of the Group's position it provides.

— Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 17 May 2017. We were engaged by the supervisory board on 6 November 2017. We have been the group auditor of the LEG Immobilien AG, Düsseldorf, without interruption since the financial year 2008.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Thomas Kieper.

Dusseldorf, March 6, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

THOMAS KIEPER
Wirtschaftsprüfer
(German Public Auditor)

PPA. MARTIN FLÜR
Wirtschaftsprüfer
(German Public Auditor)

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the LEG Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the LEG Group, together with a description of the principal opportunities and risks associated with the expected development of the LEG Group."

Dusseldorf, 6 March 2018

LEG Immobilien AG, Dusseldorf

The Management Board

THOMAS HEGEL
ECKHARD SCHULTZ
HOLGER HENTSCHEL

CHAPTER

5

FURTHER INFORMATION

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To the shareholders

Management Report

GLOSSARY

EBIT	**E**arnings **b**efore **I**nterest and **T**ax Operating earnings Consolidated net income before net finance costs and taxes
EBITDA	**E**arnings **b**efore **I**nterest, **T**ax, **D**epreciation and **A**mortisation Consolidated net income before net finance costs and taxes, depreciation on property, plant and equipment and amortisation of intangible assets; depreciation and amortisation also include impairment losses and reversals thereof
adj. EBITDA	**Adjusted EBITDA** EBITDA adjusted for net income on the remeasurement of investment of investment properties, net income from the disposal of real estate inventory, net income from the disposal of investment properties, non-recurring project costs and other extraordinary and prior-period expenses and income
FFO I	**F**unds **f**rom **O**perations **I** Funds generated from operating activities LEG calculation: adj. EBITDA adjusted for cash interest expenses and income and cash taxes
FFO II	**F**unds **f**rom **O**perations **II** FFO I plus net income from the disposal of investment properties
AFFO	**A**djusted **FFO I** FFO I adjusted for investments for capitalised capex measures
EPRA	**E**uropean **P**ublic **R**eal Estate **A**ssociation
EPRA vacancy rate	**Vacancy rate** as defined by **EPRA** Expressed as a percentage being the estimated market rental value of vacant space divided by the estimated market rental value of the whole portfolio.
EPRA Earnings per Share	Net profit or loss for the period attributable to parent shareholders, adjusted for non-cash remeasurement effects of investment properties and derivatives, acquisition costs and aperiodic financing costs and income taxes, that are not classified as current income taxes.
EPRA-NAV	**N**et **A**sset **V**alue as defined by **EPRA** Net asset value from a shareholder perspective assuming the long-term continuation of the company as a going concern. This value is calculated on the basis of equity which is controlled by the shareholders and eliminates the effects of the market measurement of derivative financial instruments and deferred taxes which correspond to investment properties, derivatives or subsidised loans.
EPRA-NNNAV	**Triple N**et **A**sset **V**alue as defined by **EPRA** EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.
EPRA-Net Initial Yield	**Net initial yield** as defined by **EPRA** Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.
EPRA cost ratio	The **cost ratio** is an indicator of the company's operating performance. Administrative and operating expenses are divided by gross rental income, adjusted for leasehold land interests and – unless marked otherwise – directly attributable vacancy costs.
LTV	**L**oan-**t**o-**V**alue The ratio of net financial liabilities (not including EK 02 tax liabilities), less cash and cash equivalents to the sum of investment properties, assets held for sale and prepayments for investment properties.
CAPEX	**Cap**ital **Ex**penditure Capitalised cost of modernisation and maintenance work
Project costs	Project costs include expenses for projects that are largely non-recurring with a complex structure whose goals are to be met within the budget and time provided

THE MANAGEMENT BOARD

The members of the Management Board are as follows:

THOMAS HEGEL
Chief Executive Officer (CEO)
Corporate Development
Innovation Management and Digitisation
IT
Acquisitions
Corporate Communications
Legal, Internal Audit and Compliance
Human Resources
Executive and Supervisory Board Office

ECKHARD SCHULTZ
Chief Financial Officer (CFO)
Accounting
Controlling & Risk Management
Corporate Finance & Treasury
Investor Relations & Strategic Business Analysis
Portfolio Management
Tax

HOLGER HENTSCHEL
Chief Operating Officer (COO)
Asset and Property Management
Procurement/Technology
Rental and Operating Cost Management
Receivables Management
Commercial Management
District Management
Integration
Energy Services & Repairs Management

FINANCIAL CALENDAR 2018

LEG financial calendar 2018

Publication of the 2017 Annual Report	**8 March**
Publication of the Quarterly Statement as of 31 March 2018	**8 May**
Annual General Meeting, Dusseldorf	**17 May**
Publication of the Quarterly Report as of 30 June 2018	**10 August**
Publication of the Quarterly Statement as of 30 September 2018	**9 November**

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Heleen Berkemeyer, Dusseldorf (Supervisory Board)

The annual report is also available in German.
In case of doubt, the German version
takes precedence.

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