

# ANNUAL REPORT 2017

IFRS financial statements



## Five-year overview

### KEY FIGURES FIVE-YEAR OVERVIEW

EUR k	2017	2016	2015	2014	2013
<b>Revenues and Earnings</b>					
Revenues	193,680	202,663	115,337	101,782	104,224
Net rental income	172,279	179,014	102,140	90,020	93,249
Consolidated profit for the period <sup>1)</sup>	296,987	176,872	-110,970	36,953	38,945
FFO <sup>1)</sup>	113,834	116,410	59,397	47,626	45,328
Earnings per share (EUR) <sup>1)</sup>	1.94	1.16	-1.15	0.47	0.49
FFO per share (EUR) <sup>1)</sup>	0.74	0.76	0.61	0.60	0.57

<sup>1)</sup> Excluding minorities.

EUR k	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
<b>Balance Sheet</b>					
Investment property	3,331,858	2,999,099	3,260,467	1,645,840	1,632,362
Total assets	3,584,069	3,382,633	3,850,580	1,769,304	1,785,679
Equity	1,954,660	1,728,438	1,619,377	846,593	844,114
Liabilities	1,629,409	1,654,195	2,192,916	922,711	941,565
Net asset value (NAV) per share (EUR)	12.70	11.28	10.64	10.71	10.69
Diluted NAV per share (EUR) <sup>1)</sup>	12.69	11.28	10.68	10.67	10.60
Net LTV (%)	40.0	40.9	49.3	50.4	50.7

<sup>1)</sup> Dilution based on potential conversion of convertible bond.

G-REIT Figures	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
G-REIT equity ratio (%)	57.1	56.7	49.4	50.2	50.9
Revenues including other income from investment properties (%)	100	100	100	100	100

EPRA <sup>1)</sup> -Key Figures	2017	2016	2015	2014	2013
EPRA earnings per share (EUR)	0.65	0.57	0.42	0.59	0.57
EPRA cost ratio A (%) <sup>2)</sup>	20.0	20.6	26.1	22.9	21.7
EPRA cost ratio B (%) <sup>3)</sup>	16.7	16.6	22.1	19.8	18.6

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
EPRA NAV per share (EUR)	12.71	11.31	10.91	11.22	10.97
EPRA NNAV per share (EUR)	12.45	10.81	10.66	10.58	10.55
EPRA net initial yield (%)	4.6	5.0	5.0	4.8	5.6
EPRA "topped-up" net initial yield (%)	5.0	5.4	5.3	5.0	5.8
EPRA vacancy rate (%)	9.4	9.2	11.2	11.0	6.8

<sup>1)</sup> For further information, please refer to EPRA Best Practices Recommendations, [www.epra.com](http://www.epra.com).

<sup>2)</sup> Including vacancy costs.

<sup>3)</sup> Excluding vacancy costs.

## CONTENT

<b>DETAIL INDEX GROUP MANAGEMENT REPORT .....</b>	<b>2</b>
<b>GROUP MANAGEMENT REPORT .....</b>	<b>3</b>
ECONOMICS AND STRATEGY.....	3
FINANCIAL ANALYSIS .....	13
RISK AND OPPORTUNITY REPORT .....	24
SUSTAINABILITY REPORT .....	41
DISCLOSURES REQUIRED BY TAKEOVER LAW .....	42
ADDITIONAL GROUP DISCLOSURE .....	46
EXPECTED DEVELOPMENTS .....	47
<b>DETAIL INDEX CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>49</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>50</b>
CONSOLIDATED INCOME STATEMENT .....	50
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	51
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	52
CONSOLIDATED STATEMENT OF CASH FLOWS.....	54
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	56
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	58
<b>RESPONSIBILITY STATEMENT.....</b>	<b>124</b>
<b>INDEPENDENT AUDITOR'S REPORT.....</b>	<b>125</b>
<b>CORPORATE GOVERNANCE .....</b>	<b>135</b>
REPORT OF THE SUPERVISORY BOARD .....	135
CORPORATE GOVERNANCE STATEMENT.....	143
REMUNERATION REPORT .....	155
<b>REIT DISCLOSURES .....</b>	<b>167</b>
REIT DECLARATION .....	167
REIT MEMORANDUM .....	169
<b>FINANCIAL CALENDAR/IMPRINT.....</b>	<b>171</b>
FINANCIAL CALENDAR.....	171
CONTACT/IMPRINT .....	171

## DETAIL INDEX GROUP MANAGEMENT REPORT

ECONOMICS AND STRATEGY.....	3
ECONOMIC CONDITIONS .....	3
STRATEGY AND STRUCTURE .....	5
PORTFOLIO OVERVIEW.....	6
FINANCIAL ANALYSIS .....	13
EARNINGS POSITION.....	13
FINANCIAL AND ASSET POSITION.....	17
CORPORATE MANAGEMENT .....	23
RISK AND OPPORTUNITY REPORT .....	24
RISK REPORT .....	24
REPORT ON OPPORTUNITIES.....	39
SUSTAINABILITY REPORT .....	41
DISCLOSURES REQUIRED BY TAKEOVER LAW .....	42
ADDITIONAL GROUP DISCLOSURE .....	46
EMPLOYEES .....	46
REMUNERATION REPORT .....	46
CORPORATE GOVERNANCE GROUP DECLARATION PURSUANT TO SECTION 315D HGB (“HANDELS- GESETZBUCH”: GERMAN COMMERCIAL CODE).....	46
DIVIDEND.....	46
EXPECTED DEVELOPMENTS .....	47

## GROUP MANAGEMENT REPORT

### ECONOMICS AND STRATEGY

#### ECONOMIC CONDITIONS

##### Framework

The German economy again proved to be solid in 2017. Germany's GDP increased by 2.2%, which was its highest growth rate since 2011. As in the previous year, the growth was above the 10-year average (+1.3%). This good development was also reflected in the German labour market, as the unemployment rate decreased by 0.4 percentage points to 5.7%. The employment level reached a peak of 44.3 million employees, which is 1.5% more than last year. This is the highest number since the German reunification.\*

The total volume of the German investment market for commercial real estate increased by 9.1% to EUR 57.4 billion compared to the previous year. The transaction volume is above the EUR 50-billion mark for the third time in a row. It can be concluded that Germany still offers great investment opportunities due to its strong key economic and real estate figures.\*\*

##### Overview of the German office-property market

###### *Development of office rents*

In 2017, according to the largest commercial real estate agencies, the average rents for office space in six out of seven important commercial real estate markets - Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, and Stuttgart - known as the Big 7 - exceeded the previous year's levels, only Hamburg remained stable at EUR 15.21/m<sup>2</sup>. Frankfurt reached the highest average rent for office space with EUR 20.35/m<sup>2</sup>, followed by Berlin with EUR 19.23/m<sup>2</sup>, Munich with EUR 17.31/m<sup>2</sup>, Düsseldorf with EUR 15.08/m<sup>2</sup>, Stuttgart with EUR 13.40/m<sup>2</sup>, and Cologne with EUR 12.90/m<sup>2</sup>.

###### *Take-up in major German cities*

According to the largest commercial real estate agencies, the vacancy rate of office properties in German cities decreased from 5.7% in 2016 to 4.8% in 2017, which represents a total vacancy of 4.4 million m<sup>2</sup> (a decrease of 0.7 million m<sup>2</sup>) and the lowest value in the last 15 years. Among the Big 7, the highest vacancy rate was recorded in Frankfurt with 9.0%, followed by those in Düsseldorf with 8.0%, Hamburg with 4.8%, Cologne with 3.8%, Munich with 3.1%, Berlin with 2.7%, and Stuttgart with 2.4%.

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\* Annual Economic Report 2018 from the Federal Ministry of Economics and Energy.

\*\* Sources of real estate market data in this chapter are Jones Lang LaSalle, Colliers International Deutschland GmbH, BNP Paribas Real Estate, and CBRE GmbH.

### ***New lease-ups***

In 2017, according to the largest commercial real estate agencies, new lease contracts were signed for more than 4.2 million m<sup>2</sup> of office space in the Big 7 German cities. This reflects an increase of 0.2 million m<sup>2</sup>, or 6%, compared to the previous year. The highest positive take-ups of office space were registered in Munich with 989,200 m<sup>2</sup> (+27%), along with 930,075 m<sup>2</sup> (+6%) in Berlin, 710,500 m<sup>2</sup> (+31%) in Frankfurt and 628,750 m<sup>2</sup> (+15%) in Hamburg. Compared to the aforementioned markets, Cologne at 308,300 m<sup>2</sup> (-25%), Stuttgart at 261,550 m<sup>2</sup> (-37%), and Düsseldorf at 370,075 m<sup>2</sup> (-5%) showed a decline in office space sales. In particular, these declines were attributed to the declining supply of space.

### ***New office supply***

According to the largest commercial real estate agencies, the delivery of new office spaces amounted to approx. 912,950 m<sup>2</sup> in 2017. Compared to last year, this was a decline of around 23%. Düsseldorf (+89%) was the only city of the Big 7 that generated an increase in new office spaces compared to the previous year. New office supply declined in the other Big 7 markets, including Berlin (-49%), followed by Frankfurt (-42%), Hamburg (-36%), Cologne (-23%), Stuttgart (-16%), and Munich (-14%). For 2018, an increase of the completion volume (approx. 1,300,000 m<sup>2</sup>) is forecasted.

### ***Investment markets***

According to the largest commercial real estate agencies, the positive trend in the investment markets continued in fiscal year 2017. Total investment volume (EUR 57.4 billion for commercial assets) was about 9.1% higher than the previous year's result. The Big 7 cities recorded a transaction volume of around EUR 30.4 billion. Through the increase in Berlin's market volume, Berlin (EUR 7.6 billion; +51%) replaced Frankfurt (EUR 7.0 billion; +7%) at the top. Munich's market had the third-highest transaction volume of the Big 7 with EUR 5.7 billion (-13%), followed by Hamburg with EUR 3.7 billion (-24%), Düsseldorf with EUR 3.1 billion (+30%), Cologne with EUR 2.1 billion (+23%), and Stuttgart with EUR 1.3 billion (-31%). With regard to the deal structure, approx. 65% of the commercial investment turnover in fiscal year 2017 was related to single-asset deals, while the share of portfolio transactions amounted to 35%; these values are in accordance with those from the previous year.

There were no apparent fundamental changes in investment strategies due to the price increases of real estate, although there were indications of slightly higher risk tolerance. Although investors still focused on core assets - which are characterised by their good condition, good location, and long-term, attractive letting status - the investments in Value-Add, Core-Plus, and Opportunistic assets expanded.

## STRATEGY AND STRUCTURE

alstria office REIT-AG (hereafter referred to as “the Company”) is a real estate company listed on the Frankfurt Stock Exchange. As of December 31, 2017, the alstria Group consisted of the corporate parent, alstria office REIT-AG, and 57 direct and indirect subsidiaries (together hereafter referred to as “alstria” or “the Group”). Operational decisions are made at the parent-company level. While alstria office REIT-AG directly held more than 50% of the Company’s real estate assets (66 properties with an overall market value of EUR 1.6 billion), the remaining real estate assets were held by 34 subsidiaries as of December 31, 2017.

For its portfolio, alstria pursues a long-term investment strategy, which is essentially based on the following assumptions:

- The German real estate market will offer limited growth in terms of rents and capital value in the future.
- Overall, the existent office space is sufficient to meet the demand for office space.
- The markets’ vacancy rates will remain relatively stable, on average.

alstria faces these challenges with a long-term strategy that is characterised by high price discipline in terms of its acquisitions and by active Asset and Property Management. Key aspects of this management approach are as follows:

- The focus is on the tenant. Only those who know the needs of their tenants will have successful letting activities in the long run.
- Continuous investments secure the quality of the assets. Increased value can only be realised through constant modernisation measures and reduced vacancy.
- The potential of value enhancements is realised through comprehensive repositioning and asset development.
- Providing the best value for the money secures the lettability of the assets. Many tenants are price sensitive, and only lessors who offer better value for money than the competition will be successful.

The aim of this strategy is the steady development of revenues and funds from operations (FFO).

Due to its active Asset Management approach and its high level of discipline regarding prices, alstria believes it has been able to achieve above-average returns in past years. The precondition that this will remain true for the future is supported by the following facts:

- alstria’s portfolio has a weighted average of unexpired lease terms - WAULT - of around 4.7 years. Approx. 60% of its rental income is derived from a limited number of high-quality tenants. Around 30% of its rental income is generated from public authorities or institutions, which are not immediately affected by economic developments.
- alstria pursues a nontrading strategy and focuses on long-term value creation by conducting work on and within each building (i.e., Asset and Property Management). At alstria, these



activities are handled internally, which differentiates the Company from its main public and private competitors.

- A key element of alstria's strategy is supporting tenants in optimising their real estate operating costs. From the tenants' point of view, real estate operating expenses are crucial in the decision-making process for rental agreements. alstria believes that optimising costs using active Asset and Property Management will offer new potential for successful letting activities.

## PORTFOLIO OVERVIEW

### Key metrics of the portfolio

Key metrics	Dec. 31, 2017	Dec. 31, 2016
Number of properties	116	108
Number of joint venture properties	0	1
Market value (EUR bn) <sup>1)</sup>	3.4	3.0
Annual contractual rent (EUR m)	202.0	188.4
Valuation yield (%; annual contractual rent/market value)	5.9	6.2
Lettable area (m <sup>2</sup> )	1,570,100	1,524,300
EPRA vacancy rate (%)	9.4	9.2
WAULT (years)	4.7	4.9
Average rent/m <sup>2</sup> (EUR/month)	12.1	11.6

<sup>1)</sup> Including fair value of owner-occupied properties.

### Real Estate Operations

Letting metrics	2017	2016	Change
New leases (m <sup>2</sup> ) <sup>1)</sup>	98,300	76,600	21,700
Renewals of leases (m <sup>2</sup> )	147,100	118,153	28,947

<sup>1)</sup> New leases refer to letting of vacant space. This category does not include lease renewals, prolongations, or exercised renewal options.

Letting activities (as measured by new leases and lease extensions) were at a record level in fiscal year 2017. The signings of the following lease contracts had a substantial impact on the positive development of the new leases:

## Group Management Report

Asset	City	Area <sup>1)</sup> (m <sup>2</sup> )	Annual rent (EUR k)	Lease length (years)	Beginning of lease contract
Jagenbergstraße 1	Neuss	8,700 <sup>2)</sup>	810	10.5	May 1, 2017
Hauptstätter Straße 65-67	Stuttgart	8,400	1,677	10.0	Jan. 1, 2018
Am Seestern 1	Düsseldorf	7,600	1,310	10.0	Dec. 1, 2017
Ernst-Merck-Straße 9	Hamburg	5,850	1,285	10.0	May 1, 2018 <sup>3)</sup>
Horbeller Straße 11	Cologne	4,700 <sup>4)</sup>	480	10.0	Aug. 1, 2018
Ernst-Merck-Straße 9	Hamburg	4,300	868	11.0	Oct. 1, 2018
Ingersheimer Straße 20	Stuttgart	3,400 <sup>5)</sup>	519	6.0	Jan. 1, 2018
Steinstraße 5-7	Hamburg	3,000	549	12.2	Apr. 1, 2018 <sup>3)</sup>
Goldsteinstraße 114	Frankfurt	2,300	290	10.0	Mar. 1, 2018
Platz der Einheit 1	Frankfurt	2,250	515	5.0	July 1, 2017
Am Wehrhahn 33	Düsseldorf	1,900	363	7.0	Jun. 1, 2017
Washingtonstraße 16/16a	Dresden	1,630	155	4.3	Sep. 1, 2017
Bamlerstraße 1-5	Essen	1,500	172	3.5	Jan. 1, 2018

<sup>1)</sup> Office and ancillary space.

<sup>2)</sup> Thereof 6,700 m<sup>2</sup> extension of an existing lease and 2,000 m<sup>2</sup> of a new lease.

<sup>3)</sup> Earliest possible date.

<sup>4)</sup> Thereof 300 m<sup>2</sup> extension of an existing lease and 4,400 m<sup>2</sup> of a new lease.

<sup>5)</sup> Thereof 700 m<sup>2</sup> extension of an existing lease and 2,700 m<sup>2</sup> of a new lease.

For financial year 2018, reducing vacancy remains the operational focus.

### Portfolio Valuation and Regions

As of December 31, 2017, external appraisers (Colliers International Valuation UK LLP and Savills Advisory Services Germany GmbH & Co. KG) valued alstria's portfolio in line with International Financial Reporting Standards (IFRS) 13 requirements at market value. The valuation resulted in a total market value for the investment properties of EUR 3,409 million.\* Of this total market value, approx. EUR 3,286 million, or over 96%, was located in core markets of the Company. The regional split is shown in the table below:

Total portfolio by region (% of market value)	Dec. 31, 2017	Dec. 31, 2016	Change (pp)
Rhine-Ruhr	29	29	0
Hamburg	29	27	2
Rhine-Main	21	21	0
Stuttgart	12	14	-2
Berlin	5	3	2
Others	4	6	-2

Furthermore, the focus is clearly on one asset class: Of the total lettable area, approx. 90% is office space.\*\*

\* Inclusive assets held for sale.

\*\* Office and storage.

## Tenants

The table below shows the ten largest tenants of alstria as of December 31, 2017:

alstria's main tenants (% of annual rent)	Dec. 31, 2017	Dec. 31, 2016	Change (pp)
City of Hamburg	12	13	-1
Daimler AG	12	12	0
GMG Generalmietgesellschaft	10	10	0
Zürich Versicherung AG	4	5	-1
HOCHTIEF Aktiengesellschaft	4	4	0
Bilfinger SE	3	3	0
Residenz am Dom gem. Betriebsgesellschaft mbH	2	2	0
ATOS Origin	1	1	0
Württembergische Lebensversicherung AG	1	1	0
City of Berlin	1	1	0
Others	50	48	2

The table below summarises the current lease expiry profile of the portfolio for the next three years:

Lease expiry profile (% of annual rent)	Dec. 31, 2017	Dec. 31, 2016	Change (pp)
2018	12.8	18.0	-5.2
2019	18.8	18.1	0.7
2020	14.0	11.6	2.4

## Transactions

alstria's investment decisions are based on both analyses of local markets and individual inspections of each asset. The latter focus on the attributes of location, size, and quality (relative to those of direct competitors' assets) and the long-term potential for value growth. alstria's strategy is aimed at both increasing its portfolio to a critical size at every location and retracting from the markets that do not adhere to alstria's core investment focus. alstria completed the following transactions in fiscal year 2017:

## Group Management Report

Asset	City	Sale/ acquisition price(EUR k) <sup>1)</sup>	Annual rent (EUR k) <sup>2)</sup>	Avg. lease length (years) <sup>2)</sup>	Signing SPA	Transfer of benefits and burdens
<b>Disposals</b>						
Max-Eyth-Straße 2	Dortmund	4,200	4	2.2	Oct. 14, 2016	Feb. 28, 2017
Zellescher Weg 21-25a	Dresden	10,500	695	2.0	Dec. 15, 2016	Feb. 1, 2017
Vichystraße 7-9	Bruchsal	13,400	1,048	4.1	Aug. 28, 2017	Oct. 31, 2017
Carl-Benz-Straße 15	Ludwigsburg	19,600	1,690	5.3	Aug. 28, 2017	Oct. 31, 2017
Doktorweg 2-4	Detmold	11,300	816	4.7	Sept. 1, 2017	Dec. 31, 2017
Frankfurter Straße 71-75	Eschborn	16,200	1,086	16.1	Oct. 9, 2017	Jun 30, 2018 <sup>3)</sup>
Eschersheimer Landstraße 55	Frankfurt	44,000	1,625	1.8	Dec. 21, 2017	Mar 31, 2018 <sup>3)</sup>
<b>Total Disposals</b>		<b>119,200</b>	<b>6,964</b>			
<b>Disposals in the Joint Venture</b>						
Große Bleichen 23-27 <sup>4)</sup>	Hamburg	170,000	5,401	7.8	July 18, 2017	Aug. 31, 2017
<b>Acquisitions</b>						
Friedrich-List-Straße 20	Essen	18,400 <sup>5)</sup>	1,478	3.0	Mar. 2, 2017	Apr. 22, 2017
<b>Portfolio</b>						
Am Borsigturm 13-19, 27-33	Berlin		1,277	2.9	Apr. 24, 2017	July 1, 2017
Am Borsigturm 44-46, 52-54	Berlin		761	3.1	Apr. 24, 2017	July 1, 2017
Rankestraße 17 / Schaperstraße 12	Berlin		476	4.3	Apr. 24, 2017	July 1, 2017
Willstätterstraße 11-15	Düsseldorf		2,301	3.2	Apr. 24, 2017	July 1, 2017
Immermannstraße 59 / Karlstraße 76	Düsseldorf		962	4.3	Apr. 24, 2017	July 1, 2017
Kanzlerstraße 8	Düsseldorf		951	2.4	Apr. 24, 2017	July 1, 2017
Am Wehrhahn 28-30	Düsseldorf		382	6.8	Apr. 24, 2017	July 1, 2017
D2-Park 5	Ratingen		669	1.5	Apr. 24, 2017	July 1, 2017
Essener Bogen 6 a-d	Hamburg		705	5.2	Apr. 24, 2017	July 1, 2017
Essener Straße 97	Hamburg		148	2.3	Apr. 24, 2017	July 1, 2017
Heidenkampsweg 44-46	Hamburg		348	2.8	Apr. 24, 2017	July 1, 2017
Heidenkampsweg 99-101	Hamburg		897	3.9	Apr. 24, 2017	July 1, 2017
<b>Total Portfolio</b>		<b>158,500<sup>5)</sup></b>	<b>9,877</b>			
Eichwiesenring 1	Stuttgart	28,000	1,534	5.6	Dec. 20, 2017	Q2 2018 <sup>3)</sup>
Sonninstraße 26-28	Hamburg	54,584	2,160	5.8	Dec. 21, 2017	Feb. 1, 2018
<b>Total Acquisitions</b>		<b>259,484</b>	<b>15,049</b>			

<sup>1)</sup> Excluding transaction costs.

<sup>2)</sup> At the time of the signing of the sales and purchase agreement.

<sup>3)</sup> Expected.

<sup>4)</sup> The asset was sold by Alstria VI. Hamburgische Grundbesitz GmbH & Co. KG, a 49/51 percent joint venture between alstria office REIT-AG and Quantum Immobilien AG.

<sup>5)</sup> All-in-costs of EUR 187.7 million (Friedrich-List-Straße EUR 19.7 million and portfolio EUR 168.0 million).

## Refurbishment projects

alstria has achieved significant progress with respect to its development projects:

### › Momentum (Wehrhahn Center), Düsseldorf

The Momentum complex, which was built in 1985, is situated in the well-established city submarket. alstria acquired the complex, which consists of five interconnected parts, as part of a portfolio transaction in 2012. While the basements of the buildings host retail areas, the other six stories contain office space. The two underground car parks, which are situated in two of the basements, provide space for more than 500 vehicles. Since the office spaces no longer meet the current demands regarding building services and flexibility, alstria decided to fundamentally revitalise the building. This comprises, among other improvements, the total gutting of the building down to the shell construction and the application of a new façade with a modern axis grid. These changes will allow for a highly flexible and complete restructuring of the office floor plans. The new building technology applied by the improvements corresponds to the highly flexible new design. Apart from the office areas, the new two-storey entrances will be highlighted. Partial heightening of particular building parts, more efficient building equipment, and roof terraces will increase the lettable area.

The refurbishment, which started in March 2016, is expected to be completed by mid-2018. The property is currently in the marketing phase and the first rental success has already been achieved.

### › Bieberhaus, Hamburg

The listed Bieberhaus was built in 1909 and purchased by alstria in 2007. The building, with its historic façade, is located close to the central station in Hamburg. The ground floor hosts retail areas, and the other six stories contain office space. Moreover, the Ohnsorg Theater (which was fully refurbished in 2012) is located in part of the building.

As the Tax Authority has moved out, the office spaces no longer meet current demands regarding building services and flexibility, so alstria has decided to fundamentally revitalise the building. This comprises, among other improvements, the gutting of the office spaces and the attic. The roof will also be partly renewed to enlarge the space on the 7<sup>th</sup> floor and convert this floor from storage to office space.

The refurbishment, which started in October 2016, is expected to be completed by mid-2018. By acquiring two anchor tenants, alstria has already been able to long-term let almost all of the newly developed spaces.

› Besenbinderhof 41, Hamburg

The listed building from 1927 was built for the Public Health Department and acquired by alstria in 2006 as part of the primo-portfolio. The property is located close to the central station in Hamburg and is characterised by its clinker front, with narrow clinker pillars. In the front part, the building has a basement and five floors, and it decreases by one floor to the south. The building was built in typical 1920s style. Currently, the building is used as an office building. The property has 14 parking spaces, which are accessible via a route from Nagelsweg.

As the offices do not meet today's requirements in terms of space flexibility or the building's technical equipment, alstria decided to fundamentally revitalise the building. This current planning which is still subject to the approval of the authorities includes the core removal of the office space, except for the shell of the building. Over the course of this refurbishment, the original outer appearance (six floors) is to be rebuilt by adding one floor to the main building. The building is supplemented by an extension on the rear plot, which adds additional office space. The main entrance doors and staircase houses remain with their 1920s charm. Beside the main entrance, two new entrances will be created that resemble the main entrance in terms of style and materials.

The construction work, which is expected to continue until the end of 2019, will start in September 2018.

› Amsinckstraße 28 and 34, Hamburg

The buildings Amsinckstraße 28 and 34 are located in the centre of Hamburg between the Kontorhausviertel, HafenCity, and the City Süd. The properties were built in 1991 and 1993 for official use by the City of Hamburg. Amsinckstraße 28 has around 8,500 m<sup>2</sup> of total rental space and an underground carpark with 73 parking spaces. In contrast, Amsinckstraße 34 has around 6,600 m<sup>2</sup> of total rental space as well as an underground carpark with 64 parking spaces.

After several years of governmental utilisation, the properties do not meet the requirements of modern office buildings, so the buildings are undergoing extensive refurbishment. The aim of both projects is to change the building from single-tenant to multi-tenant utilisation with totally new office areas that will adapt to the current standards. The technical equipment will be entirely restored. An advantage of the rental areas is the highly flexible leasing possibilities. The focus is on the flexibility and modernity of the offices, including high design standards. Due to the layout of Amsinckstraße 28, modern offices with an industrial character as well as generous retail areas with high visibility are possible to realise, especially on the ground floor.

The refurbishment is expected to be finished by the end of 2018.

› Gustav-Nachtigal-Straße 3, Wiesbaden

The office skyscraper was built in 1984 and contains approximately 18,455 m<sup>2</sup> of total rental space as well as an underground carpark with 160 parking spaces. The property is located about five minutes east of Wiesbaden Main Station. It consists of eight upper and two basement floors. On the 8<sup>th</sup> floor is a roof terrace with a view over Wiesbaden. On the ground floor are a spacious foyer, a general conference area, offices, and a large canteen.

After more than 30 years of multi-tenant utilisation, neither the appearance nor the office workstations meet today's requirements. The entrance as well as all usable areas and offices are being redesigned. The new multi-tenant rental units are being developed floor by floor via the central core with elevators, three staircases, and newly arranged access doors, to make flexible rental possible.

The revitalisation of the building is currently in the planning phase.

In 2017, alstria invested around EUR 59 million in ongoing refurbishment projects. Around EUR 18 million of this amount was for development projects, and the remainder of EUR 41 million was invested in value-increasing tenant-improvement measures. The main part of the 2017 capital expenditure investment was linked to the assets Momentum and Am Seestern in Düsseldorf, the Berlin asset at Darwinstraße, the assets Bieberhaus and Steinstraße 5-7 in Hamburg, and KASTOR TOWER in Frankfurt. Within the next two years, alstria is planning to invest around EUR 120 million into its portfolio through development projects. This investment plan is part of alstria's ongoing asset-value-enhancement program. The volume of these investments, however, also depends on ongoing lease negotiations with existing and potential tenants.

## FINANCIAL ANALYSIS

Financial year 2017 developed as expected for alstria. alstria's original revenue and FFO forecasts for 2017 increased, for the most part, due to the transfer of newly acquired assets as of July 1, 2017. As a result, the revenue forecast increased by EUR 8 million, from EUR 185 million to EUR 193 million, for financial year 2017. As a consequence, the FFO post minorities forecast increased by EUR 5 million from EUR 108 million to EUR 113 million. alstria's 2017 revenues of approx. EUR 194 million were within the frame of the adjusted forecast of EUR 193 million. The funds from operations post minorities (FFO) amounted to EUR 114 million in the reporting period, which is also in line with the forecasted level of EUR 113 million for the alstria Group.

## EARNINGS POSITION

### Funds from operations (FFO)

FFO amounted to EUR 117,550 k (before minorities) or EUR 113,834 k (after minorities) in 2017, compared to EUR 121,558 k (before minorities) or EUR 116,410 k (after minorities) in 2016. The FFO margin increased to 60.7% (i.e., by 0.7 percentage points; before minorities). As a result, FFO per share was EUR 0.76 (before minorities) or EUR 0.74 (after minorities) in financial year 2017 (2016: EUR 0.79 before minorities; EUR 0.76 after minorities).\*

The slight decrease mainly resulted from a decrease in net rental income by EUR 6,735 k.

EUR k	2017	2016
<b>Pre-tax income (EBT)</b>	<b>299,084</b>	<b>193,694</b>
Net profit/loss from fair value adjustments on investment properties	-181,492	-72,806
Net profit/loss from fair value adjustments on financial derivatives	9,334	8,101
Profit/loss from the disposal of investment properties	-19,693	-25,464
Fair value and other adjustments in the joint venture	-30,121	-3,852
Other adjustments <sup>1)</sup>	40,438	21,885
<b>Funds from operations (FFO)<sup>2)</sup></b>	<b>117,550</b>	<b>121,558</b>
Attributable to minority shareholders	-3,716	-5,148
<b>Attributable to alstria office REIT-AG shareholders</b>	<b>113,834</b>	<b>116,410</b>
Maintenance and re-letting	-40,700	-22,226
<b>Adjusted funds from operations (AFFO)<sup>3)</sup></b>	<b>73,134</b>	<b>94,184</b>
Number of shares as of December 31 (k)	153,962	153,231
FFO per share (EUR)	0.74	0.76

<sup>1)</sup> This is noncash income or expenses plus nonrecurring effects. The main effects in financial year 2016 were costs related to the takeover of alstria office Prime (EUR 6,686 k), the costs of sales (EUR 4,771 k), and the noncash effect from the dissolution of effective interests due to the premature repayment of loans (EUR 3,392 k). The main effects in financial year 2017 were prepayment penalties due to the partial repurchase of existing bonds (EUR 31,981 k), expenses for the valuation of the limited partner capital (EUR 9,317 k), another operating income from compensation payments by tenants (EUR 6,820 k) as well as costs related to the takeover of alstria office Prime (EUR 930 k).

<sup>2)</sup> (A)FFO is not a measure of operating performance or liquidity under generally accepted accounting principles, in particular IFRS, and it should not be considered an alternative to the Company's income or cash-flow measures as determined in accordance with IFRS. Furthermore, there is no standard definition for (A)FFO. Thus, alstria's (A)FFO values and the measures with similar names presented by other companies may not be comparable.

<sup>3)</sup> AFFO is equal to FFO after adjustments are made for capital expenditures used to maintain the quality of the underlying investment portfolio and expenses for lease-ups.

\* This is calculated using the number of shares as of December 31, 2017, which was 153,961,654 (December 31, 2016: 153,231,217).



## Net operating result

alstria closed financial year 2017 with a net operating result (before financing costs and taxes) of EUR 348,008 k, compared to EUR 247,109 k for the previous year.

As compared to the previous year, alstria had a higher other operating result, and a higher valuation result. The following table shows the main figures of the income statements for financial years 2017 and 2016:

EUR k	2017	2016
Revenues	193,680	202,663
Net rental income	172,279	179,014
Administrative and personnel expenses	-21,856	-21,147
Other operating result	-3,600	-9,028
<b>Operating income</b>	<b>146,823</b>	<b>148,839</b>
Net result from fair value adjustments to investment properties	181,492	72,806
Net result from disposals of investment properties	19,693	25,464
<b>Net operating result</b>	<b>348,008</b>	<b>247,109</b>

## Revenues

In the reporting period, revenues totalled EUR 193,680 k (2016: EUR 202,663 k), which corresponds to a decrease of EUR 8,983 k (or 4.4%) compared to previous year's revenues. The decrease mainly resulted from the disposal of assets in 2016.

## Real estate operating expenses

Real estate operating expenses amounted to EUR 21,637 k (2016: EUR 23,445 k). The expense ratio decreased from 11.6% in 2016 to 11.2% in 2017. This was mainly due to fire-protection measures that needed to be implemented in two assets from the alstria office Prime-Portfolio in the first half of 2016.

Thus, the Group's net rental income decreased by EUR 6,735 k to EUR 172,279 k (2016: EUR 179,014 k).

## Administrative and personnel expenses

Administrative expenses decreased by EUR 431 k to EUR 8,033 k, which was basically due to lower depreciation and office area costs (2016: EUR 8,464 k). Personnel expenses were EUR 13,823 k for the reporting period (2016: EUR 12,683 k). The 2017 increase was mostly a result of an increase of salaries by EUR 587 k to EUR 6,629 k, due to an increased number of employees. Moreover, the remuneration for virtual shares increased by EUR 487 k to EUR 1,488 k as a consequence of the appreciation of the share price of the Company. Total administrative and personnel expenditures were around 11.3% of total revenues and 0.6% of the value of the market value of the portfolio (2016: 10.4% and 0.7% respectively).

### Other operating result

alstria's other operating result amounted to EUR -3,600 k during the reporting period (2016: EUR -9,028 k). A EUR 5,354 k increase in income mainly resulted from compensation payments by tenants in the amount of EUR 6,820 k.

### Net result from fair value adjustments on investment property

In financial year 2017, the net result from fair value adjustments to investment properties was EUR 181,492 k (2016: EUR 72,806 k). The growth was mainly linked to the increase in values of German office real estate in the market.

### Net result on disposals of investment property

In 2017, alstria was able to achieve a positive result of EUR 19,963 k from the disposal of properties. The realised disposal gains mainly resulted from the sale of the Eschersheimer Landstraße asset in Frankfurt.

### Net financial result

EUR k	2017	2016
Interest expenses, corporate bonds	-23,314	-20,496
Interest expenses, convertible bond	-5,357	-5,116
Interest expenses, other loans	-3,399	-4,074
Interest result Schuldschein	-3,248	-2,036
Interest expenses, alstria office Prime portfolio loans	-186	-6,728
Interest expenses, syndicated loans	0	-6,723
Interest result derivatives	0	-207
Other interest expenses	-480	0
<b>Financial expenses</b>	<b>-35,984</b>	<b>-45,380</b>
Financial income/interest income	816	535
Other financial expenses	-32,540	-5,949
<b>Net financial result</b>	<b>-67,708</b>	<b>-50,794</b>

The financial expenses decreased by EUR 9,396 k to EUR 35,984 k due to the lower amount of money borrowed in the 2017 financial year and a lower average interest rate.

The net financial result for the year as a whole decreased significantly by EUR 16,914 k to EUR -67,708 k compared to the prior-year period. To optimise the maturity profile of the bond portfolio of the Company, existing bonds with a nominal value of EUR 348,200 k were bought back on the market and a new bond with a longer maturity and a nominal value of EUR 350,000 k was placed on the market (see section "Financial Management" on page 18). The premium for the repurchase of the bonds was EUR 29,172 k in line with the bond price at the time of the repurchase and is included in the other financial expenses. Furthermore, the other financial result is burdened by the reversal of the accrued incidental costs of the bond which were repurchased in the amount of EUR 2,809 k.

For details on the new loans, also refer to the "Financial management" section on page 18.

### Share of the result of joint venture companies

In 2017, alstria's share of earnings from joint venture companies was EUR 28,118 k (2016: EUR 5,480 k), which was mainly attributable to the sale of the Kaisergalerie asset in Hamburg.

### Valuation result of financial derivatives

To minimise the impact of interest-rate volatility on profits and losses, alstria uses financial derivatives in the form of caps or swaps to hedge on floating-interest-rate loans. Due to refinancing with fixed-interest bonds and the reduction of floating-interest-rate loans, the nominal value of the interest-hedging instruments decreased from EUR 504,266 k to EUR 152,630 k.

The net result from fair value adjustments on these financial derivatives amounted to EUR -9,334 k in 2017 (2016: EUR -8,101 k).

While no appreciable valuation result arose in the 2017 financial year from the interest rate derivatives financial instruments (EUR -41 k), the revaluation of the embedded derivative linked to the convertible bond resulted in an expense of EUR -9,293 k. The fair value of the embedded derivative is largely determined by the performance of the share price of alstria, as it affects the market value of the potential repayment obligation in the event of conversion of the convertible bond.

Further details and a tabular reconciliation can be found in section 6.5 of the consolidated financial statements.

### Consolidated net result

The consolidated net result amounted to EUR 296,987 k (2016: EUR 182,376 k) in the reporting period; hence, it increased by EUR 114,611 k.

Overall, lower net rental income and lower net financial result were overcompensated by an improved net result from fair value adjustments of investment properties as well as an increased share of earnings from joint venture companies. Undiluted earnings per share amounted to EUR 1.94 for the reporting period (2016: EUR 1.16).

REIT-AGs are fully exempt from the German corporate income tax and trade tax. However, tax obligations can arise to a minor extent for REIT subsidiaries. Because of the takeover of alstria office Prime, companies that are not yet subject to the REIT tax exemption have been consolidated into the Group. With the transformation of alstria office Prime in financial year 2016, its subsidiaries are now included in the tax-free REIT structure.

## FINANCIAL AND ASSET POSITION

### Investment properties

The total value of investment properties at December 31, 2017 was EUR 3,331,858 k, compared to EUR 2,999,099 k at the beginning of 2017. This increase in investment property value was mainly the result of the acquisition of 13 assets as well as the increase in value of the investment portfolio following the revaluation (EUR 181,492 k). This effect was slightly levelled out by the sale of five assets. Two of the assets are reported under assets held for sale in the balance sheet as of December 31, 2017.

EUR k	
<b>Investment properties as of December 31, 2016</b>	<b>2,999,099</b>
Investments	58,780
Acquisitions	177,000
Acquisition costs	10,723
Disposals	-42,800
Reclassifications	-57,936
Net loss/gain from fair value adjustments on investment property	181,492
<b>Investment portfolio as of December 31, 2017</b>	<b>3,326,358</b>
Advance payments	5,500
<b>Investment properties as of December 31, 2017</b>	<b>3,331,858</b>
Carrying amount of owner-occupied properties	21,049
Fair value of properties held for sale	60,200
Interests in joint ventures	8,659
<b>Carrying amount of immovable assets</b>	<b>3,421,766</b>
Adjustments to fair value of owner-occupied properties	1,693
<b>Fair value of immovable assets</b>	<b>3,423,459</b>

### Cash position

Cash and cash equivalents decreased by EUR 145,411 k from EUR 247,489 k to EUR 102,078 k in the reporting period. A positive cash flow of EUR 122,268 k was generated from operating activities. Financing activities have shown net cash outflows of EUR 150,448 k. The cash used for financing activities consists of the dividend payment of EUR 79,680 k, the payments for the acquisition of minority interests in the former Deutsche Office in the amount of EUR 26,919 k, and the cash flows from issuing and repayment of loans and bonds, resulting in net cash outflows of EUR -39,048 k.

Investing activities resulted in cash outflows of EUR 117,231 k. Real estate transactions led to cash outflows of EUR 164,690 k, while cash and cash equivalents from the capital release received from a joint venture were generated in the amount of EUR 49,850 k.

## Equity metrics

Equity metrics	Dec. 31, 2017	Dec. 31, 2016	Change
Equity (EUR k)	1,954,660	1,728,438	13.1%
NAV per share (EUR)	12.70	11.28	12.6%
Equity ratio (%)	54.5	51.1	3.4 pp
G-REIT equity ratio (%) <sup>1)</sup>	57.1	56.7	0.4 pp

<sup>1)</sup> This is defined as total equity divided by the carrying amount for immovable assets. The minimum requirement according to G-REIT regulations is 45%.

Total equity increased by EUR 226,222 k in 2017, reaching 1,954,660 k as of December 31, 2017. The net consolidated result for financial year 2017 contributed to a higher equity of EUR 296,987 k. On the other hand, dividend payments decreased the equity by EUR 79,680 k.\*

## Capital of noncontrolling shareholders

Liabilities due to minority interests represent the limited-partner capital of noncontrolling shareholders in alstria office Prime. In line with IFRS requirements the share capital owned by minority shareholder in German partnerships is treated as a liability on the Company's balance sheet.

## Financial management

alstria's financial management is carried out at the corporate level. Individual loans and corporate bonds are taken out at both the property and the portfolio levels. alstria's main financial goal is to establish a sustainable long-term financial structure. Therefore, alstria diversifies its financing sources and strives for a balanced maturity profile to enable coordinated and constant refinancing.

On June 15, 2017, alstria concluded a contract for an unsecured revolving credit line in the amount of up to EUR 100 million and with a maturity date of three years. As of June 29, 2017, EUR 30 million of the EUR 100 million was drawn for the partial financing of the new portfolio and was paid back on December 29, 2017.

On November 1, 2017, parts of the convertible bond were converted, with a notional value of EUR 5.7 million. The conversion resulted in the issue of 619,437 new shares by making use of the conditionally increased capital provided for such purposes (Conditional Capital 2013).

On November 15, 2017, alstria issued a third unsecured, fixed-rate bond with a nominal value of EUR 350 million. This corporate bond, which matures in November 2027, bears a fixed coupon of 1.5%. The proceeds from the bond were used to partially repurchase existing bonds. A repurchase of EUR 173.2 million was made for the bond maturing in 2021, as was a repurchase of EUR 175 million for the bond maturing in 2023. The combined transaction was aimed at extending the average maturity of the Company's debt, and improving the maturity profile of its debt.

\* See also the consolidated statement of changes in equity on page 56.

## Group Management Report

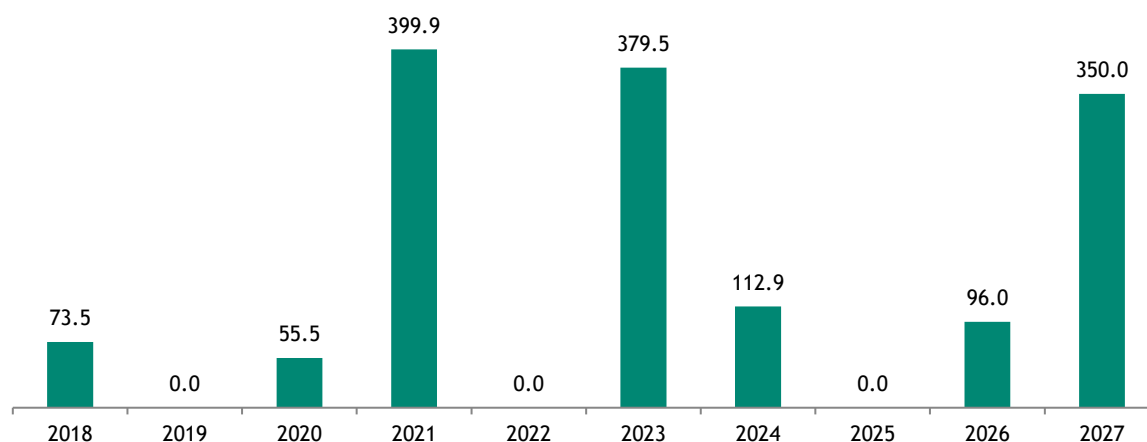
The loan facilities in place as of December 31, 2017, are as follows:

Liabilities	Maturity	Principal amount drawn as of December 31, 2017 (EUR k)	LTV as of December 31, 2017 (%)	LTV covenant (%)	Principal amount drawn as of December 31, 2016 (EUR k)
Loan #1	June 28, 2024	67,000	37.0	55.0	67,000
Loan #2	Apr. 30, 2021	57,975	44.2	62.0	58,896
Loan #3	Mar. 28, 2024	45,900	38.1	60.0	56,500
Loan #4	June 30, 2026	56,000	37.4	65.0	56,000
Loan #5	July 31, 2021	15,113	32.3	60.0	15,268
<b>Total secured loans</b>		<b>241,988</b>	<b>38.4</b>	-	<b>253,664</b>
Bond #1	Mar. 24, 2021	326,800	-	-	500,000
Bond #2	Apr. 12, 2023	325,000	-	-	500,000
Bond #3	Nov. 15, 2027	350,000	-	-	-
Convertible bond	June 14, 2018	73,500	-	-	79,200
Schuldschein 10y/fixed	May 6, 2026	40,000	-	-	40,000
Schuldschein 7y/fixed	May 8, 2023	37,000	-	-	37,000
Schuldschein 4y/fixed	May 6, 2020	38,000	-	-	38,000
Schuldschein 7y/variable	May 8, 2023	17,500	-	-	17,500
Schuldschein 4y/variable	May 6, 2020	17,500	-	-	17,500
Revolving credit line	June 15, 2020	-	-	-	-
<b>Total unsecured loans</b>		<b>1,225,300</b>	-	-	<b>1,229,200</b>
<b>Total</b>		<b>1,467,288</b>	<b>43.0</b>	-	<b>1,482,864</b>
<b>Net LTV</b>			<b>40.0</b>		

	Dec. 31, 2017	Dec. 31, 2016
Average term to maturity for loans/bonds/convertible bond (years)	5.8	5.4

Maturity profile of financial debt as of December 31, 2017<sup>1)</sup> in EUR million



<sup>1)</sup>Excluding regular amortisation.

	2017	2016
Average cost of debt (% p.a.)	2.1	2.2

### Compliance with and calculation of the Covenants, referring to §11 of the Terms and Conditions\*

In case of the incurrence of new Financial Indebtedness for purposes other than the refinancing of existing liabilities, alstria needs to comply with the following covenants:

- The ratio of Consolidated Net Financial Indebtedness to Total Assets will not exceed 60%
- The ratio of Secured Consolidated Net Financial Indebtedness to Total Assets will not exceed 45%
- The ratio of Unencumbered Assets to Unsecured Consolidated Net Financial Indebtedness will be more than 150%

On June 15, 2017, alstria concluded a contract for an unsecured revolving credit line in the amount of EUR 100 million and a maturity date of three years. As of June 29, 2017, EUR 30 million of the EUR 100 million were drawn. In the half-year financial report as per June 30, 2017, immediately after the drawdown of the credit line, the calculation of and compliance with the covenants were stated. On December 29, 2017 the EUR 30 million were paid back.

On November 15, 2017, alstria issued a third unsecured, fixed-rate bond. The proceeds from the bond serve to partially refinance the existing bonds. The combined transaction aimed to extend the average maturity of debt and improve the risk profile of debt.

Furthermore, alstria needs to maintain a ratio of the Consolidated Adjusted EBITDA over Net Cash Interest of not less than 1.80 to 1.00. The calculation and publication of the ratio should be done at

\* The following section refers to the Terms and Conditions of the Fixed Rate Notes, issued on November 24, 2015, April 12, 2016, and on November 15, 2017 as well as to the Terms and Conditions of the Schuldschein issued on May 6, 2016 (for further information, please refer to [www.alstria.com](http://www.alstria.com)). Capitalised terms have the meanings defined in the Terms and Conditions.

## Group Management Report

every reporting date following the issuance of the bond respective the Schuldschein, starting after the fifth reporting date. The publication first took place in the annual report 2016.

EUR k	Cumulative 2017
<b>Earnings Before Interest and Taxes (EBIT)</b>	<b>366,792</b>
Net profit/loss from fair value adjustments to investment property	-181,492
Net profit/loss from fair value adjustments to financial derivatives	9,334
Profit/loss from the disposal of investment property	-19,693
Other adjustments <sup>1)</sup>	5,617
Fair value and other adjustments in joint venture	-30,121
<b>Consolidated Adjusted EBITDA</b>	<b>150,437</b>
Cash interest and other financing charges	-35,482
One-off financing charges	5,035
<b>Net Cash Interest</b>	<b>-30,447</b>
<b>Consolidated Coverage Ratio (min. 1.80 to 1.00)</b>	<b>4.9</b>

<sup>1)</sup> Depreciation and amortisation and nonrecurring or exceptional items.

As of December 31, 2017, no covenants under the loan agreements and/or the terms and conditions of the bonds/the Schuldschein have been breached.

### Long-term loans

Long-term loans decreased by 5.8%, from EUR 1,466,521 k as of December 31, 2016, to EUR 1,381,965 k as of December 31, 2017. The decrease resulted essentially from the reclassification of the convertible bond from long-term to short-term debt (EUR 79,200 k). Moreover, alstria partially repaid three loans in the amount of EUR 11,676 k. Furthermore, the issuing of alstria's third unsecured, fixed-rate bond with a nominal value of EUR 350,000 k increased the long-term loans in the fourth quarter of 2017, whereby a partial repurchase of the existing bonds took place in the amount of EUR 348,200 k, which sums the increase to the amount of EUR 1,800 k.

### Short-term loans

Short-term loan obligations amounted to EUR 86,450 k on the reporting date (previous year: EUR 19,330 k) and hence were EUR 67,120 k higher than in the previous reporting date. A main reason for the high amount was the reclassification (EUR 79,200 k) of the convertible bond in the second quarter of financial year 2017. In the fourth quarter of the reporting period, a notional value of EUR 5,700 k of the convertible bond was converted. Furthermore, short-term loans were mainly influenced by accrued interest for the bonds (31.12.2017: EUR 11,344 k; 31.12.2016: EUR 16,408 k) and the Schuldschein (31.12.2017: EUR 1,752 k; 31.12.2016: EUR 1,738 k), as of December 31, 2017.

### Current liabilities

Current liabilities amounted to EUR 187,703 k (31.12.2016: EUR 104,996 k) and mainly consisted of short-term loan obligations of EUR 86,450 k (31.12.2016: EUR 19,330 k) and of the current liabilities to noncontrolling shareholders of EUR 47 k (31.12.2016: EUR 12,966 k). Another EUR 13,675 k of this total was attributable to tax obligations (31.12.2016: EUR 20,104 k) that arose at the level of the consolidated alstria office Prime companies. Moreover, current liabilities include trade payables



## Group Management Report

(31.12.2017: EUR 7,268 k; 31.12.2016: EUR 4,584 k) and other current liabilities (31.12.2017: EUR 49,204 k; 31.12.2016: EUR 45,334 k). The other current liabilities include liabilities from the real estate transfer tax (31.12.2017: EUR 11,869 k; 31.12.2016: EUR 11,869 k), which were incurred at the alstria office Prime level, provisions for outstanding invoices (31.12.2017: EUR 18,116 k; 31.12.2016: EUR 16,223 k), prepayment of rents (31.12.2017: EUR 3,313 k; 31.12.2016: EUR 2,758 k), and received deposits (31.12.2017: EUR 5,414 k; 31.12.2016: EUR 4,944 k).

## CORPORATE MANAGEMENT

alstria proactively focuses on the following key financial performance indicators: revenues and FFO. Revenues mainly comprise rental income derived from the Company's leasing activities. FFO is the funds from operations and is derived from real estate management. It excludes valuation effects and other adjustments, such as non-cash expenses/income and non-recurring effects.\*

alstria's original revenue and FFO forecasts for 2017 increased in the most part due to the transfer of benefits and burdens of the portfolio as of July 1, 2017. As a result, the revenue forecast increased by EUR 8 million from EUR 185 million to EUR 193 million for financial year 2017. As a consequence, the FFO forecast increased by EUR 5 million from EUR 108 million to EUR 113 million. Due to the Company's good letting performance in financial year 2017, its revenues were approx. EUR 194 million and were in line with the forecast. In financial year 2017, FFO totalled EUR 114 million, which is also in line with the forecast of EUR 113 million.

The Company also monitors the progress of its Net LTV, its G-REIT equity ratio, and its liquidity, whereby these are not classified as for the internal control of the Company most relevant performance indicators. alstria's Net LTV was 40.0% as of December 31, 2017, compared to 40.9% at the end of financial year 2016. The G-REIT equity ratio was 57.1%, compared to 56.7% in the previous year and the minimum statutory rate of 45%.

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\* For further details, please refer to page 13.

## RISK AND OPPORTUNITY REPORT

### RISK REPORT

#### Risk management

alstria has implemented a group-wide system for structured risk management and early warning in accordance with Section 91 (2) of the German Stock Corporation Act (AktG). All risks are recorded, evaluated, and monitored on an at least quarterly basis. The aim of alstria's risk-management strategy is to minimise or, where possible, completely avoid - the risks associated with entrepreneurial activity in order to safeguard the Company against losses and against risks to the Company's going concerns. The Company's risk identification allows for the early identification of potential new risks on an ongoing basis. Risk-mitigation measures are defined so that alstria can undertake the necessary steps to circumvent any identified risks (i.e., to insure, diversify, manage, or avoid those risks).

For alstria, risk management involves the targeted securing of existing and future potential for success and improvements in the quality of the Company's planning processes. alstria's risk-management system is an integral part of its management and control system. The risk-management system is integrated into its regular reporting to the Management Board and Supervisory Board, which ensures that risks are dealt with proactively and efficiently. The risk-management system thereby focuses on full coverage of the risks. The identification and assessment of opportunities is not part of alstria's risk-management system.

#### *Structure of the risk-management system*

Risk management is coordinated independently from individual business divisions. The risk manager prepares a risk report on a quarterly basis and provides it to the Management Board. This report is based on the reports from the risk owners - those who are responsible for particular areas of risk.

alstria faces various areas of risk within the context of its business activities; these are divided into the following four risk categories:

- > Strategic risks
- > Operational risks
- > Compliance risks
- > Financial risks

Each risk category is assigned to a so-called risk owner. Inherent to the risk owner's position in the Company is that he or she represents the area in which the identified risks could materialise; the risk owner is also responsible for the assigned risk category:

**alstria's areas of risk and risk categories**

Risk category	Risk owner
Strategic risks	Finance & Controlling
Operational risks	Real Estate Operations
Compliance risks	Legal
Financial risks	Finance & Controlling

The risk report presents the findings that are observed during risk identification, assessment, evaluation, and monitoring. At the same time, the comprehensive documentation of this report ensures an orderly assessment, which the responsible departments and the Supervisory Board conduct.

In addition, the divisions report their respective risks and opportunities to the Management Board in weekly meetings.

**Risk valuation**

Risks are assessed according to their likelihood of occurrence and their magnitude of impact. Accordingly, they are categorised as "high" "medium" or "low." The potential damage includes any potential negative deviation from alstria's forecasts and objectives.

**Classification according to likelihood**

Probability/likelihood of occurrence	Description
1 to 15%	very unlikely
16 to 35%	unlikely
36 to 55%	possible
56 to 75%	likely
76 to 99%	highly likely

According to this framework, a very unlikely risk is defined as one that will occur only in exceptional circumstances, and a highly likely risk as one that can be expected to occur within a specified period of time.

**Classification according to degree of impact**

Expected impact in EUR m	Degree of impact
Between 0.0 and 0.6	minor
Between 0.6 and 1.5	low
Between 1.5 and 6.0	moderate
Between 6.0 and 15.0	high
Greater than 15.0	critical

## Group Management Report

Based on the likelihood that a specific risk event will occur and the impact it would have on alstria's business, financial position, profit, and cash flow, each risk is classified as "high", "medium" or "low" according to the following matrix.

Risk classification					
Probability					
highly likely	L	M	H	H	H
likely	L	M	M	H	H
possible	L	L	M	M	H
unlikely	L	L	L	M	M
very unlikely	L	L	L	L	M
Degree of impact	minor	low	moderate	high	critical

L = low risk  
M = medium risk  
H = high risk

In 2017, the Company's risk-management system was not exposed to any significant changes from the previous year.

### Key characteristics of the accounting-related internal control and risk-management system

Regarding the reporting process, the objective of the control and risk-management system is to make sure that the reporting is consistent and in line with legal requirements, generally accepted accounting principles, the International Financial Reporting Standards (IFRS), and internal guidelines. Only then can it provide true and reliable information to the recipients of the annual financial statements. To this end, alstria has implemented an internal control and risk-management system that combines all relevant principles, processes, and measures.

The internal control system consists of two areas: control and monitoring. In organisational terms, the divisions' treasury, controlling, and accounting divisions are responsible for control.

The monitoring measures consist of elements that are incorporated in the process as well as independent external elements. The integrated measures include process-related, system-based technical controls such as the "dual control principle" (which is applied universally) and software-based checking mechanisms. In addition, qualified employees with the appropriate expertise and specialised departments such as controlling, legal, and treasury perform monitoring and control functions as part of the various processes.

The Management Board, the Supervisory Board (in particular, the Audit Committee), and a firm of auditors are all involved in the monitoring system. These groups perform various checks that are independent of the Company's processes.

Accounting acts as the central interlocutor for special technical questions and complex reporting issues. If required, external experts (auditors, qualified accounting specialists, etc.) are consulted.

In addition, monitoring related to accounting is executed by the Company's controlling department. All items and main accounts for the consolidated companies' income statements and balance sheets, as well as the consolidated income statements and the consolidated statement of financial position,

are reviewed regularly for accuracy and plausibility. This is conducted both for the consolidated financial statements and for alstria's individual financial statement. Accounting-related data are monitored monthly or quarterly, depending on the frequency of their preparation.

The accounting-related risk-management system forms part of the alstria Group's risk-management system. The risk owner responsible for the finance area monitors the risks that are relevant to the accuracy of accounting-related data. Risks are identified on a quarterly basis and are assessed and documented by the risk-management committee. Appropriate action is taken to monitor and optimise accounting-related risks throughout the Group.

### Description and assessment of risks

In accordance with alstria's risk-management system, all material risks inherent to the future development of the Group's position and performance are described in this chapter. The individual risks that are described relate to the planning period from 2018 to 2020.

#### Corporate risks

	Likelihood	Risk impact	Risk level	Change since prior year
<b>Strategic risks</b>				
Market environment risks	unlikely	moderate	L	unchanged
Risks in relation to changes to the legal environment	unlikely	moderate	L	unchanged
Risks due to inefficient organisational structures	unlikely	moderate	L	unchanged
<b>Operational risks</b>				
Maintenance risks	possible	high	M	unchanged
Refurbishment projects risks	possible	high	M	unchanged
Vacancy risk	unlikely	high	M	unchanged
Risks relating to property transactions	unlikely	moderate	L	unchanged
HR risks	possible	low	L	unchanged
IT risks	possible	low	L	unchanged
Shortfalls of rental payments risks	very unlikely	high	L	unchanged
Environmental risks	unlikely	low	L	unchanged
<b>Compliance risks</b>				
Risks resulting from not complying with G-REIT legislation	unlikely	moderate	L	unchanged
Risks arising from fraud or non-compliance	unlikely	moderate	L	unchanged
Litigation risks	unlikely	moderate	L	unchanged
<b>Financial risks</b>				
Valuation risks	unlikely	high	M	unchanged
Breaches of covenants	unlikely	high	M	unchanged
Tax risks	unlikely	high	M	unchanged
Interest rate risks	unlikely	high	M	increased
Liquidity risks	unlikely	moderate	L	unchanged
Refinancing on unfavourable terms	very unlikely	high	L	unchanged
Counterparty risks	very unlikely	high	L	unchanged

### **Strategic risks**

Strategic risk management addresses the factors that influence the Company's market environment, regulatory environment, and strategic corporate organisation.

### **Market environment risks**

For the Group, market environment risks are derived from macroeconomic developments and their impact on respective real estate markets. An economic downturn in the German market could result in a decreasing number of employees and in lower demand for rental areas in office properties. For alstria, this would lead to a higher risk of vacant space or to lower rental income. The slowing of growth in developing and emerging countries, the increasing political instability of certain countries in crisis, the continuing low interest rates of the European Central Bank, and the discussion about certain states' high debt were all identified as factors causing uncertainty in the previous years. While the developments described are no longer the focus of public debate, the planned exit of Great Britain from the EU and the change of government in the USA have been added as uncertainties. These developments might basically also affect the German markets through a decrease in demand for goods and services from these markets. After the German market was already characterised as robust in the previous year, there were signs of a strong economic upturn\* in the current reporting period. There are currently no indications of an end to this trend. For this reason, the market environment risks remain at a low (L) level of risk.

### **Risks in relation to changes in the legal environment**

Risks related to the Company's legal environment result from changes to regulations and laws. These may, in turn, have an impact on key regulatory requirements and on the corporate constitution of the alstria companies. These include alstria's classification as a REIT and other regulations concerning publicly listed companies. New laws and regulations may result in new regulatory requirements and thus in higher expenses.

Overall, risks regarding the legal environment are, like in the previous year, classified as low (L).

### **Risk due to inefficient organisational structures**

Further risks exist as part of the business organisation's strategic direction due to inefficient organisational structures and the Company's dependence on IT systems and structures. Both the organisational structure and the IT infrastructure support strategic and operational objectives. The risk of strategic corporate organisation therefore remains low (L).

### **Operational risks**

alstria's operational risk management deals with property-specific risks and with general business risks. This includes vacancy risk, tenants' creditworthiness, and the risk of falling market rents. Personnel-related risks, such as loss of know-how and competencies due to staff fluctuations, are also monitored in this risk area. alstria applies various early-warning indicators to monitor these risks.

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\* Please refer to: Deutsche Bundesbank, monthly report - January 2018, 70. year number 1, page 5, Frankfurt am Main.

Ongoing insurance checks, such as rent projections, vacancy analyses, and the control of lease terms and termination clauses, are designed to help identify potential dangers and risks.

### *Vacancy risk*

In the case of lease terminations, leases that are not extended, and existing vacancies, there is a risk that the rental area will not be re-let as planned, resulting in lower-than-anticipated revenues.

alstria's budgeting is based on the assumption that rental areas can be re-let within a defined period following the end of a lease. During the reporting period, leases for some large rental areas expired. However, the re-letting activities for these areas achieved a highly positive response. As in the previous year, the overall vacancy risk was medium (M).

### *Shortfall of rental payments risks*

An operational risk is a potential shortfall of rental payments from one or more major tenants; it could be realised as a result of an economic downturn or a particular case. Because many of alstria's main tenants are public or highly rated institutions, the risk of a shortfall in payments is currently, as in the previous year, limited (L).

### *Maintenance risks*

To plan for the requirements of maintenance measures, the Company makes assumptions about a property's condition and the intended standard. Undetected defects, repair requirements resulting from external damage, new legal requirements regarding the condition of the building, and an incorrect assessment of the maintenance requirements could all result in higher-than-planned maintenance costs. Due to alstria's still-high maintenance budgets, the maintenance risk is categorised as medium (M), as it was in the previous year.

### *Refurbishment projects risks*

alstria realises a significant number of refurbishment projects. All risks related to these projects are managed through extensive project control and through a related budget-management process. Potential risks include those of delayed completion, budget overrun, and deficiencies in construction. The strong economy, especially in the construction industry, led to increasing demands on the procurement and execution of contracts. The risk resulting from refurbishment projects nevertheless is still categorised as moderate (M).

### *HR risks (Employees)*

The skills and motivations of alstria's employees are decisive factors in the Company's success. The risk of losing knowledge results from the fluctuation of staff and from the inability to recruit sufficiently qualified experts to fill vacancies in good time. Both cases could result in a shortfall of suitable experts and key personnel, which could endanger alstria's competitive advantages in its markets as well as its further growth opportunities. alstria mitigates these risks through the following measures: selective, needs-oriented skill development for existing staff members; strengthening of its image as an attractive employer; university marketing; promotion of employee motivation through



strong leadership and corporate culture; and profit-oriented variable remuneration schemes. Overall, alstria estimates the described risks to be at a low level (L), which corresponds to the situation at the end of the previous year.

### *IT risks*

The majority of alstria's business processes are supported by efficient IT systems. Any fault affecting the reliability or security of the IT system could lead to delays or interruptions in operating activities. alstria protects itself against IT risks through constant examination and enhancement of the information technology that it deploys. In addition, it has installed modern hardware and software solutions and safeguards against attacks. In view of the accumulation of attempted hacker attacks, measures to combat such cyberattacks have intensified. Structural security measures are in place to protect the computer centre. All data are backed up daily in an internal data depository and once per week in a separate data depository. Workstations have access restrictions so that employees are only able to access the systems that they need for their work. Therefore, overall IT risks are assessed to be unlikely to materialise; as in the prior year, their possible consequences are considered to be low (L).

### *Risks relating to property transactions*

alstria is exposed to risks related to the acquisition and disposal of real estate properties. Related risks include the partial or complete failure to detect the risks and liabilities associated with properties during the due diligence process. In case of the disposal of real estate assets, alstria usually gives certain warranties to the potential purchaser regarding factual and legal matters for the property in question. The possibility that alstria's management is not aware of risks that are covered by certain elements and warranties given in a sales agreement cannot be fully ruled out. As a result, there is generally a risk that a prospective purchaser may charge alstria (as the seller) with breach of warranty. From a purchasing perspective, alstria is exposed to the risks that hidden deficiencies on land and/or property are not observed or that unfavourable contractual agreements are transferred to the Company, resulting in additional future costs.

In both acquisition and selling proceedings, alstria responds to these risks with thorough technical, legal, and tax analyses of all relevant property and contractual issues. It does so by employing internal and external lawyers, tax advisors, architects, construction engineers, and other required experts. As before, risks relating to transactions of properties are assessed to be of a low (L) to moderate (M) level.

### *Environmental risks*

Considering the long-term nature of our business and the immovable nature of our assets, it is of key importance to take into account the effect of climate change on our prospects. alstria is exposed to the risk of increasingly numerous and changing regulations with regard to environmental or energy efficiency restrictions that might limit the possibility of letting or operating certain buildings or im-

pose more stringent obligations upon them. alstria responds to these risks by evaluating and monitoring legislative changes when acquiring, refurbishing or managing a property. In addition, individual buildings located close to coastal areas and rivers, are exposed to possible structural damages resulting from extreme weather events. As a precautionary measure, the Company uses risk assessments of insurance companies to determine which buildings need to be upgraded. In some cases, buildings or building sites may contain undetected hazardous contaminants. The Company hedges these risks by conducting due diligence reviews and by obtaining guarantees from sellers as part of acquisition processes. alstria also has insurance covering its buildings from loss of rent during reconstruction, fire, storm, or water damage.

All environmental risks described above are considered to be at a low (L) level, the same as in the previous year.

For a detailed description of the Company's environmental risks, please refer to the "Climate effect on our business" section in the 2016 sustainability report.

### **Compliance risks**

#### **Risks resulting from not complying with G-REIT legislation**

alstria is registered as a German REIT-AG (G-REIT) in the commercial register. The German REIT segment allows alstria to offer an attractive profile to investors and to distinguish itself in the capital markets as a REIT. The REIT shares are traded on the Frankfurt Stock Exchange. The G-REIT status does not have any influence on the admission to the regulated market (Prime Standard).

Certain requirements have to be met by the Company in order to qualify for and retain its designation as a G-REIT. Following are the most significant requirements. The G-REIT must be a stock corporation listed on an organised market and its registered office and management must be in Germany. Its registered share capital must amount to at least EUR 15 million. All shares must be voting shares of the same class. Free float must be at least 15%, and no investor may directly hold 10% or more of the shares, or shares that represent 10% or more of the voting rights. Furthermore, at least 75% of assets must consist of real estate and at least 75% of gross income must be generated from real estate. At least 90% of annual profits as resulting under German GAAP-accounting must be distributed to shareholders, and the G-REIT's equity may not fall below 45% of the fair value of its real estate assets as recorded under IFRS.

Due to the consistent monitoring of compliance with all described REIT criteria, the risk of non-compliance is considered to be low (L), as in the previous year.

REIT corporations are exempt from German corporate income tax (KSt) and German trade tax (GewSt). This tax exemption has been applied for the Company with retrospective effect starting on January 1, 2007.

Capital and investment management activities maintain the Company's G-REIT status in order to support its business activities.

According to Section 15 of the REIT Act, alstria's equity (as reported in its consolidated financial statements) must not fall short of 45% of its immovable assets. If the minimum equity ratio is, however, not satisfied for three consecutive financial years, the exemption from corporate income tax (KSt) and trade tax (GewSt) ceases at the end of the third financial year.

The G-REIT equity ratio is 57.1% on the balance sheet date. Accordingly, alstria complies with the minimum G-REIT equity ratio requirement according to Section 15 of the G-REIT-Act (REITG). Nonetheless, the risk that alstria may fail to meet the minimum G-REIT equity ratio of 45% in the following three consecutive years remains. As stated above, it would then face the prospect of losing its status as a G-REIT and its tax exemption. Therefore, alstria cannot lose its G-REIT status as a result of failing to meet the 45% threshold within the three-year forecast period through December 31, 2020.

### *Risks resulting from fraud or non-compliance*

alstria depends on all employees and management respecting the compliance standards in place. alstria's business expects employees and the members of management to comply with laws, policies, and procedures as prescribed by the documented policies, procedures, and laws. If alstria's senior management fails to document and reinforce the Company's policies and procedures or employees commit criminal, unlawful, or unethical acts (including corruption), this could have an adverse material effect on alstria's business, financial condition, and results of operations. It would also harm alstria's reputation in the real estate market, thereby negatively affecting future business opportunities. alstria has implemented a compliance organisation, which deals with adequate and documented compliance rules and regulations and provides training to all employees concerning compliance-related topics. The materialisation of compliance risks is assessed to be unlikely (L), which is unchanged from the previous year.

### *Litigation risks*

alstria office REIT-AG or any of its subsidiaries could be involved in pending or foreseeable court or arbitration proceedings that might have a significant impact on the Group's business position at any time. Other risks might arise from legal actions taken to address warranty claims, repayment claims, or any other claims brought forward in connection with divested properties or implemented development projects over the last few years.

***Risks associated with the change of legal form of DO Deutsche Office AG into the limited partnership alstria office Prime Portfolio GmbH & Co. KG in 2016***

Some shareholders of former DO Deutsche Office AG have taken the view that the amount of the cash compensation that was offered to those former DO Deutsche Office AG shareholders who declared an objection during the cash- Meeting of DO Deutsche Office AG on July 12, 2016, and declared to exit the limited partnership alstria office Prime Portfolio GmbH & Co. KG, was set too low. For this reason, these shareholders used the opportunity to have the fairness of the cash compensation reviewed in a judicial arbitration proceeding and filed the necessary application for the initiation of such a proceeding. In the event that the court rules in a final decision that the cash compensation has to be improved by the Company, such a decision will, in accordance with Section 13 of the German Arbitration Proceedings Act, be effective for and against all the shareholders of former DO Deutsche Office AG who are entitled to cash compensation, e.g., all shareholders who declared an objection during the Annual General Meeting of DO Deutsche Office AG on July 12, 2016. This means that the additional cash compensation fixed by the court will also be paid to shareholders who have not filed an application in the arbitration proceeding and/or have already declared their exit from the limited partnership. As of the date of the transformation notice published with the commercial register of the local court in Hamburg, the additional cash compensation will have to be made with an annual interest of five percentage points above the base lending rate effective at that time. This right to an additional cash compensation of an unlimited amount with interest might result in a financial burden and hence have an adverse impact on the net assets, financial position, and results from operations of the Group. Prior to the transformation, the Company obtained an expert opinion with the aim of establishing the enterprise value and adequate cash compensation. Subsequently, the adequate cash compensation was subject to a mandatory audit by an independent expert, as prescribed by law. In addition to measures implemented before the litigation to reduce the risk of an additional cash compensation, the Company receives legal support from external advisors in the current proceeding.

***Risks associated with the merger of Deutsche Office and Prime Office REIT-AG (PO REIT) in the year 2014***

In addition, some shareholders of PO REIT, which was dissolved due to the merger, have taken the view that the exchange ratio set for former PO REIT shares to shares of the Company was too low, at their expense. For this reason, they used the opportunity to have the fairness of the exchange ratio reviewed in judicial arbitration proceedings and filed the necessary applications to the Munich District Court for the initiation of such proceedings. At first instance, the Munich District Court rejected the applications for an additional cash payment in favour of the former PO REIT shareholders in a ruling on August 21, 2015. Four applicants and their common legal representative have appealed against this ruling, and the proceedings will now be continued at second instance before the Munich Higher Regional Court. In the event that the court rules in a final decision that the exchange ratio has to be improved by means of a cash payment to be made by the Company, such a decision will be effective for and against all the shareholders of PO REIT in accordance with Section 13 of the German

Arbitration Proceedings Act. This means that the additional cash payment fixed by the court will also be paid to shareholders who have not filed an application in the arbitration proceedings. As of the date of the merger notice published by the acquiring entity in the Commercial Register, the additional cash payment will have to be made with an annual interest of five percentage points above the base lending rate effective at that time. This right to an additional payment of an unlimited amount with interest, which in itself may be substantial due to the length of the proceedings and the level of the statutory interest rate, might result in a financial burden and hence have an adverse impact on the net assets, financial position, and results from operations of the alstria Group. Mutual due diligence was performed prior to the merger, and the Company obtained an expert opinion with a view to establish the enterprise values and the exchange ratio. Subsequently, the calculated exchange ratio was subject to a mandatory merger audit by an independent expert, as prescribed by law. In addition to measures implemented before the litigation to reduce the risk of an additional cash payment, the Company receives legal support from external advisors in the current proceedings.

The effects of the described lawsuits on the risk of litigation as well as the general risk situation are considered low due to the expected low likelihood of occurrence. Provisions were not made.

Apart from these lawsuits, neither alstria office REIT-AG nor any of its subsidiaries is involved in pending or foreseeable court or arbitration proceedings that might have a significant impact on the Group's business position. This also applies to legal actions addressing warranty claims, repayment claims, or any other remuneration brought forward in connection with divested properties or implemented development projects over the last few years. The respective Group companies have accounted for appropriate provisions to cover any potential financial charges from court or arbitration proceedings. Since none of the Group's companies are currently exposed to any further civil rights proceedings or other kind of legal dispute, nor is this expected to occur, the risk of legal disputes is classified as low (L), as it was in the previous year.

### **Financial risks**

Due to alstria's refinancing strategy, its financial risk situation remained stable compared to the previous year's reporting period.

### **Refinancing risks**

The main financial instruments used by the Group are fixed-interest bonds. In addition, there are mortgage-backed bank loans and derivative financial instruments. The main purpose of the bonds and the bank loans is to finance alstria's business activities. Derivative financial instruments include interest caps. The purpose of these derivative financial instruments is to hedge against interest risks arising from the Company's business activities and its sources of finance. The main risks arising from the Group's financial instruments are cash flow risks, interest rate risks, and liquidity risks. alstria Group's current Net LTV is 40.0%. This is a reasonable ratio compared to the average leverage of German real estate companies. The Group's bank loan LTVs on the balance sheet date are well below the LTVs permitted under the respective loan agreements (see an overview of loan facilities on

page 19). The risk of a covenant breach was thus encountered effectively. The creditworthiness of alstria was classified by the rating agency Standard & Poor's as unchanged at BBB ("Investment Grade") at the end of the reporting period.

The refinancing of the majority of alstria's bonds and bank loans is not required before the 2021 financial year, when one out of three bonds matures. The two other bonds mature until the business year 2023 and 2027, respectively, so that a diversified maturity profile exists and the refinancing of the entire loans in one amount can be avoided (see the maturity profile of the loans on page 20). As a result, the risk of refinancing on unfavourable terms was classified as low (L).

### *Breaches of Covenants*

In the process of taking out loans and the issuance of a Schuldschein, alstria agrees to comply with certain covenants, such as not to exceed a certain level of debt (LTV) or to achieve a minimum income (debt service coverage ratios) from mortgaged properties. In the event of a breach of these covenants, consequences would arise, such as increased credit margins or, in the worst case, an extraordinary termination of a loan by the lender. The Group's current LTV ratios as described above, give significant leeway to the permitted leverage ratios. Hence, the risk of a breach of covenants is at present classified as medium (M), as it was in the previous year.

### *Interest rate risks*

Interest rate risks result from fluctuations in market interest rates. These affect the amount of interest expenses in the financial year and the market value of derivative financial instruments used by the Company.

alstria's hedging policy allows the use of a combination of plain vanilla caps and swaps if applicable in order to limit the Company's exposure to interest rate fluctuations. It still provides enough flexibility to allow for the disposal of real estate assets, avoiding any costs associated with an over-hedged situation. The interest base for the financial liability (loan) is the three-month EURIBOR, which is adjusted every three months. The maturity of the derivative financial instruments is linked to the term of maturity of the loans. Derivative financial instruments relate to interest caps in order to cap the interest at a set maximum. As of the balance sheet date, the main part of funding consists of long-term fixed-interest loans and bonds and is therefore not subject to interest rate risk up to its maturity. The floating interest rate loans are mainly hedged by interest rate caps. For the possible use of a new variable-rate credit line of up to EUR 100,000 k, which is not fully hedged by derivative financial instruments, slightly increases the interest rate risk compared to the previous year currently considered to be a medium risk (M).

### *Liquidity risk*

One of alstria's core processes is cash management. The Company manages its future cash position and monitors its progress on a daily basis. A cash-forecasting tool is used to prevent liquidity risks. As a basis for analysis this liquidity-planning tool makes use of the expected cash flows from business activities and the maturity of the financial investments.

Due to the refinancing implemented in recent years, including the placement of a convertible bond and three corporate bonds with diversified maturity profiles, the substantial liquidity risk arising from the repayment of all or most of alstria's credit commitments has been successfully managed. Since the main part of the loans and bonds will not be due until the year 2021, the liquidity risk resulting from repayment obligations is currently, as in the previous year, low (L).

### *Valuation risks*

The fair value of the real estate properties owned by the Company reflects the market value as determined by independent appraisers. It can be subject to change in the future. Generally, the market value of real estate properties depends on a variety of factors, some of which are exogenous and may not be under alstria's control. These factors include declining rent levels, decreasing demand, and increasing vacancy rates. Many qualitative factors are also decisive in the valuation of a property, including a property's expected market rents, its condition, and its location. The final assessment of the mandated appraiser is, to a certain extent, discretionary and may differ from the opinion of another appraiser. Should the factors considered or assumptions made in valuing a property change in order to reflect new developments, or for other reasons, subsequent valuations of the respective property may result in a decrease in the market value ascribed to such a property. If such valuations reveal significant decreases in market value compared to prior valuations, the Company can incur significant revaluation losses with respect to such properties.

Factors such as economic changes, interest rate fluctuations, and inflation may adversely affect the value of the properties. To minimise these risks, regional diversification of investment portfolios, consistent focus on the individual needs of tenants, and detailed market research and analysis (broker reports) are applied. In addition, the market value of all of alstria's assets is determined annually at year-end by independent, internationally recognised experts. In summary, the risk of unexpected devaluations is, as in the previous year, classified as moderate (M).

### *Counterparty risks*

alstria hedges a portion of its risk by applying third-party instruments (interest rate derivatives, property insurance, and others). alstria's counterparties in these contracts are internationally recognised institutions that are rated by the leading rating agencies. alstria reviews the ratings of its counterparties on a regular basis in order to mitigate any risk of default. The financial crisis of 2007 has raised doubts regarding the reliability of rating agencies' assessments. In response to this concern, alstria makes use of other sources of information to verify the rating agencies' assessments.

alstria is otherwise not exposed to any significant credit risks. Hence same as last year, they can be classified as low (L).

### *Tax risks*

REITs are completely exempt from corporate income tax and trade tax. As a result, tax risks can only arise in the case of loss of REIT status or at a subsidiary level. Additionally the Group as a whole faces risks from value-added tax, real transfer tax and property tax. Furthermore, it is possible that changes in tax laws or their interpretations can result in a higher tax liability for prior tax periods that have not yet been finally approved. As consequence of the takeover of the alstria office Prime Group, companies are included in the consolidated financial statements that are not subject to the regulations of the REIT legislation. The restructuring, which has been implemented during the business year, and in particular the conversion of the legal form of these companies into limited partnerships, resulted in the taxation of hidden reserves and hidden liabilities existing within the acquired companies. Afterwards the companies are tax transparent.

Due to the income tax exemption as a REIT and consistent monitoring of tax relevant issues by internal and external tax experts, the probability of a tax loss is considered to be limited. Since certain tax-related issues, such as real estate transactions or valuations of assets and liabilities as well as a re-entry into a tax liability status could result in high tax obligations over the three-year risk period, the risk impact is considered to be significant. This results in an overall tax risk level that is moderate (M), which is unchanged from the previous year's average tax risk.

### *Overall risk assessment by the Management Board*

alstria office REIT-AG consolidates and aggregates all risks reported by the different business units and functions adhering to its risk-management policy. Compared to the previous year, the overall risk situation of alstria remained stable. In the financial year 2017, only minor or immaterial changes were noted in alstria's risk level matrix for risks categorised as high (H) or medium (M). At the end of the year, risks categorised as "high" accounted for 1.0% (December 31, 2016: 1.0%) of all identified risks while risks categorised as "medium" accounted for 39.6% (December 31, 2016: 42.6%) of all identified risks. On the one hand, this is due to the economic environment in alstria's investment market, which proves to be economically strong despite the market risks described above. On the other hand, the Company's stable funding position, conservative level of debt, and solid REIT equity ratio support this assessment. The long-term refinancing position mitigates the risk of higher borrowing costs in the event of rising interest rates, the low LTV reduces the risk that could arise if the property valuations should come under pressure, e.g. as a result of interest rate hikes.

The integration of alstria office Prime, which was taken over in the business year 2015, went according to plan and has meanwhile been completed.

Sufficient precautionary measures have been undertaken to counteract identifiable risks.



## Group Management Report

In addition to assessing the potential impact of the realisation of risks on the value of the Group's net assets, the potential liquidity requirements for selected key risks are identified to cover a period of three years. The assessed amount of liquidity amounted to EUR 29.8 million as of the balance sheet date.

In our view, the risks described in our aggregated risk report do not threaten our ability to continue as a going concern either individually or cumulatively, given their likelihood of occurrence and potential level of impact.

## REPORT ON OPPORTUNITIES

### Management of opportunities

alstria's opportunities management aims to identify and assess opportunities as early as possible and to initiate appropriate measures in order to take advantage of those opportunities and transform them into business success.

Growth and earnings opportunities result both from alstria's existing real estate portfolio and from its acquisition of properties. Depending on the property's position in the life cycle, opportunities may be found in repositioning and development, in strengthening tenant relationships, or in selling the property.

The Company's financing activities safeguard the necessary funding to implement these activities. Here, opportunities are based on ensuring sustainable financing, including equity funding, on favourable terms.

The evaluation of opportunities is carried out in the context of annual budget planning and on an ongoing, occasional basis during the year. The process starts with a careful analysis of the market environment and of the market opportunities related to the properties held in the portfolio. These include the assessment of criteria such as tenant needs, property categories, and regulatory changes. Regular reporting addressing the Management supports the monitoring of growth initiatives within the budget and planning-approval processes.

The alstria Management Board is regularly updated on the status and progress of the initiatives being implemented. In addition, the real estate operations department receives monthly reports in which the planned costs and revenues are compared to the actual budget consumption and revenues. In addition, financial and liquidity planning and forecasts are updated, and changes to the project scope are clarified.

### *Opportunities related to real estate acquisitions*

The location of a property is essential for its attractiveness. Opportunities arise when a regional market is characterised by favourable demographics and real estate dynamics. Together with optimal property management, this results in opportunities for long-term capital appreciation. alstria's acquisition strategy is aimed at identifying properties with the described opportunity structure. Its investment strategy therefore focuses on acquiring properties and portfolios with higher vacancy rates that are thus open to additional growth opportunities through the stabilisation of these properties' leases. Acquisitions will only be performed if the investment volume offers the prospect of achieving a sustainable increase in value. In particular, the low LTV debt ratio offers opportunities in the form of greater flexibility for acquiring real estate.

### ***Opportunities related to tenant relationships***

Structured and active Property and Asset Management both ensures the quality of our leasing service and is the basis for sustainable tenant relationships. Opportunities arise through a flexible response to existing or potential tenants' needs. The Company has the knowledge and resources to provide solutions and to implement tenants' requirements. This gives rise to opportunities to generate sustainable, long-term leases.

### ***Opportunities arising from real estate development***

As a long-term-oriented owner of real estate, alstria's property portfolio also entails aging buildings that require refurbishment or repositioning. The modernisation of a property opens up the opportunity for value creation by reshaping the asset for the next 20 to 30 years and strengthening its future attractiveness in the market and for tenants.

### ***Opportunities arising from financing***

alstria's financing strategy is focused on the optimal provision of funds to invest in new properties and development projects. Opportunities arise from the optimisation of these financing terms. This requires implementing long-term and flexible funding at favourable conditions and safeguarding financial covenants at all times. A significant opportunity also arises out of a low debt ratio (the Net LTV of bank loans is currently 40.0%; see the overview of loan facilities on page 19), representing a comfortable base for future funding and growth. Funding options include mortgage loans, corporate bonds, and equity funding. Opportunities arise from the diversification of funding sources and with regard to the rating obtained.

### **Overall summary of the Opportunities Report**

alstria's current financial situation involves a stable financial position at favourable interest rates until about mid-2021. The rating allows for greater flexibility in terms of new funding sources. Concerning revenues, alstria benefits from long-term rental agreements with an average lease length of approximately 4.7 years and potential increases in rents due to decreasing vacancy rates. In addition, the Company possesses a range of properties that offer attractive and value-adding refurbishment opportunities. alstria's portfolio is well-balanced and contains many first-class anchor buildings with high-quality tenants. The low LTV debt ratio offers the chance of greater flexibility for acquiring real estate in the event that spontaneous opportunities arise.

Therefore, alstria is well-positioned to continue its buy-and-manage strategy and to successfully identify and implement relevant future market opportunities.

alstria's core competence is asset management. The asset repositioning and refurbishment that alstria is continuously undertaking will strengthen the basis for increased organic value across the portfolio.

## SUSTAINABILITY REPORT

In November 2017, alstria published its eighth sustainability report. The report is organised and presented based on the new GRI Standards and has received third-party assurance for all disclosed environmental indicators. It provides information about alstria's next steps toward a carbon-neutral economy and familiarises the reader with the Company's corporate responsibility strategy.

alstria's vision with regard to sustainability goes beyond the reporting exercise itself. Its sustainability approach is embedded in every decision across all levels of the organisation. To alstria, pursuing a path of continuous improvement and innovation is what sustainability is all about.

2016 has been a successful year for alstria, cause the Company was able to meet the RE100 commitments and managed through the procurement of renewable energy and climate-neutral natural gas to reduce our carbon footprint by 31% compared to 2013. With a focus on improving the energy management system, alstria started applying smart metering systems across the portfolio and was awarded the "immobilienmanager Award 2017" in the sustainability category for our "Mieterstrompool" project. Finally, the Company achieved leadership level (A-) in the CDP rating for the second time in a row.

For further information on the Company's sustainability engagement, please refer to alstria's annual sustainability report 2016 at

[www.alstria.com](http://www.alstria.com).

## DISCLOSURES REQUIRED BY TAKEOVER LAW

Disclosures and the explanatory report pursuant to Section 315a para. 1 of the German Commercial Code (*Handelsgesetzbuch, HGB*)

### Composition of subscribed capital

On the balance sheet date as of December 31, 2017, the share capital of alstria amounted to EUR 153,961,654.00, divided into 153,961,654 no-par-value bearer shares. All shares are fully paid in and have equal rights and obligations. Each share entitles the bearer to one vote at the General Shareholders' Meetings and is decisive for the shareholder's share in the profits of the Company. The individual rights and duties of the shareholders result from the provisions of the German Stock Corporation Act (*Aktiengesetz, AktG*), in particular Sections 12, 53a *et seq.*, 118 *et seq.* and 186.

### Restrictions on voting rights or the transfer of shares

The exercise of voting rights and the transfer of shares are based on the general statutory requirements and alstria's Articles of Association, which do not restrict either of these activities. According to Sections 71b and 136 AktG, for example, the voting rights of the affected shares are excluded by law. Other restrictions as to voting rights or the transfer of shares do not exist, or, as far as they arise from agreements between shareholders, are not known to the Management Board.

### Shareholdings exceeding 10% of the voting rights

On the balance sheet date as of December 31, 2017, alstria was not aware of any shareholders directly holding more than 10% of the voting rights. The Government of Singapore notified us in April 2016 that via controlled undertakings, it held approximately 12.6% of alstria's shares. In addition, please refer to the disclosures in the Notes under no. 17.3 Voting Right Notifications.

### Shares with special rights

alstria has not issued any shares with special rights of control.

### System of Control for any Employee Share Scheme in which employees do not directly exercise the Control Rights

The employees who hold alstria shares exercise their rights of control as any other shareholders do, in accordance with the applicable law and the Articles of Association.

### Appointment and dismissal of Management Board and amendments to the articles of association

alstria's Management Board consists of one or more members who may be appointed or dismissed in accordance with Sections 84 and 85 AktG. The Articles of Association do not contain any special provisions in this respect. Pursuant to Section 84 AktG, members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. Reappointment or extension of the term of office is permitted, for a maximum of five years in each case.

Amendments to the Articles of Association are made pursuant to Sections 179 and 133 AktG. Pursuant to Section 12 para. 2 of the Articles of Association, the Supervisory Board is furthermore authorised

to make changes and amendments to, the Articles of Association that merely affect the wording without passing a shareholder resolution in the General Meeting. In addition, the Supervisory Board has, been authorised to adapt the wording of the Articles of Association to the utilisation of Conditional Capital 2013, Authorised Capital 2017 and Conditional Capital III 2017 and, after expiration of the applicable authorisation periods, by resolution of the Annual General Meetings on May 29, 2013, and May 16, 2017.

Pursuant to Section 15 para. 5 of the Articles of Association in conjunction with Sections 179 para. 2 and 133 of the AktG, shareholders may make resolutions regarding such amendments at a general meeting with a simple majority of the votes cast and a simple majority of the share capital represented. Insofar as a larger majority is prescribed by law, such majority shall be decisive.

The Articles of Association were last amended in the reporting year by a resolution passed by the Supervisory Board on December 7, 2017: Section 5 para. 1, 2 and 5 of the Articles of Association were formally adapted to a capital increase executed from the Company's Conditional Capital 2013.

### Authority of Management Board regarding the issue and buyback of shares

#### 1. Authorised Capital

The Articles of Association authorise the Management Board, with the approval of the Supervisory Board, to increase the share capital through May 15, 2022, by issuing new no-par-value bearer shares against contributions in cash and/or kind once or repeatedly up to a total amount of EUR 30,646,243.00. Further details are governed by Section 5 para. 3, 4 and 4a of the Articles of Association.

#### 2. Conditional Capital

alstria holds three conditional capitals (pursuant to Sections 192 et seq of the AktG), which are regulated in Sections 5 para. 5, 6 and 7 of the Company's Articles of Association.

##### a) *Conditional Capital 2013*

The share capital is conditionally increased by an amount of up to EUR 37,360,181.00 by issuing up to 37,360,181 no-par-value bearer shares. The Management Board is authorised to determine the profit entitlement for the new shares issued on the basis of the exercise of options or conversion rights or the fulfilment of a conversion obligation at variance from Section 60 para. 2 of the AktG. The conditional capital increase is only carried out to the extent that the holders of option rights or conversion rights; holders with conversion obligations from bonds with warrants or convertible bonds profit participation rights; or holders of participating bonds that were issued through November 28, 2014, based on the authorisation resolved by the shareholders in the General Meeting on May 29, 2013, utilise their option rights or conversion rights, or insofar as such holders have conversion obligations, that such holders fulfil their conversion obligations, unless a cash settlement is granted or treasury shares are used to fulfil the option rights or conversion rights.

**b) Conditional Capital III 2015**

The share capital is conditionally increased by an amount of up to EUR 500,000.00 by issuing up to 500,000 no-par-value bearer shares. The conditional capital increase shall be used exclusively to grant shares to the holders of convertible profit participation certificates issued by the Company through May 5, 2020, in accordance with the authorisation of the General Meeting held on May 6, 2015. The conditional capital increase is only carried out to the extent that issued convertible profit participation certificates are converted into shares of the Company and no treasury shares are used to satisfy the certificates. The new shares shall participate in the Company's profits from the beginning of the financial year in which they come into existence as a result of the conversion of certificates.

**c) Conditional Capital III 2017**

Furthermore, the share capital is conditionally increased by an amount of up to EUR 1,000,000.00 by issuing up to 1,000,000 no-par-value bearer shares. The conditional capital increase shall be used exclusively to grant shares to the holders of convertible profit participation certificates issued by the Company through May 15, 2022, in accordance with the authorisation of the General Meeting held on May 16, 2017. The conditional capital increase is only carried out to the extent that issued convertible profit participation certificates are converted into shares of the Company and no treasury shares are used to satisfy the certificates. The new shares shall participate in the Company's profits from the beginning of the financial year in which they come into existence as a result of the conversion of certificates.

**3. Purchase of treasury shares**

In the General Meeting held on May 16, 2017, the shareholders authorised the Management Board to acquire shares of up to a total of 10% of the Company's share capital in place at the time of the authorisation's issuance until May 15, 2022. The acquired shares and other treasury shares in the possession of, or to be attributed to, alstria pursuant to Sections 71a *et seq.* of the AktG may at no point in time amount to more than 10% of the share capital. Shares may be purchased through a stock exchange, by means of a public offer to all shareholders, or by making use of financial derivatives (put or call options, or a combination of both).

**Significant agreements of alstria office REIT-AG that take effect upon a change of control following a takeover bid**

Some of alstria office REIT-AG's financing agreements contain the clauses common to such contracts regarding a change of control. In particular, the agreements entitle the lenders to request repayment of the loans or an obligation by alstria to repay the loans in the event that any person, company, or a group of persons should acquire, directly or indirectly, 50% of the voting rights or a controlling

influence in alstria. However, for some financing agreements, the repayment obligation is subject to a downgrade of the Company's rating, occurring within 120 days of the change of control.

The terms and conditions of the convertible bond issued by the Company in financial year 2013 also provided termination rights or an adaptation of the conversion price in case of a change of control. Such a change of control will occur, in particular, if a person or persons acting in concert acquire, directly or indirectly, more than 50% of the voting rights in the Company.

The terms and conditions of the fixed-interest bonds the Company issued in financial years 2015, 2016 and 2017 entitle each bond holder to request the Company to redeem or purchase his bond for 101% of the principal amount of such bond plus unpaid interest accrued, if any person, company, or group of persons should acquire, directly or indirectly, more than 50% of the voting rights in alstria and within 120 days after such change of control the rating for the Company or the bond is downgraded.

The total volume of obligations under those agreements with corresponding change of control clauses amounted to approximately EUR 1,283 million on the balance sheet date.

### **Compensation agreements with Management Board members and employees in case of a takeover bid**

No compensation agreements with Management Board members or employees are in place that will take effect in case of a takeover bid.

These provisions comply with statutory requirements or are reasonable and common practice at comparable, publicly listed companies. They are not intended to hinder potential takeover bids.



## ADDITIONAL GROUP DISCLOSURE

### EMPLOYEES

As of December 31, 2017, alstria had 121 employees (compared to 114 on December 31, 2016). The annual average number of employees was 118 (compared to 105 in the previous year). These figures exclude Management Board members.

### REMUNERATION REPORT

Management Board members' compensation comprises fixed and a variable component that are linked to the Company's operating performance. In addition to the bonus, members of the Management Board receive share-based remuneration as a long-term incentive.

Members of the Supervisory Board receive fixed remuneration.

The remuneration report (see pages 155 to 166), which contains details of the principles for the remuneration of the Management Board and Supervisory Board, forms an integral part of the audited Group Management Report.

### CORPORATE GOVERNANCE GROUP DECLARATION PURSUANT TO SECTION 315D HGB ("HANDELS-GESETZBUCH": GERMAN COMMERCIAL CODE)

The complete corporate governance declaration is published on alstria office REIT-AG's website ([www.alstria.com](http://www.alstria.com)). Thus, it is made permanently accessible to the public.

### DIVIDEND

At the Annual Shareholders' Meeting, the Managing Board intends, in agreement with the Supervisory Board, to submit the following proposal to allocate the unappropriated net income of alstria office REIT-AG for business year 2017:

To distribute a dividend of EUR 0.52 on each share of no par value entitled to the dividend for business year 2017 existing at the date of the Annual Shareholders' Meeting, with the remaining amount to be carried forward. Payment of the proposed dividend is contingent upon approval by alstria shareholders at the Annual Shareholders' Meeting on April 26, 2018. The proposed dividend of EUR 0.52 per share for the business year 2017 represents a total payment of EUR 80.1 million based on the number of shares entitled to dividend at the balance sheet date.

Considering the new shares created by the capital increases between the end of the reporting period and the preparation of the consolidated financial statement (see post-balance sheet date events page 117) the total payment amounts to EUR 88.3 million.

## EXPECTED DEVELOPMENTS

The report on expected developments contains statements related to anticipated future developments. The Company's development depends on various factors, some of which are beyond alstria's control. Statements about expected developments are based on current assessments and are hence, by their very nature, exposed to risks and uncertainty.

The actual development of the alstria Group may differ positively or negatively from the predicted development presented in the statements of this report.

### Expected economic development

The German economy is in very good condition. GDP growth was at 2.2% compared to the previous year, which was the country's strongest economic growth since 2011. The employment rate also developed positively. The German government expects a GDP growth of 2.4% and a positive development in the German labour market to the record mark of approximately 44.8 million for 2018. German economic associations also estimate a positive economic development for 2018, they expect as similar growth level as in 2017. The construction industry and related industries, in particular, have a confidently outlook for the future.\*

### Development of the real estate market: Outlook for 2018

In connection with low interest rates, the importance of real estate as an investment class will still be high. Continuing high demand for real estate in core areas is estimated in 2018. Due to the limited investment offerings, the tendency to invest in value-added assets will continue.

### Outlook for the alstria Group

Based on the expected stability of the German economy and of the real estate market, the Company does not expect significant changes in alstria's direct environment. However, unexpected changes in terms of interest rates, further property acquisitions, property disposals, or other changes in the assumptions for financial year 2018 could have an impact on the projections.

Mainly due to expiring leases alstria is expecting revenues to decrease in 2018 by approximately EUR 7 million to EUR 187 million, as compared to revenues in 2017.

For fiscal year 2018, the Company is expecting an FFO of around EUR 110 million. The year-on-year decrease in FFO compared to the 2017 achieved FFO of EUR 114 million is mainly due to lower revenues. This effect will be partially offset by a further reduction of financing costs.

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\* Please refer to Annual Economic Report 2018 from the Federal Ministry of Economics and Energy as well as ifo, IfW, IMK, RWI und IWH.

## Group Management Report

Since the Company pays out a significant part of its funds from operations as dividends, future external growth largely depends on the Company's ability to raise additional equity. Consequently, further portfolio growth is highly dependent on the development of the global equity markets and is therefore difficult to predict over a longer period of time.

Hamburg, February 20, 2018

## DETAIL INDEX CONSOLIDATED FINANCIAL STATEMENTS

<b>CONSOLIDATED FINANCIAL STATEMENTS</b> .....	<b>50</b>
CONSOLIDATED INCOME STATEMENT .....	50
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	51
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	52
CONSOLIDATED STATEMENT OF CASH FLOWS.....	54
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	56
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	58
1. BASIS OF PRESENTATION .....	58
2. BASIS OF PREPARATION .....	58
3. SEASONAL OR ECONOMIC EFFECTS ON BUSINESS .....	79
4. SEGMENT REPORTING .....	79
5. NOTES TO THE CONSOLIDATED INCOME STATEMENT .....	80
6. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION - ASSETS .....	86
7. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES .....	94
8. OTHER NOTES.....	102
9. RELATED PARTY RELATIONSHIPS .....	103
10. EARNINGS PER SHARE .....	104
11. DIVIDENDS PAID.....	105
12. EMPLOYEES .....	105
13. SHARE-BASED REMUNERATION .....	105
14. FINANCIAL RISK MANAGEMENT .....	109
15. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD .....	117
16. UTILISATION OF EXEMPTING PROVISIONS .....	118
17. DISCLOSURES PURSUANT TO THE WERTPAPIERHANDELSGESETZ [GERMAN SECURITIES TRADING ACT] AND EUROPEAN MARKET ABUSE REGULATION [MAR] .....	118
18. DECLARATION OF COMPLIANCE PURSUANT TO AKTG SECTION 161.....	121
19. AUDITORS' FEES .....	122
20. MANAGEMENT BOARD.....	122
21. SUPERVISORY BOARD .....	122

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

For the period from January 1 to December 31, 2017

EUR k	Notes	2017	2016
Revenues	5.1	193,680	202,663
Income less expenses from passed-on operating expenses	5.2	236	-204
Real estate operating expenses	5.3	-21,637	-23,445
<b>Net rental income</b>		<b>172,279</b>	<b>179,014</b>
Administrative expenses	5.4	-8,033	-8,464
Personnel expenses	5.5	-13,823	-12,683
Other operating income	5.6	10,771	5,417
Other operating expenses	5.7	-14,371	-14,445
Net result from fair value adjustments to investment property	6.1	181,492	72,806
Net result from the disposal of investment property	5.8	19,693	25,464
<b>Net operating result</b>		<b>348,008</b>	<b>247,109</b>
Net financial result	5.9	-67,708	-50,794
Share of the result of companies accounted for at equity	2.2.3	28,118	5,480
Net loss from fair value adjustments to financial derivatives	5.9; 6.5	-9,334	-8,101
<b>Pretax result</b>		<b>299,084</b>	<b>193,694</b>
Income tax expenses	5.10	-2,097	-11,318
<b>Consolidated profit/loss</b>		<b>296,987</b>	<b>182,376</b>
Attributable to:			
Shareholders of alstria office REIT-AG		296,987	176,872
Noncontrolling interests		0	5,504
<b>Earnings per share in EUR</b>			
Basic earnings per share	10	1.94	1.16
Diluted earnings per share	10	1.85	1.11

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from January 1 to December 31, 2017

EUR k	Notes	2017	2016
<b>Consolidated profit for the period</b>		<b>296,987</b>	<b>182,376</b>
Items that might be classified on the income statement in a future period:			
Reclassification from cash flow hedging reserve	6.5	0	270
<b>Other comprehensive income for the period</b>		<b>0</b>	<b>270</b>
<b>Total comprehensive income for the period</b>		<b>296,987</b>	<b>182,646</b>
<b>Total comprehensive income attributable to:</b>			
Shareholders		296,987	177,142
Noncontrolling interest		0	5,504

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017

<b>ASSETS</b>			
EUR k	Notes	2017	2016
<b>Noncurrent assets</b>			
Investment property	6.1	3,331,858	2,999,099
Equity-accounted investments	6.2	8,659	30,381
Property, plant, and equipment	6.3	22,442	6,858
Intangible assets	6.3	313	329
Financial assets	6.4	36,567	34,803
Derivatives	6.5	14	109
<b>Total noncurrent assets</b>		<b>3,399,853</b>	<b>3,071,579</b>
<b>Current assets</b>			
Trade receivables	6.6	7,153	7,257
Accounts receivable from joint ventures		0	5
Income tax receivables		25	25
Other receivables	6.6	14,760	41,578
Cash and cash equivalents	6.7	102,078	247,489
<i>thereof restricted</i>		0	0
Assets held for sale	6.8	60,200	14,700
<b>Total current assets</b>		<b>184,216</b>	<b>311,054</b>
<b>Total assets</b>		<b>3,584,069</b>	<b>3,382,633</b>

## Consolidated Financial Statements

		EQUITY AND LIABILITIES	
EUR k	Notes	2017	2016
<b>Equity</b>	7.1		
Share capital		153,962	153,231
Capital surplus		1,363,316	1,434,812
Retained earnings		437,382	140,395
<b>Total equity</b>		<b>1,954,660</b>	<b>1,728,438</b>
<b>Noncurrent liabilities</b>			
Limited partnership capital noncontrolling interests	7.2	53,834	58,458
Long-term loans and bonds, net of current portion	7.3	1,381,965	1,466,521
Derivatives	6.5	0	20,099
Other provisions	7.4	1,499	1,313
Other liabilities	7.5	4,408	2,808
<b>Total noncurrent liabilities</b>		<b>1,441,706</b>	<b>1,549,199</b>
<b>Current liabilities</b>			
Limited partnership capital noncontrolling interests	7.2	47	12,966
Short-term loans	7.3	86,450	19,330
Trade payables	7.5	7,268	4,584
Profit participation rights	5.5; 13.2	538	421
Derivatives	6.5	27,529	0
Income tax liabilities	7.6	13,675	20,104
Other provisions	7.4	2,992	2,257
Other current liabilities	7.5	49,204	45,334
<b>Total current liabilities</b>		<b>187,703</b>	<b>104,996</b>
<b>Total liabilities</b>		<b>1,629,409</b>	<b>1,654,195</b>
<b>Total equity and liabilities</b>		<b>3,584,069</b>	<b>3,382,633</b>



**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ending December 31, 2017

EUR k	Notes	2017	2016
<b>1. Cash flows from operating activities</b>			
<b>Consolidated profit or loss for the period</b>		296,987	182,376
Interest income	5.9	-816	-535
Interest expense	5.9	35,984	45,380
Other financial expenses	5.9	32,540	5,949
Result from income taxes	5.10	2,097	11,318
Unrealised valuation movements		-190,962	-69,947
Other noncash income (-)/expenses (+)	8.3	5,174	494
Gain (-)/loss (+) on disposal of investment properties	5.8	-19,693	-25,464
Depreciation and impairment of fixed assets (+)	6.3	490	678
Increase (-)/decrease (+) in trade receivables and other assets not attributed to investing or financing activities		-765	4,202
Increase (+)/decrease (-) in trade payables and other liabilities not attributed to investing or financing activities		5,240	-7,293
<b>Cash generated from operations</b>		<b>166,276</b>	<b>147,158</b>
Interest received		817	64
Interest paid		-36,299	-26,695
Income taxes paid		-8,526	-32
<b>Net cash generated from operating activities</b>		<b>122,268</b>	<b>120,495</b>
<b>2. Cash flows from investing activities</b>			
Acquisition of investment properties		-251,505	-43,740
Proceeds from the sale of investment properties		87,975	426,764
Payment of transaction cost in relation to the sale of investment properties		-1,160	-4,771
Acquisition of other property, plants, and equipment		-627	-499
Proceeds from the equity release of interests in joint ventures		49,850	0
Payments for capital contribution in affiliates		0	-1,000
Payments for investment in financial assets		-1,764	-34,803
<b>Net cash used in/generated from investing activities</b>	8.3	<b>-117,231</b>	<b>341,951</b>

## Consolidated Financial Statements

EUR k	Notes	2017	2016
<b>3. Cash flows from financing activities</b>			
Cash received from cash equity contributions	7.1	0	34,803
Payments for the acquisition of minority interests	7.1	-26,919	-113
Proceeds from borrowing	7.3	30,000	150,000
Proceeds from the issuing of corporate bonds	7.3	350,000	500,000
Payments of dividends	11	-79,680	-76,564
Payments due to the redemption of bonds and borrowings		-389,876	-1,273,926
Payment of loan premium for redemption of corporate bonds	5.9	-29,172	0
Payments of transaction costs for taking out loans		-4,861	-6,817
Payments for the termination/change of financial derivatives		60	-2,593
<b>Net cash used in financing activities</b>		<b>-150,448</b>	<b>-675,210</b>
<b>4. Cash and cash equivalents at the end of the period</b>			
Change in cash and cash equivalents (subtotal of 1 to 3)		-145,411	-212,764
Cash and cash equivalents at the beginning of the period		247,489	460,253
<b>Cash and cash equivalents at the end of the period</b> <i>thereof restricted: EUR 0 k; previous year: EUR 0 k</i>	6.7	<b>102,078</b>	<b>247,489</b>

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from January 1 to December 31, 2017

EUR k	Notes	Share capital	Capital surplus	Hedging reserve	Retained earnings	Equity attributable to the alstria shareholders	Non-controlling interests	Total equity
As of Jan. 1, 2017		153,231	1,434,812	0	140,395	1,728,438	0	1,728,438
<b>Changes in the financial year 2016</b>								
Consolidated profit		0	0	0	296,987	296,987	0	296,987
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>296,987</b>	<b>296,987</b>	<b>0</b>	<b>296,987</b>
Payments of dividends	11	0	-79,680	0	0	-79,680	0	-79,680
Share-based remuneration (convertible participation rights)	5.5; 13.2	0	1,129	0	0	1,129	0	1,129
Conversion of convertible participation rights	13.2	111	111	0	0	222	0	222
Conversion of convertible bond	7.2	620	6,944	0	0	7,564	0	7,564
<b>As of Dec. 31, 2017</b>	<b>7.1</b>	<b>153,962</b>	<b>1,363,316</b>	<b>0</b>	<b>437,382</b>	<b>1,954,660</b>	<b>0</b>	<b>1,954,660</b>

## Consolidated Financial Statements

For the period from January 1 to December 31, 2016

EUR k	Notes	Share capital	Capital surplus	Hedging reserve	Retained earnings	Equity attributable to the alstria shareholders	Non-controlling interests	Total equity
<b>As of Jan. 1, 2016</b>		<b>152,164</b>	<b>1,499,477</b>	<b>-270</b>	<b>-31,994</b>	<b>1,619,377</b>	<b>38,287</b>	<b>1,657,664</b>
<b>Changes in the financial year 2016</b>								
Consolidated profit		0	0	0	176,872	176,872	5,504	<b>182,376</b>
Other comprehensive income		0	0	270	0	270	0	<b>270</b>
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>270</b>	<b>176,872</b>	<b>177,142</b>	<b>5,504</b>	<b>182,646</b>
Payments of dividends	11	0	-76,564	0	0	-76,564	0	<b>-76,564</b>
Proceeds from shares issued against contribution in kind	7.1	964	10,847	0	0	11,811	-11,811	<b>0</b>
Change of minority interest share within equity due to the sale of minority shares	7.1	0	0	0	0	0	34,803	<b>34,803</b>
Change of minority interest share within equity due to the purchase of minority shares	7.1	0	0	0	0	0	-113	<b>-113</b>
Share-based remuneration (convertible participation rights)	5.5; 13.2	0	949	0	0	949	0	<b>949</b>
Conversion of convertible participation rights	13.2	103	103	0	0	206	0	<b>206</b>
Conversion of legal form of minority interests to a limited partnership	7.2	0	0	0	-4,483	-4,483	-66,670	<b>-71,153</b>
<b>As of Dec. 31, 2016</b>	<b>7.1</b>	<b>153,231</b>	<b>1,434,812</b>	<b>0</b>	<b>140,395</b>	<b>1,728,438</b>	<b>0</b>	<b>1,728,438</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

alstria office REIT-AG (the Company) is a listed real estate property corporation under the scope of the G-REIT Act. The Company's and its subsidiaries' main objectives (the Group or alstria) are the acquisition, management, operation, and sale of owned real estate property and the holding of participations in enterprises that acquire, manage, operate, and sell owned property.

alstria prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and with the additional requirements set forth in Section 315e (1) of the German Commercial Code (HGB). The consolidated financial statements were authorised for issue by the managing board on February 20, 2018.

alstria office REIT-AG's registered office and address is Bäckerbreitengang 75, 20355 Hamburg, Germany. Registration was done at the commercial register at the local court of Hamburg under HRB No. 99204.

alstria prepares and reports its consolidated financial statements in euros (EUR). Due to rounding, the numbers presented may not add up precisely to the totals provided.

The financial year ends on December 31 of each calendar year. The consolidated financial statements presented in this report were prepared for the period from January 1 to December 31, 2017.

### 2. BASIS OF PREPARATION

Apart from investment property (land and buildings) and certain financial instruments that are measured at fair values at the end of each reporting period and as explained in the accounting policies below, the consolidated financial statements have been prepared based on historical cost.

The preparation of financial statements in conformity with the IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas involving a higher degree of judgement or complexity or items wherein assumptions and estimates have a significant impact on the consolidated financial statements are disclosed in Note 2.3.

Single items are summarised in the consolidated statement of financial position and the income statement. They are commented on in the notes to the financial statements.

Assets and liabilities are classified as noncurrent and current, respectively. Current items are defined as items that are due in less than one year and vice versa.

## 2.1 Changes in accounting policies and mandatory disclosures

### Effects resulting from new and amended IFRSs

The Company adopted the following new standards and amendments to standards for the first time for the financial year beginning January 1, 2017:

EU Endorsement	Standard/ interpretation	Content	Applicable for f/y beginning on/after	Effects
Nov. 6, 2017	Amendments to IAS 7	Disclosure initiative	Jan. 1, 2017	Notes disclosure
Nov. 6, 2017	Amendments to IAS 12	Recognition of deferred tax assets for un-realised losses	Jan. 1, 2017	Under review

On January 29, 2016, the IASB published amendments to IAS 7 as part of the Disclosure Initiative. The amendments are effective for annual periods beginning on or after January 1, 2017. The main impact is the first-time presentation of a reconciliation of changes in financial liabilities and related assets during the financial year. The reconciliation calculation is shown in Section 7.3 of the Notes.

The amendment to IAS 12 has no impact on the Group's financial and asset position, as the REIT status of alstria office REIT-AG results in extensive corporate income tax exemptions.

Other new or amended standards and interpretations that were to be applied for the first time in the 2017 financial year do not exist. As a result, the Company has not applied any further new or amended standards and interpretations for the first time in the current financial year.

**New and amended IFRSs and interpretations to existing standards that are not yet effective and that the Group has not adopted early**

EU Endorsement	Standard/ interpretation	Content	Applicable for f/y beginning on/after	Effects
Nov. 22, 2016	IFRS 9	New standard "Financial instruments: classification and measurement"	Jan. 1, 2018	No material effects
Sep. 22, 2016	IFRS 15	New standard "Revenue from contracts with customers"	Jan. 1, 2018	No material effects
Oct. 31, 2017	IFRS 16	New standard "Leases"	Jan. 1, 2019	No material effects
Not yet endorsed	IFRS 17	New standard "Insurance contracts"	Jan. 1, 2021	None
Not yet endorsed	Amendments to IFRS 2	Classification and measurement of share-based payment transactions	Jan. 1, 2018	None
Nov. 3, 2017	Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	Jan. 1, 2018	None
Not yet endorsed	Amendments to IFRS 9	Prepayment Features with negative Compensation	Jan. 1, 2019	None
Not yet endorsed	Amendments to IAS 28	Amended by Long-term Interests in Associates and Joint Ventures	Jan. 1, 2019	None
Not yet endorsed	Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	postponed	None
Not yet endorsed	Amendments to IAS 40	Transfers of investment property	Jan. 1, 2018	Currently None
Not yet endorsed	Annual Improvements to IFRSs	Improvements to IFRSs 2014–2016	Jan. 1, 2017/ Jan. 1, 2018	None
Not yet endorsed	Annual Improvements to IFRSs	Improvements to IFRSs 2015–2017	Jan. 1, 2019	None
Not yet endorsed	IFRIC 22	Foreign currency transactions and advance consideration	Jan. 1, 2018	None
Not yet endorsed	IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	Currently None
Oct. 31, 2017	IFRS 15	Clarifications issued for IFRS 15, "Revenue from Contracts with Customers"	Jan. 1, 2018	None

**IFRS 9 Financial instruments**

The new standard IFRS 9 "Financial Instruments" contains rules for recognition, measurement, derecognition, and hedge accounting. The IASB published the final version of the standard as part of the completion of the various stages of its comprehensive project on financial instruments on July 24, 2014. This means that the accounting for financial instruments previously carried out under IAS 39 "Financial Instruments: Recognition and Measurement" can now be completely replaced by the accounting under IFRS 9. The now-released version of IFRS 9 replaces all previous versions. The central requirements of the final IFRS 9 can be summarised as follows:

- Compared with the previous standard, IAS 39 "Financial Instruments: Recognition and Measurement," the requirements of IFRS 9 with regard to the application and the entry and derecognition are largely unchanged.
- However, the regulations of IFRS 9 provide for a new classification model for financial assets compared to IAS 39.

- The subsequent measurement of financial assets will in the future be based on three categories with different valuation standards and a different recognition of changes in value. The categorisation results in both dependence on the contractual cash flows of the instrument and the business model in which the instrument is held. Depending on the nature of these conditions, they are measured at amortised cost using the effective interest method (AC category), at fair value, with changes recognised in other comprehensive income (FVTOCI category), or at fair value, where changes are recognised through profit or loss (FVTPL category). Basically, these are mandatory categories. In addition, however, individual options are available to companies.
- For financial liabilities, however, the existing rules were largely adopted in IFRS 9. The only major change concerns financial liabilities in the fair value option. For them, fair value fluctuations due to changes in their own credit risk are to be recognised in other comprehensive income.
- The new impairment model in IFRS 9 provides for three levels that will determine the amount of losses to be recognised and interest received in the future. Thereafter, expected losses in the amount of the present value of an expected 12-month loss are recognised on acquisition (Level 1). If there is a significant increase in the risk of default, the risk provision must be increased up to the amount of the expected losses of the entire residual maturity (Level 2). If there is an objective indication of impairment, the interest must be collected on the basis of the net book value (book value less risk provisions) (level 3).
- The revised hedge accounting rules continue to include the three types of hedge accounting that are also available in IAS 39. However, the requirements of IFRS 9 provide more opportunities for the application of hedge accounting and allow the reporting entity to better reflect its risk management activities in the financial statements. The main changes concern the extended scope of underlying transactions and hedges as well as new rules on the effectiveness of hedging relationships, particularly the elimination of the previous 80-125% corridor.
- In addition to extensive transitional provisions, IFRS 9 is also associated with extensive disclosure requirements for both transition and ongoing application. Changes compared to IFRS 7 “Financial Instruments”: Notes mainly result from the provisions on impairment.

Based on an analysis of the Group's financial assets and financial liabilities as of December 31, 2017 and the facts and circumstances existing at the time, management has estimated the impact of IFRS 9 on the consolidated financial statements, which is summarised below:

### *Classification and valuation*

With the exception of changes resulting from the application of the new impairment model in IFRS 9, alstria's current financial assets and liabilities will continue to be accounted for in the future, as is currently the case under IAS 39.



### *Impairment*

With trade receivables and noncurrent financial assets, the Group only has assets that continue to be measured at amortised cost. Despite future consideration of expected losses rather than losses incurred, management believes that there will be no material changes to the higher impairment amounts resulting from the first-time application of the new standard.

### *Hedge accounting*

As the new hedge accounting rules better reflect the Group's risk management, and as the range of possible hedged items and hedges has widened, management believes that the existing hedges will continue to be recognised as a hedge under IFRS 9.

### *Transition method*

The new standard is effective for annual periods beginning on or after January 1, 2018. alstria will apply IFRS 9 for the first time for the financial year beginning January 1, 2018; the adjustment of prior-year figures is waived in accordance with the transitional provisions of IFRS 9.

Overall, management does not expect the application of the new hedge accounting rules in IFRS 9 to have a material impact on the consolidated financial statements.

### **IFRS 15 Revenue from contracts with customer**

IFRS 15 stipulates when and in what amount an IFRS reporting entity must recognise revenue. In addition, the preparers of financial statements are required to provide the users of the financial statements with more informative and relevant information than before.

The new standard, compared to current regulations, provides for a single, principle-based five-level model that applies to all contracts with customers. According to this five-step model, the contract with the customer must first be determined (step 1). In step 2, the independent performance obligations are to be identified in the contract. Subsequently (step 3), the transaction price is to be determined, with explicit provisions for the treatment of variable consideration, financing components, payments to the customer, and barter transactions. After determining the transaction price, in step 4 the distribution of the transaction price to the individual performance obligations has to be carried out. This is based on the individual selling prices of the individual performance obligations. Finally (step 5), the proceeds can be recognised if the performance obligation has been met by the Company. The prerequisite for this is the transfer of power of the disposal of goods or services to the customer.

When concluding a contract, it is to be determined under IFRS 15 whether the revenues resulting from the contract are to be recognised at a specific time or over a period of time. It is first necessary to clarify on the basis of certain criteria whether the power of disposal over the performance obligation is transferred over a period of time. If this is not the case, the proceeds must be recognised at the time at which the power of disposal is transferred to the customer.

Finally, the standard contains new, more extensive rules on disclosures about the proceeds of an IFRS preparer's financial statements. In particular, qualitative and quantitative information should be provided on each of the following topics:

- its contracts with customers,
- significant discretionary decisions and their changes made in applying the revenue provisions to these contracts, and
- any assets resulting from capitalised costs for obtaining and fulfilling a contract with a customer.

In April 2016, the IASB published clarifications on IFRS 15 covering the following topics:

- identification of performance obligations (regarding autonomous identifiability in the context of the contract),
- principal-agent relationships (regarding assessment of the control of goods or services prior to transmission to the customer),
- licences (regarding determination of the type of licence granted as well as licence and usage-based licence fees), and
- transitional provisions (regarding practical facilitation of the first-time application of the standard).

The Group mainly generates revenues from the long-term leasing of real estate space. The accounting of these revenues is based on IAS 17 or, in the future, on IFRS 16 and is not subject to the requirements of IFRS 15. In addition, revenues are generated from the Group's own provision of real estate management services, which, however, are of subordinate importance in relation to the Group's total revenues. Proceeds from the sale of real estate assets are not reported under sales but in a separate line item, "Net result from the disposal of investment property."

Furthermore, the landlord's advance payments received from the tenants are collected. The advance payments refer to services rendered to the tenant by third parties, such as energy suppliers, waterworks, facility managers, etc. When deciding whether to classify these prepaid service charges received as revenue in accordance with IFRS 15, it depends on whether alstria is to be classified as a principal or agent in the performance of the services. A company is a principal under IFRS 15 if it has control over the transfer of a promised good or service to a customer. The power of disposal is held by the person who is the primary service provider in relation to the good or service, carries the inventory risk, and holds the pricing power. These three criteria are not in the power of alstria for third-party services. Thus, the Group acts not as a principal but as an agent, with the result that the advance operating expenses received for these services are not sales.

Based on the above analysis, IFRS 15 is not expected to have a material impact on the presentation of Group's revenues. Therefore, there are also no effects at the time of transition.

### IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

IFRS 16 is generally applicable to all leases. A lease according to the standard exists when the lessor has contractually granted the lessee the right to control an identified asset for a specified period and, in return, the lessor receives consideration from the lessee.

For **lessees**, the previous distinction between operate leasing and finance leasing is not made. Instead, the lessee has to account for the right of use of a leased asset (so-called "right-of-use asset" or RoU asset) and a corresponding lease liability for the leasing payment obligations. Exceptions to this are made only for short-term leases and leases for low-value assets. The amount of the RoU asset at the time of acquisition is equal to the amount of the lease liability plus any initial direct costs of the lessee. In subsequent periods, the RoU asset is valued at amortised cost (with two exceptions). The lease liability is the present value of the lease payments that are paid during the term of the lease. Subsequently, the book value of the lease liability is compounded using the interest rate used for discounting and reduced by the lease payments made. Changes in the lease payments lead to a revaluation of the lease liability.

For **lessors**, on the other hand, the accounting principles known from IAS 17 "Leases," with a distinction between finance leases and operate leases, remain the same.

The list of criteria for the assessment of a finance lease was adopted unchanged from IAS 17. In addition, the disclosure requirements for lessees and lessors in IFRS 16 have increased considerably in comparison with IAS 17. The objective of the disclosure requirements is to provide information to users of the financial statements so they can gain a better understanding of the effects of leases on the net assets, financial position, and results of operations.

The first-time application of IFRS 16 is not expected to have a material impact on the consolidated financial statements of the Company, as the Group has mainly concluded lease agreements for the commercial leasing of its investment property, thereby acting as the lessor. The scope of the transactions agreed by the Company as lessee, however, is of minor scope.

No significant impact on financial reporting is expected from the other new standards and amendments to the existing standards listed above.

The Group did not adopt any new or amended standards or interpretations early in 2017.

## 2.2 Basis of consolidation

### 2.2.1 Subsidiaries

The consolidated financial statements incorporate the financial statements of alstria office REIT-AG and entities controlled by the Company and its subsidiaries. Control is achieved when the Company does the following:

- has power over the investee,
- is exposed or has rights to variable returns from its involvement with the investee, and
- has the ability to use its power to affect its returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the Company's owners and noncontrolling interests. The total comprehensive income of the subsidiaries is attributed to the Company's owners and noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

#### **a) Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and

- (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any noncontrolling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity, as specified/permitted by applicable IFRSs).

### **b) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Good will is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. After reassessment, if the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree and fair value of the acquirer's previously held interest in the acquiree fit and the excess is recognised immediately in profit or loss as a bargain purchase gain.

Noncontrolling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the noncontrolling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. Other types of noncontrolling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value, and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive incomes are reclassified as profit or loss, where such treatment would be appropriate if that interest were disposed of.

Significant companies wherein alstria office REIT-AG is directly or indirectly able to significantly influence financial and operating decisions (associates), or directly or indirectly share control (joint

## Consolidated Financial Statements

ventures), are accounted for using the equity method.

### 2.2.2 Fully consolidated subsidiaries

The Group of consolidated companies, including alstria office REIT-AG, comprised 63 companies in the financial year (2016: 69). As of the balance sheet date, 55 companies (prior year balance sheet date: 63 companies) existed. In addition, two joint ventures and a noncontrolling interest have been accounted for using the equity method.

In the consolidated financial statements of alstria office REIT-AG, the following companies are included:

No.	Company	Headquarters	Equity interest in %	Held by No.	Business activity
1	alstria office REIT-AG	Hamburg	Parent company		Asset-management; holding
2	alstria Bamplerstraße GP GmbH	Hamburg	100.0	1	General Partner
3	alstria Gänsemarkt Drehbahn GP GmbH	Hamburg	100.0	1	General Partner
4	alstria Englische Planke GP GmbH	Hamburg	100.0	1	General Partner
5	alstria Halberstädter Straße GP GmbH	Hamburg	100.0	1	General Partner
6	alstria Hamburger Straße 43 GP GmbH	Hamburg	100.0	1	General Partner
7	alstria Ludwig-Erhard-Straße GP GmbH	Hamburg	100.0	1	General Partner
8	alstria Mannheim/Wiesbaden GP GmbH	Hamburg	100.0	1	General Partner
9	alstria Portfolio 1 GP GmbH	Hamburg	100.0	1	General Partner
10	alstria Steinstraße 5 GP GmbH	Hamburg	100.0	1	General Partner
11	alstria solutions GmbH	Hamburg	100.0	1	Service company
12	alstria office Bamplerstraße GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	Own property
13	alstria office Gänsemarkt Drehbahn GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	Own property
14	alstria office Englische Planke GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	Own property
15	alstria office Halberstädter Straße GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	No activity
16	alstria office Hamburger Straße 43 GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	No activity
17	alstria office Insterburger Straße GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	Own property
18	alstria office Mannheim/Wiesbaden GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	Own property
19	alstria Prime Portfolio GP GmbH	Hamburg	100.0	1	General Partner
20	alstria Prime Portfolio 2 GP GmbH	Hamburg	100.0	1	General Partner
21	alstria office Steinstraße 5 GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	Own property
22	beehive GmbH & Co. KG	<sup>1)</sup> Hamburg	100.0	1	Service company
23	alstria office Prime Portfolio GmbH & Co. KG	<sup>1)</sup> Hamburg	94.0	1	Intermediate holding
24	alstria office PP Holding I GmbH & Co. KG (formerly German Acorn Portfolio Co I GmbH)	<sup>1)</sup> Hamburg	94.0	23	Intermediate holding
25	alstria office Kampstraße GmbH & Co. KG (formerly GA Objekt 2001 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	24	Own property
26	alstria office Berliner Straße GmbH & Co. KG (formerly GA Objekt 2003 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	24	Own property
27	alstria office Hanns-Klemm-Straße GmbH & Co. KG (formerly GA Objekt 2005 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	24	Own property
28	alstria office Maarweg GmbH & Co. KG (formerly GA Objekt 2007 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	24	Own property
29	alstria office Heerdter Lohweg GmbH & Co. KG (formerly GA Objekt 2008 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	24	Own property
30	alstria office Solmsstraße GmbH & Co. KG (formerly GA Objekt 2011 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	24	Own property
31	GA Fixtures and Facility Management PortfolioCo I GmbH	<sup>2)</sup> Hamburg	n/a	24	Own property
32	alstria office PP Holding II GmbH & Co. KG (formerly German Acorn Portfolio Co II GmbH)	<sup>1)</sup> Hamburg	94.0	23	Intermediate holding
33	alstria office Vichystraße GmbH & Co. KG (formerly GA 5. Objekt 1004 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	32	Own property
34	alstria office Wilhelminenstraße GmbH & Co. KG (formerly GA 6. Objekt 1007 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	32	Own property
35	alstria office Hauptstraße GmbH & Co. KG (formerly GA 7. Objekt 1008 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	32	Own property
36	GA 10. Objekt 1014 Beteiligungs GmbH	<sup>2)</sup> Hamburg	n/a	32	Own property
37	alstria office Frankfurter Straße GmbH & Co. KG (formerly GA 11. Objekt 1015 Beteiligungs GmbH)	<sup>1)</sup> Hamburg	94.0	32	Own property

## Consolidated Financial Statements

No.	Company	Headquarters	Equity interest in %	Held by No.	Business activity
38	alstria office Mergenthaler Allee GmbH & Co. KG (formerly GA 12. Objekt 1016 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
39	alstria office Am Hauptbahnhof GmbH & Co. KG (formerly GA 13. Objekt 1019 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
40	alstria office Berner Straße GmbH & Co. KG (formerly GA 14. Objekt 1020 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
41	alstria office Eschersheimer Landstraße GmbH & Co. KG (formerly GA 15. Objekt 1021 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
42	alstria office Kastor GmbH & Co. KG (formerly GA 17. Objekt 1024 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
43	alstria office Heidenkampsweg GmbH & Co. KG (formerly GA 18. Objekt 1027 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
44	alstria office Stiftsplatz GmbH & Co. KG (formerly GA 19. Objekt 1028 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
45	alstria office An den Dominikanern GmbH & Co. KG (formerly GA 20. Objekt 1030 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
46	alstria office Carl-Benz-Straße GmbH & Co. KG (formerly GA 21. Objekt 1034 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
47	alstria office Carl-Schurz-Straße GmbH & Co. KG (formerly GA 23. Objekt 1036 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
48	GA 24. Objekt 1037 Beteiligungs GmbH	2) Hamburg	n/a	32	Own property
49	alstria office Pempelfurtstraße GmbH & Co. KG (formerly GA 25. Objekt 1038 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
50	alstria office Josef-Wulff-Straße GmbH & Co. KG (formerly GA 26. Objekt 1039 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
51	alstria office Ingersheimer Straße GmbH & Co. KG (formerly GA 27. Objekt 1040 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
52	alstria office Frauenstraße GmbH & Co. KG (formerly GA 28. Objekt 1042 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
53	GA 29. Objekt 1043 Beteiligungs GmbH	2) Hamburg	n/a	32	Own property
54	alstria office Olof-Palme-Straße GmbH & Co. KG (formerly GA 32. Objekt 1046 Beteiligungs GmbH)	1) Hamburg	94.0	32	Own property
55	GA 34. Objekt 1048 Beteiligungs GmbH	2) Hamburg	n/a	32	Own property
56	GA 35. Objekt 1049 Beteiligungs GmbH	2) Hamburg	n/a	32	Own property
57	alstria office Region Nord GmbH & Co. KG (formerly GA Region Nord GmbH)	1) Hamburg	94.0	32	Own property
58	alstria office Region Süd GmbH & Co. KG (formerly GA Region Süd GmbH)	1) Hamburg	94.0	32	Own property
59	alstria office Region Mitte GmbH & Co. KG (formerly GA Region Mitte GmbH)	1) Hamburg	94.0	32	Own property
60	GA Fixtures and Facility Management PortfolioCo II GmbH	2) Hamburg	n/a	32	Own property
61	alstria office PP Holding III GmbH & Co. KG (formerly DO Portfolio Co III GmbH)	1) Hamburg	94.0	23	Intermediate holding
62	alstria office Vaihinger Straße GmbH & Co. KG (formerly DO Objekt 3001 Stuttgart GmbH)	1) Hamburg	94.0	61	Own property
63	DO Fixtures and Facility Management PortfolioCo III GmbH	2) Hamburg	n/a	61	Own property

<sup>1)</sup> The Company has made use of the exemption from the obligation to prepare annual financial statements in accordance with the provisions applicable to corporations in accordance with Section 264b HGB.

<sup>2)</sup> Terminated as a result of a step-up merger in 2017.

Alongside alstria office REIT-AG, the consolidation embraced companies in which the Company directly or indirectly held the majority of voting rights. The consolidated group at the balance sheet date consisted of the Company, 22 domestic subsidiaries, and 32 domestic second-tier subsidiaries. Eight subsidiaries were terminated as a result of a step-up merger.

The reporting date for the consolidated financial statements is the same as the reporting date for the Company and consolidated subsidiaries.

There have been no further changes to the consolidated Group in the 2017 financial year in comparison to the consolidated financial statements as of December 31, 2016. All the Group companies are property-management, holding, or general partner companies.

In the previous period, a real estate company was deconsolidated. The following tables show the effects of these changes on the Group:

## Consolidated Financial Statements

Consideration received	
EUR k	2016
Deferred sales proceeds	228,357
Consideration received in cash and cash equivalents	228,357
<b>Total consideration received</b>	<b>228,357</b>

Assets and liabilities over which control was lost	
EUR k	2016
Cash and cash equivalents	1,769
Investment property	209,300
Receivables and other assets	209
Liabilities	-188
Prepayments received	-1,469
<b>Net assets disposed of</b>	<b>209,621</b>

Gain on disposal of a subsidiary	
EUR k	2016
Consideration received	228,357
Net assets disposed of	209,621
<b>Gain on disposal</b>	<b>18,736</b>

The gain on disposal was included in the income statement as a “gain on disposal of investment property”.

Net cash inflow on disposal of a subsidiary	
EUR k	2016
Consideration received in cash and cash equivalents	228,357
Less cash and cash equivalent balances disposed of	-1,769
<b>Net assets disposed of</b>	<b>226,588</b>

### 2.2.3 Interests in joint ventures and noncontrolling interests

The Group holds interests in two joint ventures that had a carrying amount of EUR 7,733 k at the end of the reporting period.

Details of the Group’s joint ventures at the end of the reporting period are as follows:

Name of joint venture	Principal activity	Place of incorporation and business	Proportion of ownership, interest, and voting rights held by the Group	
			Dec. 31, 2017 (%)	Dec. 31, 2016 (%)
Alstria IV. Hamburgische Grundbesitz GmbH & Co. KG	Hold and manage of real estate	Hamburg, Germany	49.0	49.0
Alte Post General Partner GmbH i.L. n/a		Oststeinbek, Germany	49.0	49.0

The abovementioned joint ventures were accounted for by applying the equity method in these consolidated financial statements.



## Consolidated Financial Statements

The following table provides the aggregated information of joint ventures whose carrying amounts are not individually material:

EUR k	2017	2016
The Group's share of profit (loss) from continuing operations	28,064	5,500
<b>The Group's share of total comprehensive income</b>	<b>28,064</b>	<b>5,500</b>

EUR k	Dec. 31, 2017	Dec. 31, 2016
Aggregate carrying amount of the Group's interests in these joint ventures	7,733	29,401

There were no unrecognised shares of losses of a joint venture or any significant restrictions as to the ability of joint ventures to transfer cash funds to the Group.

Furthermore, alstria holds a noncontrolling interest in an affiliate in an amount of EUR 926 k. The Company was acquired in the 2017 business year and is considered immaterial. Its business is the investment in innovative real estate technology concepts. The Company recorded a loss of EUR 54 k in the reporting period.

### 2.3 Key judgments and estimates

To a certain degree, estimates, assessments, and assumptions must be made in the course of preparing the Group's consolidated financial statements. These can affect the reported amounts and recognition of assets and liabilities, contingent assets and liabilities on the balance sheet date, and the amounts of income and expenses reported for the period overall. The major items that such estimates, assessments, and assumptions affect are described hereafter. Actual amounts may differ from the estimates. Changes in the estimates, assessments, and assumptions can have a material impact on the consolidated financial statements.

#### 2.3.1 Judgements

Management has made the following discretionary decision in line with the Group's accounting policies. Apart from decisions involving estimations, it has the most significant effect on the amounts recognised in the financial statements:

**Operating lease commitments—Group as lessor.** The Group has entered into commercial property leases in its investment-property portfolio. Based on an evaluation of the terms and conditions of the arrangements, the Group has determined that all significant risks and rewards of ownership of these properties remain with the Group. As a result, the contracts are treated and accounted for as operating leases.

#### 2.3.2 Estimates and assumptions

Significant key sources of estimation uncertainty and key assumptions concerning the future as of the balance sheet date relate to the following balance sheet items. They present a significant risk, possibly resulting in necessary material adjustments to the carrying amounts of assets and liabilities within the next financial year. Applying estimates is particularly necessary to

## Consolidated Financial Statements

- determine the fair value of investment property (see section 6.1),
- determine the fair value of derivative financial instruments, including the embedded derivative (see section 6.5),
- determine the fair value of virtual shares granted to management (see section 13.1),
- determine the fair value of limited partnership capital of noncontrolling interests (see section 7.2),
- determine the fair value of other provisions (see section 7.4), and
- determine the fair value of convertible profit participation certificates (see section 13.2).

At the end of the reporting period, the above-stated assets, liabilities, and equity instruments, which are particularly exposed to estimation uncertainties, had the following impact on the consolidated statement of financial position:

EUR k	Dec. 31, 2017	Dec. 31, 2016
Investment property and properties held for sale excluding prepayments made	3,386,558	3,013,799
Positive fair values of derivatives	14	114
Negative fair values of derivatives	27,529	20,099
Limited partnership capital of noncontrolling interests	53,881	71,424
Other provisions	4,491	3,570
Valuation of convertible profit participation rights and virtual shares	-2,773	-2,069

### 2.4 Summary of significant accounting policies

The following accounting and valuation methods have been used to prepare the consolidated financial statements of alstria office REIT-AG.

#### Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, such as investment property, at its fair value at each reporting date.

The fair value of an asset or liability is determined based on the assumptions that market participants would use in pricing the asset or liability, regardless of whether that price is directly observable or estimated by applying another valuation technique. In estimating fair value, it is assumed that the transaction during which the disposal of the asset or the transfer of the liability occurs takes place either

- in the principal market for the asset or liability or
- in the most advantageous market for the asset or the liability if no principal market exists.

The Group must have access to the principal market or the most advantageous market.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis. Hereby excluded are the following:

- share-based payment transactions that are within the scope of IFRS 2 “Share-based payments,”

- leasing transactions that are within the scope of IAS 17 “Leases,” and
- measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “Inventories” or value in IAS 36 “Impairment of assets.”

Fair value is not always available as a market price. It must often be determined based on various valuation parameters. In addition, for financial-reporting purposes, fair value measurements are categorised as Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level of disclosure is more extensive for Level 3 inputs.

### **Investment property**

Investment properties are properties held to earn rental income and/or for capital appreciation (including property under construction for such purposes). They are not used in production or for administrative purposes. This includes properties that are in production and are intended to serve the aforementioned purposes. Investment properties are measured initially at cost at the time of purchase or construction, including transaction costs. In accordance with IAS 40.17, costs incurred subsequently for dismantling, replacement of parts, or maintenance of property are also included.

Costs of debt, which can be directly allocated to the acquisition or production of investment property, are capitalised in the year in which they arise.

For subsequent measurement, the Company uses the fair value model according to IFRS 13.61 et seq., which reflects an income-capitalisation approach combined with market conditions at the end of the reporting period.

In the context of the fair value hierarchy described above, only inputs of Levels 2 and 3 are applicable for property. The majority is categorised as Level 3. Inputs used in the valuation approach the Group has adopted for all of its properties include rental revenues, adjusted yield figures (e.g., property-based capitalisation rates), and vacancy periods. These inputs can hardly be observed in markets, and they are considered significant inputs. Therefore, the fair value measurement used by the Group for valuation of all investment properties is entirely categorised as Level 3. Information about the significant unobservable inputs used and their sensitivities on the fair values of the Group’s investment property is presented in Note 6.1.

Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property derecognised upon disposal or when the investment property is permanently withdrawn from use and future economic benefits are expected from the disposal. Any gain or loss arising upon derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Investment properties are transferred to property, plants, and equipment when there is a change in use evidenced by the commencement of owner occupation. The properties' deemed cost for subsequent accounting corresponds to the fair value at the date of reclassification.

### **Valuation process for investment properties**

The fair value hierarchy does not make any statements concerning the applied valuation techniques.

The basis for deriving fair value as defined by IFRS 13.61 should, if possible, be based on valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, thereby maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The analysis above showed that there was not a sufficient number of official comparable transactions to derive any market values. Therefore, fair value was determined based on an income approach in accordance with IFRS 13.61.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. No fundamental change to the valuation method has occurred during the year.

External real estate experts conducted the valuation of investment property at fair value on December 31, 2017 – as of last year – according to internationally accepted valuation methods in accordance with IFRS using the “hardcore-and-top-slice” method. The fair value measurement was performed by accredited, external, and independent experts (Savills Advisory Services Germany GmbH & Co. KG, Frankfurt am Main, Germany, and Colliers International UK Plc., London).

### ***Description of the hardcore-and-top-slice method***

According to the hardcore-and-top-slice method, rental income is horizontally segmented. The hardcore portion represents the prevailing contractual rent. The top slice represents the difference between market and contractual rent. This method fulfils the requirements of the *Red Book*, a set of international valuation standards the Royal Institution of Chartered Surveyors has set forth. In addition, the method used by the independent experts is also appropriate and suitable for determining market values in accordance with the provisions of the International Valuation Standards (IVS, or the *White Book*).

To derive the fair value, the properties, which the independent experts evaluated, were divided into two groups and valued accordingly. Group 1 contained properties with anchor lease terms of five years or fewer, and Group 2 held properties with anchor lease terms of more than five years.

Group 1 is for properties with leases set to expire in five years or fewer: hardcore-and-top-slice method, taking into account

## Consolidated Financial Statements

- the contractual rent for the remaining term of the lease,
- a vacancy period of between 6 and 18 months following the expiry of the lease,
- the necessary maintenance costs to re-let the properties at a comparable rent level,
- re-lets at market rents,
- capitalisation rates reflecting the individual risk of the property and market activity (comparable transactions),
- non-allocable operating costs of an amount of 5% of market rents per annum, and
- the net selling price.

Group 2 is for properties with anchor leases that are let to tenants with strong credit ratings on a long-term basis (i.e., hardcore-and-top-slice method), taking into account

- the contractual rent for the remaining term of the lease,
- re-lets at market rents (accounting for the difference between market and contractual rent),
- capitalisation rates reflecting the individual risk of the property and market activity (comparable transactions),
- non-allocable operating costs in the amount of 5% of market rents per annum, and
- the net selling price.

If the future development of these properties differs from the estimate, large-scale losses resulting from the change in the fair value may be incurred. This can have a negative impact on future earnings. The effects of the most significant input parameters on the valuation of the Group's investment properties are shown in Note 6.1.

The valuation method described also applies to investment properties in which development projects are realised.

Gains or losses arising from changes in the fair values of investment property are disclosed in the income statement under the item "Net gain/loss from fair value adjustments on investment property" in the year in which they arise.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

### **Assets held for sale**

Noncurrent assets intended for disposal under an asset deal are reported separately as being held for sale in the consolidated financial statements if the formally required resolution of the Board – and, when above a certain level of transaction volume, the Supervisory Board – for the sale of a property is met until the end of the reporting period. If the disposal is to take the form of a share deal, noncurrent assets and other assets and liabilities held for sale are reported separately on the consolidated balance sheet.

Assets held for sale are measured at fair value on the date of reclassification and each subsequent reporting date. Gains or losses from measuring individual assets held for sale and disposal groups are reported under gain or loss on the disposal of investment property until they have been sold.

### **Leases**

In accordance with IAS 17, the lessee is considered to be the beneficial owner of leased assets when the lessee bears all the risks and rewards incidental to the assets (finance lease). If the lessee is deemed to be the beneficial owner, the leased asset is recognised at fair value or at the lower present value of the minimum lease payments at the inception date of the lease. The corresponding leasing liability is recorded as a lease commitment under other noncurrent liabilities. The resulting lease payments are separated into interest and amortising portions.

### ***Operating leases***

Lease agreements that alstria has entered into with commercial tenants are classified as operating leases under IFRS. Accordingly, alstria acts as a lessor in many different types of operating lease agreements for investment properties. All of the Group's leases are classified as operating leases, as all significant risks and rewards of the Group's real estate remain at alstria. These leases generate the majority of proceeds and income for alstria. Furthermore, to a limited extent, alstria is the lessee within the scope of operating lease agreements.

### **Revenue and expense recognition**

Revenues and other operating expenses are basically recognised when it is probable that the economic benefits will flow to the Group and only when the amount becomes reliably measurable.

This is usually the case when services are rendered or goods or products have been delivered and the risk has thus been transferred.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. Revenues are recorded, excluding VAT. In addition, the following specific recognition criteria must be met before revenues are recognised.

***Rental income*** from operating leases on investment properties is recognised on a straight-line basis over the terms of the relevant lease, regardless of the payment date. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

***Operating expenses*** Operating expenses are recognised at the time of the service or when they are incurred.

***Interest expenses and interest income*** are recognised using the effective interest method.

### **Income taxes**

Current and deferred tax are recognised in profit or loss, except when they relate to items recognised in other comprehensive incomes or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

## Consolidated Financial Statements

As a REIT-AG, the parent company, alstria office REIT-AG, is exempt from corporation and trade taxes.

Current tax assets and liabilities for the current and prior periods are shown as the amount expected to be recovered from or paid to the tax authorities. In order to take effect, the determination of the amount is based on the tax rates and tax laws applicable on the reporting date or soon after.

### **Earnings per share**

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the parent company by the weighted-average number of shares outstanding during the business year. Diluted earnings per share are calculated based on the assumption that all potentially dilutive securities and share-based payments are converted or exercised.

### **Impairments of assets**

Assets are tested for impairment when triggering events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

An impairment loss is recorded at an amount equivalent to the excess of the carrying amount over the recoverable amount. If the reasons for an impairment loss cease to apply, the impairment loss is reversed as appropriate but not above the maximum value that would have resulted if normal amortisation had been charged.

### **Property, plants, and equipment**

Property, plants, and equipment are stated at a cost less than the accumulated depreciation and accumulated impairment losses. They include owner-occupied real estate as well as operating and office equipment. Such costs include replacement costs as part of the plant and equipment when that cost is incurred if the recognition criteria are met. All other repair and maintenance costs are recognised in profit or loss as incurred.

The depreciation of operating and office equipment is calculated on a straight-line basis over the useful life of the asset (three to 21 years). The useful life of owner-occupied property is estimated at 33 to 50 years. While the building is depreciated on a scheduled basis, the land is not subject to depreciation.

### **Intangible assets**

The Group amortises intangible assets with finite useful lives on a straight-line basis over its respective estimated useful lives. Estimated useful lives for patents, licences, and other similar rights generally range from three to five years. Currently, the Company does not have intangible assets with indefinite useful lives.

### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. alstria does not use the option to designate financial assets or financial liabilities at fair value through profit or loss at inception (fair value option). Based

on their nature, financial instruments are classified as the following:

- held-to-maturity,
- financial assets and financial liabilities measured at cost or amortised cost,
- financial assets and financial liabilities measured at fair value, and
- receivables from finance leases.

Regular purchases or sales of financial assets are accounted for at the trade date. Initially, financial instruments are recognised at their fair value. Transaction costs are only included in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss. Receivables from finance leases are recognised at an amount equal to the net investment in the lease. Subsequently, financial assets and liabilities are measured according to the category to which they are assigned the following:

- cash and cash equivalents,
- available-for-sale financial assets,
- loans and receivables,
- financial liabilities measured at amortised cost, or
- financial assets and liabilities classified as held for trading.

### ***Cash and cash equivalents***

The Company considers all highly liquid investments with less than three months' maturity from the date of acquisition to be cash equivalents.

For the purposes of the consolidated cash flow statement, cash and cash equivalents include the cash and cash equivalents defined above, other short-term, highly liquid investments with original maturities of three months or fewer, and bank overdrafts.

Cash and cash equivalents are measured at cost.

### ***Available-for-sale financial assets***

Investments in equity instruments, debt instruments, and fund shares are measured at fair value, if reliably measurable. Unrealised gains and losses, net of applicable deferred income tax expenses, are recognised in line item other comprehensive income *net of income taxes*. Provided that fair value cannot be reliably determined, alstria measures available-for-sale financial assets at cost. During the last two reporting periods and to the date of this note, alstria did not use any available-for-sale financial assets.

### ***Loans and receivables***

Financial assets classified as loans and receivables are measured at amortised cost using the effective-interest method less any impairment losses. The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends, and analysis of historical bad debts. Allowances on a



portfolio basis are not made.

### ***Financial liabilities***

alstria measures financial liabilities, except for derivative financial instruments, at amortised cost using the effective-interest method.

### ***Derivative financial instruments***

Derivative financial instruments, such as interest rate swap contracts, are measured at fair value and classified as being held for trading unless they are designated as hedging instruments, for which hedge accounting is applied. Changes in the fair value of derivative financial instruments are recognised in either net income or, in the case of a cash flow hedge, in line item other comprehensive income, net of income taxes (applicable deferred income tax). Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives.

### ***Cash flow hedges***

The effective portion of changes in the fair value of derivative instruments designated as cash flow hedges is recognised in line item other comprehensive income, net of income taxes (applicable deferred income tax), and any ineffective portion is recognised immediately in net income. Amounts accumulated in equity are reclassified into net income during the same periods in which the hedged item affects net income.

### ***Other hedges***

The Group neither uses any financial derivatives that qualify for the hedging of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) nor such financial derivatives that qualify for the hedging of a net investment in a foreign operation (net-investment hedge).

### **Provisions**

Provisions are recognised when a present obligation to third parties exists as a result of a past event, a future outflow of resources is probable, and a reliable estimate of that outflow can be made. Provisions are measured, taking all risks into account at the best estimate of future cash outflows required to meet the obligation. If they are not current, they are discounted. Provisions are not offset with reimbursements.

A debt resulting from the termination of employment (severance) is recognised when the Group may not withdraw the offering of such services or, if earlier, the Group has recorded costs related to restructuring.

### **Share-based payments**

Share-based payments comprise cash-settled liability awards and equity-settled equity awards.

The fair value of equity awards is generally determined using a modified Black-Scholes option-pricing model at the grant date. It measures the total personnel expense, which is to be recognised in profit

and loss for the service period and which, in turn, increases equity (paid-in capital) by the same amount. Equity-settled awards are granted to the Group's employees in the form of convertible profit participation certificates, the fair value of which was estimated at the respective granting dates by applying a binary barrier-option model based on the Black-Scholes model; assumptions included an automatic conversion once the barrier was reached. The model took the terms and conditions upon which the instruments were granted into account. This valuation required the Company to make estimates concerning these parameters, which are therefore subject to uncertainty.

Until settlement liability awards are measured at fair value on each balance sheet date, they are classified as provisions. The expense of the period comprises the addition to and reversal of the provision between two reporting dates and the dividend equivalent paid during the period.

Cash-settled liability awards relate to virtual shares granted to the management board. The virtual shares are measured at each balance sheet date and are accounted for as provisions. The proportional expense incurred in the period comprises the addition to and reversal of the provision between two reporting dates and the dividend paid during the respective period. This valuation requires the Company to make estimates about certain parameters, and, hence, they are subject to uncertainty. The fair value of the virtual shares granted is allocated to the vesting period subject to the terms of the underlying share-based incentive plan. The resulting personnel expenses incurred an addition to provisions of EUR 1,488 k (December 31, 2016: EUR 1,001 k) and a provision of EUR 2,887 k, as reported in the consolidated financial statements as of December 31, 2017 (December 31, 2016: EUR 2,890 k).

Further details on the share-based payment schemes are given in Note 13 and the remuneration report, respectively.

### 3. SEASONAL OR ECONOMIC EFFECTS ON BUSINESS

The business activities of alstria office REIT-AG (primarily the generation of revenues from investment properties) are not generally affected by seasonality. However, the sale of one or more large properties can have a significant impact on revenues and operating expenses.

Experience shows that the real estate market tends to fluctuate as a result of factors such as changes in consumers' net income, GDP, interest rates, consumer confidence, demographic factors, and other factors inherent to the market. Changes in interest rates might lead to a modified valuation of the investment property and derivatives.

### 4. SEGMENT REPORTING

IFRS 8 requires a "management approach," under which information on segments is presented on the same basis used for internal-reporting purposes.

The services offered by alstria office REIT-AG exclusively focus on letting activities to commercial-property tenants in Germany. In accordance with IFRS 8, a single reporting segment is identified that

## Consolidated Financial Statements

comprises all of the Group's operations.

The manner of reporting for this segment is consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources to the operating segments of an entity and assessing their performance. The Group's chief operating decision maker is the management board.

A larger number of tenants generate revenues. Total revenues amount to EUR 193,680 k (2016: EUR 202,663 k), of which EUR 24,608 k (2016: EUR 26,192 k) and EUR 21,309 k (2016: EUR 23,098 k) relate to leases to the Group's two largest customers. No other single customer has contributed either 10% or more to the consolidated revenues in the 2016 or 2017 financial year.

### 5. NOTES TO THE CONSOLIDATED INCOME STATEMENT

#### 5.1 Revenues

EUR k	2017	2016
Revenues from investment properties	193,680	202,663

Revenues from investment properties are mainly comprised of rental income from investment properties. The rental income includes effects totalling EUR 1,984 k (2016: EUR 1,175 k), which are attributable to rent-free periods.

In addition, revenues include income from asset management services in relation to the leased real estate properties in the amount of EUR 2,429 k (2016: EUR 992 k).

Rental income from property leases contains variable rental income amounting to EUR 8,275 k (2016: EUR 5,014 k). These are rental agreements in which the rental payments are linked to the operating results of the tenants.

#### 5.2 Income less expenses from passed-on operating expenses

EUR k	2017	2016
Income from passed-on operating expenses	35,118	36,349
Income from passed-on operating expenses related to the prior years	1,637	1,799
	<b>36,755</b>	<b>38,148</b>
Expenses from passed-on operating expenses	-35,118	-36,349
Expenses from passed-on operating expenses related to the prior years	-1,401	-2,003
	<b>-36,519</b>	<b>-38,352</b>
Income less expenses from passed-on operating expenses	<b>236</b>	<b>-204</b>

The expenses from passed-on operating expenses, which are directly attributable to investment property, include, in particular, operating costs, maintenance expenses, and property-based taxes.

## Consolidated Financial Statements

### 5.3 Real estate operating expenses

EUR k	2017	2016
Maintenance and refurbishment	9,086	8,056
Vacancy costs	6,201	7,950
Ongoing repairs	4,275	4,357
Insurance expenses	373	308
Legal and advisory fees	246	385
Electricity costs	150	224
Property management	139	151
Rent expenses	114	549
Facility management costs	25	419
Taxes on land and buildings	9	127
Nondeductable VAT	0	97
Other expenses	1,019	822
<b>Total</b>	<b>21,637</b>	<b>23,445</b>

### 5.4 Administrative expenses

EUR k	2017	2016
Legal and consulting fees	2,642	2,425
Audit fee (audit and audit-related services)	757	634
Communication and marketing	670	734
Travel expenses	507	487
Depreciation	490	678
Leasing costs	436	264
Supervisory Board compensation	353	347
Recruitment	309	300
Office equipment	299	198
Insurances	213	259
IT maintenance	205	375
Office area costs	205	232
Contributions	191	126
Training & workshops	151	122
Donations	58	76
Other	547	1,207
<b>Total</b>	<b>8,033</b>	<b>8,464</b>

## Consolidated Financial Statements

### 5.5 Personnel expenses

EUR k	2017	2016
Salaries and wages	7,338	6,717
Social insurance contribution	1,225	1,088
Bonuses	1,986	2,346
Expenses for share-based compensation	2,773	2,069
<i>thereof relating to virtual shares</i>	1,488	1,001
<i>thereof relating to the convertible profit participation certificates</i>	1,285	1,068
Amounts for retirement provisions and disability Management Board	142	144
Other	359	319
<b>Total</b>	<b>13,823</b>	<b>12,683</b>

The increase in personnel expenses is based on a higher number of average employees and higher share-based payments.

Convertible profit participation rights granted to employees not only grant the right to a conversion when the conditions apply but also to an annual payment equivalent to the dividend amount paid out per share. Therefore, expenses for share-based compensation resulting from the convertible profit participation rights must be accounted for in equity (for the conversion right) and in liabilities (for the dividend entitlement). Of the total expenses related to the profit participation rights – which amounted to EUR 1,285 k – EUR 1,129 k were recognised in equity (2016: EUR 949 k), while EUR 156 k were recorded as an item in liabilities (2016: EUR 119 k).

The employer's contribution to statutory pension insurance, included in wages and salaries, amounts to EUR 590 k for the 2017 financial year.

On average, the Group employed 118 employees in 2017 (2016: 105).

### 5.6 Other operating income

EUR k	2017	2016
Compensation payments and other recharges	7,406	2,001
Income from the reversal of accrued liabilities	1,006	1,432
Result from annual operational cost statements for prior years	632	0
Compensation for damages	379	0
Property management services	335	165
Payments on provisions on doubtful debts	296	43
Income from the reversal of provisions in relation to rental guarantees	0	931
Refunded property tax from previous years	0	345
Other	717	500
<b>Total</b>	<b>10,771</b>	<b>5,417</b>

Compensation payments and other charges result from early termination of leases and refurbishment activities conducted by alstria. The latter refers to refurbishments the tenants had originally committed themselves to upon entering into the leasing contracts.

## Consolidated Financial Statements

The derecognition of the operating cost overhang relates to prepayments received in previous business years, which could be definitively collected after the final service charge calculation was made up by the Company.

### 5.7 Other operating expenses

EUR k	2017	2016
Revaluation of the limited partnership capital noncontrolling interests	9,210	239
Transaction and restructuring costs following the alstria office Prime takeover	1,971	4,337
Property disposal costs	1,160	4,771
Impairment on trade receivables	698	176
Settlement agreements	676	0
Impairment of operating costs receivables	0	2,214
Remaining other operating expenses	656	2,708
<b>Total</b>	<b>14,371</b>	<b>14,445</b>

Other operating expenses are at the previous year's level. Although the consequential costs resulting from the integration of the Prime Portfolio declined significantly, there was a considerable amount of additional costs resulting from the revaluation of the limited partnership noncontrolling interests.

Impairment on trade receivables mainly relates to tenants subject to insolvency or eviction proceedings. The item also includes valuation allowances related to disputed invoicing of ancillary costs. The increase compared to the previous year relates to high volume rental receivables of a small number of tenants.

The previous year's other remaining operating expenses include EUR 2.5 million donations made in that year for the promotion of charitable purposes.

### 5.8 Net result on the disposal of investment property

EUR k	2017	2016
Proceeds from the disposal of investment property	119,200	459,213
Carrying amount of investment property disposed	-99,507	-433,749
<b>Total</b>	<b>19,693</b>	<b>25,464</b>

The total loss from the disposal of objects and portfolios sold below their carrying value amounted to EUR 194 k in 2017 and EUR 7,952 k in 2016.

## 5.9 Financial and valuation result

The financial result breaks down as follows:

EUR k	2017	2016
<b>Income from financial instruments</b>	<b>816</b>	<b>535</b>
Interest expenses, corporate bonds	-23,314	-20,496
Interest expenses, convertible bond	-5,357	-5,116
Interest expenses, other loans	-3,399	-4,074
Interest result "Schuldschein"	-3,248	-2,036
Interest expenses, loan alstria office Prime Portfolio	-186	-6,728
Interest expenses, syndicated loan alstria	0	-6,723
Interest result derivatives	0	-207
Other interest expenses	-480	0
<b>Financial expenses</b>	<b>-35,984</b>	<b>-45,380</b>
Fees, loan premium and effective interest costs in relation to the repayment of loans and corporate bonds before maturity	-31,981	-5,111
Commitment fees	-152	-161
Agency fees	-38	-134
Other	-369	-543
<b>Other financial expenses</b>	<b>-32,540</b>	<b>-5,949</b>
<b>Net financial result</b>	<b>-67,708</b>	<b>-50,794</b>

The total interest income and expenses for financial assets and liabilities other than financial derivatives amounted to an interest income of EUR 816 k (2016: EUR 535 k) and EUR 35,984 k of interest expenses (2016: EUR 45,173 k), respectively.

The total interest expenses calculated by applying the effective interest method for financial liabilities (i.e., not recognised at fair value through profit or loss) amounted to EUR 2,122 k (interest expenses, 2016: EUR 4,210 k).

The premium and the effective interest expense due to the repayment of loans or corporate bonds in the amount of EUR 31,981 k relate to the proportionate repurchase of two corporate bonds prior to their regular maturity (see also the explanations of corporate bonds in section 7.3 Loans and bonds). As part of a tender offer for repurchase, bonds with a nominal value of EUR 348,200 k were bought back in the market. The premium to be paid on the basis of the bond prices at the time of the repurchase amounted to EUR 29,172 k. The reversal of the allocated accrued original ancillary costs of the bond placement at the time of the repurchase amounted to EUR 2,809 k.

In neither of the two former financial years did the Group hold any financial assets available for sale. Therefore, the net result from the disposal of financial assets available for sale amounted, as in the previous year, to EUR 0.

## Consolidated Financial Statements

Fair value adjustments on financial derivatives resulted in a net loss:

EUR k	2017	2016
Transfer of cumulated loss from cash flow hedge reserve to income statement	0	-270
Ineffective change of the fair value of cash flow hedges	-25	-4,971
Change in fair value of financial derivatives not qualifying as a cash flow hedge	-9,309	-2,860
<b>Net loss from fair value adjustments on financial derivatives</b>	<b>-9,334</b>	<b>-8,101</b>

In 2016, a loss amounting to EUR 270 k related to cumulative losses from fair value adjustments of cash flow hedge derivatives, which were recorded in equity. The adjustments resulted from the fact that the originally hedged transactions are no longer expected to occur.

Further details and explanations on derivatives are presented in Note 6.5.

### 5.10 Income tax expenses

On January 1, 2007, alstria office REIT-AG obtained G-REIT status. At this time, it was subject to final taxation and has been tax exempt with regard to corporate tax and trade tax effectively since then.

With the acquisition of the alstria office Prime, however, companies were included in the consolidated financial circle that are not subject to the REIT exemption. This resulted in expenses for income taxation at the level of the alstria office Prime Subgroup.

The sources of income tax expenses can be broken down as follows:

EUR k	2017	2016
Current tax expenses	-2,097	-11,450
Deferred tax result		
From temporary differences	0	132
<b>Tax result</b>	<b>-2,097</b>	<b>-11,318</b>

The reconciliation between theoretical income tax based on pretax earnings and reported income tax is based on a taxation rate of 15.83% (15.0% as the rate of corporate income tax and 5.5% as the solidarity surcharge):

EUR k	2017	2016
Loss before income taxes	299,084	193,694
Not considered due to REIT regime	299,084	153,752
<b>Relevant loss before taxes</b>	<b>0</b>	<b>39,942</b>
Average tax rate	15.825%	15.825%
Theoretical tax income (+)	0	-6,321
Effect of unrecognised deferred tax assets on losses carried forward in prior years	0	-4,881
Tax effects, prior periods	-1,055	-32
Other	-1,042	-84
<b>Income tax income</b>	<b>-2,097</b>	<b>-11,318</b>



## Consolidated Financial Statements

As of December 31, 2017, the alstria office Prime Subgroup no longer has any trade tax losses to carry forward.

### 6. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION - ASSETS

#### 6.1 Investment property

This item, comprising investment properties held by the Company, breaks down as follows:

Fair values in EUR k	2017	2016
<b>As of January 1</b>	<b>2,999,099</b>	<b>3,260,467</b>
Property acquisition	187,723	9,146
Capital expenditure	58,780	31,277
Disposals	-42,800	-360,500
Transfers <u>to</u> held for sale	-43,100	-12,499
Transfers <u>to</u> property, plant, & equipment (own used property)	-14,836	-1,920
Transfers <u>from</u> property, plant, & equipment (own used property)	0	322
Net result from the adjustment of the fair value of investment property	181,492	72,806
<b>Subtotal</b>	<b>3,326,358</b>	<b>2,999,099</b>
Prepayments made	5,500	0
<b>As of December 31</b>	<b>3,331,858</b>	<b>2,999,099</b>

In the 2017 financial year, seven properties were sold or reclassified as assets held for sale. Two of the properties are still included in the items held for sale at the end of the financial year. The transaction volume of assets held for sale amounted to EUR 60,200 k.

Property transaction	Acquisition		Disposal	
	Number of properties	Transaction amount in EUR k	Number of properties	Transaction amount in EUR k
Contract signed in 2016, transferred in 2017	0	0	2	14,700
Contract signed and transferred in 2017	13	176,900	3	44,300
Contract signed in 2017, transfer expected for 2018	2	82,584	2	60,200
<b>Total</b>	<b>15</b>	<b>259,484</b>	<b>7</b>	<b>119,200</b>

Capital expenditure (EUR 58,780 k) comprises subsequent acquisition and production costs relating to property acquisitions and refurbishment projects.

For more information on changes to the immovable property, please refer to the “Transactions” section in the Group management report for the 2017 business year (see page 9).

Borrowing costs that would have had to be capitalised as construction costs were not incurred during the reporting period (2016: EUR 0).

The alstria office REIT-AG applied the fair value model pursuant to IAS 40.33 et seq. for subsequent measurement of investment property. External appraisals were obtained for measurement. For a detailed description of the valuation of assets, please see Note 2.4.

The item on the income statement “net result from fair value adjustments on investment property” of the amount of EUR 113,937 k is attributable to a change in unrealised losses.

As in the previous year, all real estate held as investment property measured at fair value is classified as level 3 in the fair value hierarchy.

The Group has considered the nature, characteristics, and risks of its properties, as well as the level of the fair value hierarchy within which the fair value measurements are categorised, in determining the appropriate classes of investment property.

***Valuation according to the “hardcore-and-top-slice” method for the investment properties of alstria subgroup***

The following factors help determine the appropriate classes.

- a) The real estate segment: Within all investment portfolios, the majority of the lettable area is dedicated to offices. Therefore, all investment properties belong to one asset class: offices.
- b) The geographical location of all properties is Germany.
- c) The level of fair value hierarchy for all investment properties is level 3.
- d) There are larger differences between the contractual lease terms. This also affects the weighted average unexpired lease term (**WAULT**) for each investment property. A distinction is made between objects with a short, medium, and long WAULT.

## Consolidated Financial Statements

As a result, three appropriate classes of investment properties have emerged:

- Germany - Office - Level 3 - short WAULT (0-5 years),
- Germany - Office - Level 3 - medium WAULT (> 5-10 years), and
- Germany - Office - Level 3 - long WAULT (> 10 years).

### Quantitative information about fair value measurements using unobservable inputs (alstria portfolio) (level 3)

EUR k, unless stated otherwise						
Portfolio	Fair Value on Dec. 31, 2017	Valuation technique	Unobservable inputs	Range Min. Max.		Weighted average
<b>German offices</b>	<b>3,326,358<sup>1)</sup></b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	5.7	21.3	11.7
Number of properties:			Adjusted yield	3.1%	9.0%	5.7%
114			Void period of office leases expiring within the next 5 years [months]	0,0	24.0	16.0
<b>0 ≤ WAULT ≤ 5 Years</b>						
<b>German offices</b>	<b>2,200,974</b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	5.7	21.3	11.8
Number of properties:			Adjusted yield	3.8%	9.0%	6.0%
80			Void period of office leases expiring within the next 5 years [months]	0,0	24.0	16.2
<b>5 &lt; WAULT ≤ 10 Years</b>						
<b>German offices</b>	<b>755,012</b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	6.6	16.6	11.1
Number of properties:			Adjusted yield	4.0%	7.7%	5.1%
27			Void period of office leases expiring within the next 5 years [months]	0,0	18.0	13.8
<b>WAULT &gt; 10 Years</b>						
<b>German offices</b>	<b>370,372</b>	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	9.5	15.8	12.6
Number of properties:			Adjusted yield	3.1%	4.8%	3.8%
7			Void period of office leases expiring within the next 5 years [months]	0,0	15.0	9.5

<sup>1)</sup> Fair Value of investment property without prepayments of EUR 5,500 k.

### Sensitivity of measurement to variance of significant unobservable input

A decrease in the estimated rental income decreases the fair value.

An increase in the vacancy period decreases the fair value.

An increase in the adjusted yield decreases the fair value.

A decrease in the estimated rental income leads to an increase in the adjusted yield; an increase in the estimated rental income leads to a decrease in the adjusted yield.

A decrease in the vacancy period leads to an increase in the adjusted yield; an increase in the vacancy period leads to a decrease in the adjusted yield.

The external assessors have carried out sensitivity analyses on their fair value assessments, which show the effect of changes in capitalisation rates (adjusted yield) on fair market values.

#### Fair value of investment properties (EUR m)

Capitalisation rates	Dec. 31, 2017	Dec. 31, 2016
-0.25 %	3,523	3,144
0.00 %	3,332	2,999
0.25 %	3,162	2,861

#### Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio, which consists of the Group's offices and commercial real estate. These noncancelable leases have remaining maturity of between one and 19 years. Most leases include an indexation clause allowing rental charges to be raised annually according to prevailing market conditions.

Future minimum rental charges receivable as agreed on in noncancelable operating leases are as follows:

EUR k	Dec. 31, 2017	Dec. 31, 2016
Within 1 year	182,475	187,897
After 1 year but not longer than 5 years	454,425	449,649
Longer than 5 years	315,742	333,474
<b>Total</b>	<b>952,642</b>	<b>971,020</b>

Disclosures concerning expenses/income as recorded in the income statement pursuant to IAS 40.75 (f) include:

- EUR 193,680 k (2016: EUR 202,663 k) rental income from investment properties,
- EUR 15,436 k (2016: EUR 15,495 k) operating expenses (including repairs and maintenance) directly allocable to investment properties from which rental income was generated during the period under review, and
- EUR 6,201 k (2016: EUR 7,950 k) operating expenses (including repairs and maintenance) arising from investment properties that did not generate rental income during the period under review.

Investment properties, held-for-sale properties, and own used properties of an amount of EUR 618,329 k (December 31, 2016: EUR 567,315 k) served as collateral for bank loans.

#### 6.2 Equity-accounted investment

At the end of the reporting period, two companies in which alstria office REIT-AG holds a share of 49.0% were treated as joint ventures and accounted for using the equity method. The carrying amount of the joint ventures at the end of the reporting period was EUR 7,733 k (December 31, 2016: EUR 29,401 k). In addition, alstria holds interests in an entity with a carrying amount of EUR 926 k.

For further information, please refer to Note 2.2.3.

### 6.3 Intangible assets and property, plant, and equipment

The intangible assets consist of software licences and licences to other rights of an amount of EUR 189 k and EUR 124 k, respectively. The useful life of the intangible assets is estimated to be between three and five years.

The alstria office REIT-AG occupies areas for its own use in five of its office buildings in Hamburg, Berlin, Düsseldorf, and Frankfurt. Therefore, the owner-occupied areas of the properties are categorised as “property, plant, and equipment,” according to IAS 16.

In the 2017 financial year, property space with a market value at the time of their initial use by alstria in the amount of EUR 14,836 k were reclassified from the investment property to the property, plant and equipment. As such, the real estate is depreciated on schedule.

The carrying amount of all own used areas equals EUR 21,049 k as of the balance sheet date, after EUR 5,966 k on the previous year’s reporting date. The increase resulted from space for a new administration building in Hamburg and the opening of an office in Berlin. Following the planned move in the new headquarters in Hamburg at the beginning of 2018, the previously owner-occupied space will be newly let and thus reclassified from property, plant, and equipment to investment property.

As in the previous year, two of these properties were pledged with a mortgage in order to secure loans from the Group.

Additionally, operating and office equipment in the amount of EUR 1,393 k is shown under property, plant, and equipment, after EUR 892 k on the previous year’s balance sheet date.

### 6.4 Financial Assets

The financial assets of EUR 36,567 k (December 31, 2017: 34,803 k) relate to long-term bank deposits with a maturity until the 2021 financial year.

## 6.5 Derivative financial instruments

The following derivative financial instruments were in place at the end of the reporting period:

Product	Strike p.a. (%)	Maturity date	Dec. 31, 2017		Dec. 31, 2016	
			Notional (EUR k)	Fair value (EUR k)	Notional (EUR k)	Fair value (EUR k)
Cap	3.0000	Sep. 30, 2019	50,250	0	50,250	10
Cap	0.2500	Dec. 31, 2017	0	0	340,000	5
<b>Financial derivatives - held for trading</b>			<b>50,250</b>	<b>0</b>	<b>390,250</b>	<b>15</b>
Cap	3.0000	Apr. 30, 2021	46,380	14	47,116	46
Cap	3.0000	Dec. 17, 2018	56,000	0	56,000	3
Cap	3.0000	Mar. 29, 2024 <sup>1)</sup>	0	0	10,900	50
<b>Financial derivatives - cash flow hedges</b>			<b>102,380</b>	<b>14</b>	<b>114,016</b>	<b>99</b>
<b>Total interest rate derivatives</b>			<b>152,630</b>	<b>14</b>	<b>504,266</b>	<b>114</b>
Embedded derivative	n/a	June 14, 2018	7,987 <sup>2)</sup>	-27,529	8,408 <sup>2)</sup>	-20,099
<b>Total</b>				<b>-27,515</b>		<b>-19,985</b>

<sup>1)</sup> Terminated before initial maturity.

<sup>2)</sup> Underlying number of shares subject to conversion in thousands.

The notional amount of the financial derivatives effective at the end of the reporting period is EUR 152,630 k (December 31, 2016: EUR 504,266 k). This includes cash flow hedges and derivatives not qualifying for cash flow hedging.

Derivatives of a notional amount of EUR 50,250 k (December 31, 2016: EUR 390,250 k) are not designated as a cash flow hedge.

On June 7, 2013, alstria issued a convertible bond for a total amount of EUR 79,400 k. After the conversion of 59 units, the bond has a notional value of EUR 73,500 k as of December 31, 2017. Due to the terms and conditions of the convertible bond, the conversion right has to be separately accounted for as an embedded derivative.

The value changes of the derivatives are reflected in various items in the balance sheet.

## Consolidated Financial Statements

The following table shows the change in financial derivatives since December 31, 2016:

EUR k	Financial assets		Financial liabilities		Total
	Noncurrent	Current	Noncurrent	Current	
<b>Hedging instruments as of January 1, 2017</b>	<b>109</b>	<b>5</b>	<b>-20,099</b>	<b>0</b>	<b>-19,985</b>
Ineffective change in fair value cash flow hedges	-25	0	0	0	-25
Net result from fair value changes in financial derivatives not qualifying for cash flow hedging	-10	-5	-2,868	-6,426	-9,309
Termination	-60	0	0	1,864	1,804
Reclassification due to change of maturity	0	0	22,967	-22,967	0
<b>Hedging instruments as of December 31, 2017</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>-27,529</b>	<b>-27,515</b>

The ineffective portion that arises from cash flow hedges amounted to a fair value loss of EUR 25 k (2016: loss of EUR 4,971 k) and is recognised in profit or loss.

Further losses totalling EUR 9,309 k (2016: loss of EUR 2,860 k), which were due to the market value of the derivatives not included in hedge accounting, were recorded on the 2017 income statement.

Overall, this results in a total loss of EUR 9,334 k (2016: loss of EUR 8,101 k), which is presented as the “net loss from fair value adjustments on financial derivatives.”

### 6.6 Receivables and other assets

Due to the specific nature of the business, the Group considers receivables due in up to one year to be current. The following table presents an overview of the receivables of the Group:

EUR k	Dec. 31, 2017	Dec. 31, 2016
<b>Trade receivables</b>		
Rent receivables	<b>7,153</b>	<b>7,257</b>
<b>Other receivables</b>		
Accrued receivables for “rent-free periods”	<b>10,303</b>	8,318
VAT receivables	<b>2,093</b>	38
Prepayments made	<b>684</b>	492
Creditors with debit balance	<b>474</b>	688
Security deposits and other deposits granted	<b>359</b>	1,673
Deposit account	<b>0</b>	313
Pending purchase prices from real estate sales	<b>0</b>	29,005
Receivables and other assets	<b>847</b>	1,051
<b>Other receivables</b>	<b>14,760</b>	<b>41,578</b>

A total of EUR 10,303 k of other receivables is made up of accruals resulting from the recognition of total rental revenues on a straight-line basis over the entire term of the lease agreements (rental smoothing).

The payment of the pending purchase price for sold properties on the previous year’s balance sheet date in the amount of EUR 29,005 k was made at the beginning of January 2017.

## Consolidated Financial Statements

The fair value of all receivables is equal to their carrying amount.

Trade receivables were written down by EUR 698 k (December 31, 2016: EUR 196 k) due to rent payments in arrears. Apart from trade receivables, no other receivables were impaired.

As of December 31, 2017, trade receivables of an amount of EUR 6,955 k (December 31, 2016: EUR 5,859 k) were past due but not yet impaired. These relate to a number of independent tenants for whom there is no recent history of default.

The aging analysis of these trade receivables is as follows:

EUR k	Dec. 31, 2017	Dec. 31, 2016
<b>Trade receivables</b>		
Up to 3 months	4,435	4,375
From 3 to 6 months	1,056	970
More than 6 months	1,464	514
<b>Total</b>	<b>6,955</b>	<b>5,859</b>

Receivables from rental agreements and property disposals, as well as insurance receivables and derivative financial instruments, have been assigned to the lenders (Note 7.3) to secure the Group's mortgage-backed loans.

### 6.7 Cash and cash equivalents

EUR k	Dec. 31, 2017	Dec. 31, 2016
<b>Bank balances</b>	<b>102,078</b>	<b>247,489</b>

Current accounts held with banks attract variable interest rates for on-call balances. As of the reporting date, no cash amounts were subject to restrictions.

As of the balance sheet date, EUR 13,278 k accrued for interest payment liabilities exists, which will be payable in the course of the next twelve months (December 31, 2016: EUR 18,254 k).

In addition, cash and cash equivalents include EUR 5,414 k in rent deposits received from tenants and held in trust by the Group (December 31, 2016: EUR 4,944 k). These tenant deposits, recognised under cash and cash equivalents, are offset by an item included under Other Liabilities.

### 6.8 Assets held for sale

The assets held for sale comprise two properties. While one property was already transferred to the buyer in the first quarter after the reporting period, the transfer of benefits and burdens of the other property is still pending until the completion date of these consolidated financial statements and is expected to take place by the end of the first half of the year. The sale of properties resulted in disposal revenues of EUR 60,200 k.

The properties reported are not the properties shown in the previous year, which were sold as planned in 2017.



EUR 17,062 k out of the income statement item “gain on disposal of investment property” relates to the assets held for sale shown on the balance sheet date.

The valuation of assets held for sale is based on the contract prices and, therefore, included within level 1 of the fair value hierarchy.

## 7. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES

### 7.1 Equity

For detailed information on equity, please refer to the consolidated statement of changes in consolidated equity.

#### Share Capital

Please refer to the consolidated statement of changes in equity for details.

Thousand	Dec. 31, 2017	Dec. 31, 2016
Ordinary shares of EUR 1 each	153,962	153,231

The conversion of profit participation rights (Note 13.2) in the second quarter of 2017 resulted in the issuance of 111,000 new shares by making use of the conditionally increased capital provided for such purposes. The share capital increased by EUR 111,000.

Fifty-seven shares with a notional amount of EUR 5,700 k of the convertible bond were converted in the fourth quarter of 2017. The conversion resulted in an issuance of 619,437 new shares by making use of the conditionally increased capital provided for such purposes (Conditional Capital 2013).

In total, due to the capital measures stated above, alstria office REIT-AG’s share capital increased to EUR 153,961,654 (EUR 730,437 higher than on December 31, 2016). As of December 31, 2016, it is represented by 153,231,217 no-par value bearer shares.

The majority of the Company’s shares are in free float.

The following table shows the reconciliation of the number of shares outstanding:

Number of shares	2017	2016
Shares outstanding on Jan. 1	153,231,217	152,164,285
Conversion of convertible bond	619,437	0
Conversion of convertible participation rights	111,000	102,750
Issuance of new shares against contribution in kind for takeover of alstria office Prime KG (former Deutsche Office AG)	0	964,182
As of Dec. 31	153,961,654	153,231,217

## Consolidated Financial Statements

### Capital reserve

The capital reserve changed as follows during the financial year:

EUR k	2017	2016
As of Jan. 1	1,434,812	1,499,477
Payment of dividends	-79,680	-76,564
Conversion of convertible bond	6,944	0
Share-based remuneration	1,129	949
Conversion of convertible participation rights	111	103
Issuance of new shares against contribution in kind for takeover of alstria office Prime KG (former Deutsche Office AG)	0	10,847
As of Dec. 31	1,363,316	1,434,812

The share premium resulting from the partial conversion of the convertible bond amounted to EUR 6,944 k. It was recognised in the capital reserve.

The share premium resulting from the conversion of 111,000 profit participation rights resulted in an increase in capital reserves of EUR 111 k.

### Treasury shares

As of December 31, 2017, the Company held no treasury shares.

By resolution of the Annual General Meeting held on May 16, 2017, the Company's authorisation to acquire treasury shares was renewed. The resolution authorised alstria office REIT-AG to acquire up to 10% of the capital stock until May 15, 2022. There is no intention to make use of this authorisation at present.

### Retained earnings

Retained earnings as of December 31, 2017, totalled EUR 437,382 k (December 31, 2016: profit carried forward of EUR 140,395 k). alstria office REIT-AG's standalone positive retained earnings could not generate the payment of the dividend, according to German GAAP [HGB] at the dividend's due date. Therefore, the amount of the dividend payouts was released from the capital reserve in 2017.

### Authorised capital

The authorised capital 2016 of the Company in the amount of EUR 76,082 k was limited until May 11, 2018 and was replaced by the authorised capital 2017 by resolution of the Annual General Meeting on May 16, 2017. The authorised capital 2017 allows the Management Board, with the approval of the Supervisory Board, to increase the share capital of the company by May 15, 2022 by up to a total of EUR 30,646 k. After partial utilization in January 2018, the Authorised Capital 2017 at the time of authorisation for issue these consolidated financial statements amounts to EUR 15,323 k.

### Conditional capital

The Company's share capital has been conditionally increased in order to grant conversion or subscription rights on the basis of convertible bonds and to grant subscription rights to the employees of the Company and its subsidiaries. As of 31 December 2016, the conditional capital amounted to EUR 38,695 k. This was divided into conditional capital 2013 (EUR 37,980 k), conditional capital III 2012 (EUR 216 k) and conditional capital III 2015 (EUR 500 k).

In the year under review, conditional capital 2013 was used in the amount of EUR 619 k. Conditional Capital III 2012 was used in the amount of EUR 111 k and has become obsolete. By resolution of the Annual General Meeting on 16 May 2017, a new conditional capital III 2017 amounting to EUR 1,000 k was created. As of December 31, 2017, the conditional capital totalled EUR 38,860 k. In January 2018, Conditional Capital 2013 was again used in the amount of EUR 467 k. The contingent capital of the company therefore amounts to EUR 38,393 k at the time of publication of these consolidated financial statements.

### 7.2 Noncontrolling interests of limited partners

In addition to alstria office REIT-AG, other limited partners are minority shareholders in the subsidiary alstria office Prime, which is included in the consolidated financial statements. From the Group's point of view, the equity of these limited partners is to be reported as debt capital in accordance with IFRS. They are shown in the consolidated balance sheet under the item "limited partnerships of noncontrolling interests".

In the business year 2017, alstria office REIT-AG acquired 2,128,048 limited partner shares. A further 3,593,463 limited partner shares were redeemed against cash compensation by alstria office Prime.

By the end of the reporting period, the acquisition and redemption of limited partnership shares as well as the change in value of the existing limited partnership shares of noncontrolling interests resulted in expenses of EUR 9,317 k (2016: EUR 271 k). The fair value of the limited partnerships of noncontrolling interests reported as of the balance sheet date amounted to EUR 53,881 k, whereby EUR 53,834 k are to be classified as long-term and EUR 47 k as short-term. The fair value of this financial liability is approximately equal to its carrying amount as of the balance sheet date.

## Consolidated Financial Statements

### 7.3 Financial liabilities

EUR k	Noncurrent	Current			Total
		Loan	Accrued interest	Total current	Dec. 31, 2017
<b>Loans</b>					
Corporate bonds	992,215	0	11,343	11,343	1,003,558
Mortgage loans	240,179	1,076	86	1,162	241,341
Schuldschein	149,571	0	1,752	1,752	151,323
Convertible bond	0	72,096	97	72,193	72,193
<b>Total</b>	<b>1,381,965</b>	<b>73,172</b>	<b>13,278</b>	<b>86,450</b>	<b>1,468,415</b>

EUR k	Noncurrent	Current			Total
		Loan	Accrued interest	Total current	Dec. 31, 2016
<b>Loans</b>					
Corporate bonds	990,722	0	16,408	16,408	1,007,130
Mortgage loans	251,753	1,075	12	1,087	252,840
Schuldschein	149,468	0	1,738	1,738	151,206
Convertible bond	74,578	0	97	97	74,675
<b>Total</b>	<b>1,466,521</b>	<b>1,075</b>	<b>18,255</b>	<b>19,330</b>	<b>1,485,851</b>

The table presents the long-term loans and the net of the current portion as stated under noncurrent liabilities. Furthermore, it shows the current amount due within one year, recorded as an item in short-term loans in current liabilities.

As of December 31, 2017, the total repayable amount of the corporate bonds, the bank loans, the Schuldscheindarlehen, and the convertible bond drawn by alstria was EUR 1,467,287 k (December 31, 2016: EUR 1,482,864 k). The carrying amount of EUR 1,468,415 k (EUR 1,381,965 k, noncurrent, and EUR 86,450 k, current) takes interest liabilities and accrued transaction costs into account. Financial liabilities with a maturity of up to one year are recognised as current loans.

The following table shows the changes in financial liabilities:

EUR k	December 31, 2016	Payments of the period	Reclassification non-current/current	Changes in fair value	December 31, 2017
Long-term loans and bonds, net of current portion	1,466,521	-13,661	-80,276	9,381 <sup>1)</sup>	1,381,965
Short-term loans	19,330	-1,076	80,276	-12,080 <sup>2)</sup>	86,450
<b>Total</b>	<b>1,485,851</b>	<b>-14,737</b>	<b>0</b>	<b>-2,699</b>	<b>1,468,415</b>

<sup>1)</sup> Changes in deferred loan costs (effective interest).

<sup>2)</sup> Contains EUR 6,380 k of changes in the accrued interest and EUR 5,700 k of the non-cash reduction of the convertible bond due to its partial conversion.

The cash changes in borrowings shown in the column "Payments of the period" include, in addition to the cash inflows and outflows from loans and corporate bonds, the payments of transaction costs for taking out loans.

### **Corporate bond I**

In the fourth quarter of the 2015 business year, a bond loan in the total amount of EUR 500,000 k with a maturity until March 24, 2021, and a coupon of 2.25% p.a. was issued.

As result of the invitation to tender for the existing corporate bond, on November 16, 2017, alstria office REIT-AG repurchased shares with a notional amount of EUR 173,200 k. Following settlement of the invitation and cancellation of the relevant bond notes, the outstanding notional value of the bond still amounts to EUR 326,800 k.

The bond was recognised with its carrying amount of EUR 324,765 k; additionally, interest liabilities in the amount of EUR 5,701 k were recognised per the balance sheet date. The fair value amounted to EUR 345,526 k as of the balance sheet date.

### **Corporate bond II**

In the second quarter of the previous year's reporting period, a second bond loan in a total amount of EUR 500,000 k with a maturity until April 12, 2023, and a coupon of 2.125% p.a. was issued. As result of the invitation to tender for the existing corporate bond, on November 16, 2017, alstria office REIT-AG repurchased shares with a notional amount of EUR 175,000 k. Following settlement of the invitation and cancellation of the relevant bond notes, the outstanding notional value of the bond still amounts to EUR 325,000 k.

The bond was recognised with its carrying amount of EUR 321,872 k; additionally, interest liabilities in the amount of EUR 4,995 k were recognised per the balance sheet date. The fair value amounted to EUR 348,969 k as of the balance sheet date.

### **Corporate bond III**

In the fourth quarter of 2017, alstria office REIT-AG issued a corporate bond with a maturity until November 2027, a total nominal value of EUR 350,000 k, and a coupon of 1.5% p.a. After deducting the deferred loan ancillary costs, the notes were recognised at the end of the year with a carrying amount of EUR 345,578 k. Interest liabilities amounting to EUR 647 thousand were accrued as of the balance sheet date. The fair value (hierarchy level 1) amounted to EUR 339,605 k as of the balance sheet date.

### **Mortgage loans**

These are property-related—mainly floating-rate—bank loans. The loans are secured by mortgages and other collateral customary for bank loans.

### **Schuldschein**

As of May 6, 2016, alstria issued a Schuldschein [debenture bond] with a nominal value of EUR 150,000 k. The Schuldschein has an average coupon of 2.07% p.a. payable according to end-of-year convention and a staggered term of between four and ten years (see table on page 110). The fair value amounted to EUR 162,983 k as of the balance sheet date.

### Convertible bond

In the second quarter of the 2013 financial year, alstria office REIT-AG issued a convertible bond, generating proceeds of EUR 79,400 k. The convertible bond has a maturity term of five years. It will be redeemed at 100% of its principal amount. It has a coupon of 2.75% p.a., payable in quarterly instalments in arrears, and an initial conversion price of EUR 10.0710. In line with the terms and conditions of the convertible bond, the conversion price was adjusted to EUR 9.2019 during the 2017 financial year.

The issuing volume resulting from the convertible bond loan amounted to EUR 79,400 k. After having exercised conversion rights for a notional value of EUR 5,900 k, EUR 73,500 k of the convertible bond remains included in the financial liabilities. It is divided into a loan portion and a financial liability in the form of an embedded derivative. The carrying amount of the convertible bond liability therefore lies below its nominal amount. The initial recognition of these two components was at fair value, which corresponds to the emission volume. As part of the allocation of the issue proceeds, the fair value of the embedded derivative was determined, and the residual value less transaction costs was assigned to the loan component. Subsequently, the loan component is valued at amortised cost. The derivative component is, however, valued at fair value at the end of subsequent reporting periods. Upon conversion into shares, both components—which are discontinued upon conversion of the bond—are reclassified as equity. The alstria office REIT-AG issued this bond based on the authorisation received from the Annual General Meeting in 2013. The convertible loan has a carrying amount without accrued interests of EUR 72,096 k and a market value of EUR 101,820 k. Under consideration of the embedded derivative amounting to EUR - 27,592 k contained in the convertible bond, which is accounted for under the noncurrent derivative liabilities and reflects part of the difference between carrying amount and market value, the fair value of the convertible bond liability amounts to EUR 74,227 k.

More information on the terms and conditions of the syndicated loan and the other loans can be found in the table on page 110 in section 14.1 of the notes.

### Further details regarding the loan liabilities

The current portion of the loans refers to scheduled repayments and accrued interest on the loans.

The variable interest of the loans is payable on a quarterly basis, whereby the standard margin and borrowing costs for the market are added to the respective EURIBOR rate.

Due to the variable interest rate of the main part of the mortgage loans, there are no significant differences between the carrying amounts and the fair value of these loans, with the exception of transaction costs.

A total of EUR 37,100 k (December 31, 2016: EUR 37,100 k) in financial liabilities from mortgage loans relates to a fixed interest rate loan. At the end of the reporting period, the loan had a fair value of EUR 42,499 k (December 31, 2016: EUR 42,089 k). The fair value estimation is based on the discounted

## Consolidated Financial Statements

cash flows using quoted prices for loans with equivalent risk and maturity as a discount rate (level 2 in fair value hierarchy).

As of December 31, 2017, the loans and the convertible bond were reduced by accrued transaction costs of EUR 12,150 k (December 31, 2016: EUR 11,186 k).

The average debt maturity increased from 5.4 years as of December 31, 2016, to 5.8 years as of December 31, 2017. The Group's average interest rate decreased from 2.2% to 2.1% from balance sheet date to balance sheet date.

The carrying amounts of the loans are all reported in euros. With the exception of the fixed rate loan, the corporate bonds, the Schuldschein, and the convertible bond described above, the fair values of the Group's financial liabilities approximate their carrying values at the end of the reporting period. This does not apply to their accrued transaction costs.

The liabilities exposed to an interest rate risk are due as follows:

EUR k	Dec. 31, 2017	Dec. 31, 2016
Up to 1 year	1,076	1,076
More than 1 year	238,811	251,564
<b>Total</b>	<b>239,887</b>	<b>252,640</b>

The following loans are secured by land charges:

EUR k	Dec. 31, 2017	Dec. 31, 2016
Financial liabilities secured by land charges	246,330	256,930
<i>thereof on investment property</i>	<i>241,027</i>	<i>256,158</i>
<i>thereof on own used property</i>	<i>5,303</i>	<i>772</i>

### 7.4 Other Provisions

EUR k	Due		Total Dec. 31, 2017	Due		Total Dec. 31, 2016
	up to 1 year	in more than 1 year		up to 1 year	in more than 1 year	
<b>Other provisions</b>						
Provision virtual share liabilities	1,388	1,499	2,887	1,577	1,313	2,890
Other	1,604	0	1,604	680	0	680
<b>Total</b>	<b>2,992</b>	<b>1,499</b>	<b>4,491</b>	<b>2,257</b>	<b>1,313</b>	<b>3,570</b>

## Consolidated Financial Statements

The development of other provisions is shown in the following overview:

EUR k	Dec. 31, 2016	Consumption	Resolution	Additions	Dec. 31, 2017
<b>Development of other provisions</b>					
Provision virtual share liabilities	2,890	-1,491	0	1,488	2,887
Other	680	-401	0	1,325	1,604
<b>Total</b>	<b>3,570</b>	<b>-1,892</b>	<b>0</b>	<b>2,813</b>	<b>4,491</b>

As of the balance sheet date, EUR 2,887 k (December 31, 2016: EUR 2,890 k) was recognised as a provision for awarding the Long- and Short-Term Incentive Plan (Note 13.1).

Other provisions include EUR 1,325 k of expenses that could result from claims for compensation by third parties. These are mainly claims for alleged refunds, which are considered by alstria to be unjustified. Further material legal disputes in which it is assumed that alstria office REIT-AG or one of its Group companies will be used as obligated parties did not exist as of the balance sheet date.

### 7.5 Trade payables and other liabilities

EUR k	Due		Total Dec. 31, 2017	Due		Total Dec. 31, 2016
	up to 1 year	in more than 1 year		up to 1 year	in more than 1 year	
<b>Trade payables</b>	<b>7,268</b>	<b>0</b>	<b>7,268</b>	<b>4,584</b>	<b>0</b>	<b>4,584</b>
<b>Other current liabilities</b>						
Accruals for outstanding invoices	18,116	0	18,116	16,223	0	16,223
Real estate transfer tax	11,869	0	11,869	11,869	0	11,869
Rent and security deposits received	5,414	4,408	9,822	4,944	2,808	7,752
Advance rent payments received	3,313	0	3,313	2,758	0	2,758
Value-added tax liabilities	3,213	0	3,213	2,798	0	2,798
Customers with credit balances	2,167	0	2,167	2,288	0	2,288
Salary obligations	2,039	0	2,039	2,177	0	2,177
Auditing costs	527	0	527	495	0	495
Other advance payments received	500	0	500	0	0	0
Supervisory Board compensation	353	0	353	271	0	271
Vacation provisions	288	0	288	211	0	211
Miscellaneous liabilities	1,405	0	1,405	1,300	0	1,300
<b>Total</b>	<b>49,204</b>	<b>4,408</b>	<b>53,612</b>	<b>45,334</b>	<b>2,808</b>	<b>48,142</b>

The disclosed carrying amounts approximate their fair values.

Real estate transfer tax in an amount of EUR 11,869 k resulted from the merger between Deutsche Office and the Prime Office REIT-AG in the year 2013. For two properties transferred within the merger, the real estate transfer tax obligation is still due.



## 7.6 Income tax liabilities

The recognition of deferred tax liabilities and income tax liabilities as of December 31, 2017, is described in Note 5.10 regarding income tax expenses. Obligations from income taxes arise almost exclusively at the level of the alstria office Prime companies acquired through the business combination on October 27, 2015.

The tax liabilities mainly resulted from taxes arising out of the realisation of hidden reserves as a result of the inclusion of the companies in the tax-exempt REIT structure. As of December 31, 2017, deferred tax liabilities are no longer to be formed.

## 7.7 Trust assets and liabilities

At the end of the reporting period, alstria office REIT-AG held trust assets worth EUR 0 (December 31, 2016: EUR 313 k) and liabilities worth EUR 5,414 k from rent deposits and EUR 4,408 k from security deposits. As of December 31, 2016, EUR 4,944 k rent deposits and EUR 2,808 k security deposits existed.

## 8. OTHER NOTES

### 8.1 Compensation of the Management Board and Supervisory Board

**Management Board** The following total remuneration was granted to the members of the Management Board, according to IAS 24.17 and HGB Section 314, para. 1, no. 6:

EUR k	2017	2016
Short-term benefits	1,161	1,159
Share-based remuneration	905	905
Postemployment benefits	125	124
<b>Total</b>	<b>2,191</b>	<b>2,188</b>

On the reporting date, liabilities for the compensation of the Management Board members amounted to EUR 339 k (2016: EUR 378 k).

As of December 31, 2017, 315,600 virtual shares had been granted to the members of the Management Board (compared to 332,684 on December 31, 2016; see also Note 13.1).

**Supervisory Board** Pursuant to the Articles of Association, Supervisory Board members' fixed annual payments amounted to EUR 353 k (2016: EUR 347 k).

Further information on disclosures from HGB Section 314, para. 1, no. 6a (German Commercial Code) and IAS 24.17 is provided in the remuneration report (see pages 155-166), which is an integral part of these Notes. This information is also presented in the corporate governance chapter.

### 8.2 Other financial commitments and contingencies

Other financial obligations from refurbishment projects and ongoing maintenance amounted to EUR 24,317 k (2016: EUR 30,381 k).

As of December 31, 2017, rental agreements for the administrative premises were subject to a minimum lease term. Future financial obligations of EUR 576 k arose from other leasing agreements. Of these, obligations totalling EUR 224 k have a residual maturity of up to one year; the remainder—EUR 352 k—has a remaining maturity of one to five years.

### 8.3 Consolidated cash flow statement

The cash flow statement shows how the Group's cash and cash equivalents have changed over the course of the financial year as a result of cash received and paid. In accordance with IAS 7, a distinction is made between cash flows from operating activities and cash flows from investing and financing activities.

Cash flows from investing and financing activities are calculated based on payments, whereas cash flows from operating activities are derived indirectly based on the consolidated profit for the year.

The net cash generated from operating activities for the 2017 financial year amounted to EUR 122,268 k and was at a similar level compared to the previous year (EUR 120,495 k). The net cash generated from operating activities includes other non-cash income and expenses in the amount of EUR 5,174 k. These essentially relate to allocation to provisions and accrued liabilities in the amount of EUR 5,183 k.

The cash flow from investing activities is affected by the inflow of cash and cash equivalents from property disposals in the amount of EUR 87,975 k and cash distribution of a joint venture in the amount of EUR 49,850 k, while investments in the investment property portfolio resulted in cash outflows of EUR 251,505 k.

The cash flows from financing activities mainly reflect refinancing activities, with EUR 419,048 k in payments for the redemption of bonds and borrowings, EUR 350,000 k cash proceeds from the issuance of a corporate bond, and EUR 30,000 k proceeds from a new loan. Dividend payments resulted in cash outflows of EUR 79,680 k.

Cash and cash equivalents reported in the cash flow statement relate to all the liquidity items disclosed on the balance sheet (e.g., cash in hand and bank balances).

## 9. RELATED PARTY RELATIONSHIPS

### 9.1 Preliminary remarks

Related parties are the Management Board, the members of the Supervisory Board, the managing directors of subsidiaries and second-tier subsidiaries, and their close relatives. Related parties also include entities with a controlling influence over the Group and entities with joint control or significant influence over alstria office REIT-AG.

The majority of alstria office REIT-AG's shares are free-floating shares. No person or entity has a controlling influence over the Company. alstria office REIT-AG is the ultimate parent company of the Group.

Joint ventures over which alstria office REIT-AG has joint control are also considered related parties.

In the view of alstria office REIT-AG's management, all transactions with related parties entered into in financial year 2017 were undertaken in terms of arm's-length transactions or under conditions in alstria office REIT-AG's favour.

## 9.2 Remuneration of key management personnel

For a detailed description of the remuneration of key management personnel, please refer to Note 9.1 and the remuneration report (see pages 155 to 166 of the Corporate Governance Section).

## 9.3 Related party transactions

At the end of the reporting period, the Group recorded no receivables from or liabilities to joint ventures. Furthermore, alstria office REIT-AG received EUR 10 k (2016: EUR 129 k) from the joint venture as compensation for services connected to real estate.

No further transactions with related parties were completed during the reporting period.

## 10. EARNINGS PER SHARE

Basic earnings per share are calculated as the quotient of the profit attributable to the shareholders and the weighted average number of shares outstanding during the financial year—except for the average number of treasury shares held by the Company itself.

Diluted earnings per share are calculated by dividing the profit attributable to ordinary owners of the parent company by the weighted average number of ordinary shares outstanding during the year—except for the treasury shares held by the Company itself—plus plus the weighted average of shares that would be issued as a result of the dilutive potential ordinary shares' conversion.

The following table reflects the income and share data used in the earnings per share computations:

Earnings per share	2017	2016
Profit attributable to the shareholders (EUR k)	296,987	176,872
Average number of shares outstanding (thousands)	153,402	152,866
Basic earnings per share (EUR)	1.94	1.16

The potential conversion of shares in relation to the convertible bond could dilute basic earnings per share in the future:

Diluted earnings per share	2017	2016
Diluted profit attributable to the shareholders (EUR k)	299,153	179,039
Average diluted number of shares (thousands)	161,390	161,282
Diluted earnings per share (EUR)	1.85	1.11

There were no dilution effects resulting from the granted stock options or the convertible profit participation rights during the period under review, as the related vesting conditions had not been satisfied as of the end of the reporting period.

alstria office REIT-AG is authorised to issue up to EUR 38,860 k in shares as conditional capital. These contingently issuable shares could dilute basic earnings per share in the future, but they were not included in the calculation of diluted earnings per share because they are non-dilutive for the period presented.

With regard to the capital increase and the conversions of the convertible bond that took place after the balance sheet date, please refer to the information in section 15 “Significant events after the balance sheet date”.

There were no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 11. DIVIDENDS PAID

EUR k	2017	2016
Dividends on ordinary shares <sup>1)</sup> not recognised as a liability as of Dec. 31	79,680	76,564
Dividend per share	0.52	0.50

<sup>1)</sup> Refers to all shares except treasury shares on the dividend payment date

At the Annual General Meeting held on May 16, 2017, alstria office REIT-AG resolved to distribute dividends totalling EUR 79,680 k (EUR 0.52 per outstanding share). The dividends were distributed on May 19, 2017. By comparison, the dividends paid out in 2016 totalled EUR 76,564 k (EUR 0.50 per outstanding share).

## 12. EMPLOYEES

During the period from January 1 to December 31, 2017, the Company had 118 employees on average (January 1 to December 31, 2016: 105 employees on average). The average was calculated based on the total number of employees at the end of each quarter. On December 31, 2017, 121 people were employed at alstria, excluding the Management Board members (December 31, 2016: 114 people).

## 13. SHARE-BASED REMUNERATION

### 13.1 Share-based remuneration for Management Board members

On March 2, 2010, the Company’s supervisory board established a new share-based remuneration system as a means of providing success-based remuneration for members of the Management Board. The share-based remuneration is made up of a long-term component, the **Long-Term Incentive Plan (LTIP)**, and a short-term component, the **Short-Term Incentive Plan (STIP)**. These plans offer cash-settled and share-based payment transactions, respectively.

Under the LTIP, alstria office REIT-AG grants virtual shares, which entitle the recipient to a conversion into cash payments after four years.

The amount of the conversion payment is based on the number of virtual shares multiplied by the average stock market price of alstria’s shares on the Frankfurt Stock Exchange during the 60 trading days prior to the relevant maturity date. An amount equal to the sum of the dividend per share the

## Consolidated Financial Statements

Company paid to its shareholders between the grant date and the maturity date is added as well; in no event can the payment be higher than 250% of the average stock market price of alstria's shares on the Frankfurt Stock Exchange in the 60 trading days prior to the relevant grant date multiplied by a specified discretionary factor.

The discretionary factor is a multiplier that can vary between 0.8 and 1.2; it is subject to each participant's individual performance during the holding period.

The assessment of the target achievement depends equally on the absolute return of the alstria share price (absolute total shareholder return) and on the relative performance of alstria's share in relation to the EPRA/NA-REIT Index Europe Ex UK (relative total shareholder return).

Since the payment per vested virtual share depends on the average quoted price of alstria's shares for 60 trading days, the quoted average prior to the end of the reporting period essentially represents the fair value of each virtual share.

The virtual shares resulting from the STI remuneration are subject to a minimum vesting period of two years. Virtual STI shares are converted into a cash amount after the expiration of the vesting period. This cash amount is calculated based on the number of virtual shares multiplied by the share price of one alstria share at that time, which is in turn calculated based on a reference period.

The table below summarises the number of virtual shares granted under the existing STIP and LTIP that remained outstanding as of December 31, 2017.

	Start of deferral period	Reference share price in EUR	End of deferral period	Olivier Elamine	Alexander Dexne
				Number of virtual shares	Number of virtual shares
STI 2015	2016	11.63	2018	5,949	4,868
STI 2016	2017	11.68	2019	5,142	4,207
LTI 2014	2014	9.44	2018	46,610	38,136
LTI 2015	2015	10.97	2019	40,109	32,817
LTI 2016	2016	11.71	2020	37,575	30,743
LTI 2017	2017	11.52	2021	38,194	31,250

The development of the virtual shares through December 31, 2017, is shown in the following table:

Number of virtual shares	2017		2016	
	LTI	STI	LTI	STI
January 1	312,104	20,580	335,740	20,516
Granted in the reporting period	69,444	9,349	68,318	10,817
Converted into cash in the reporting period	-86,114	-9,763	-91,954	-10,753
December 31	295,434	20,166	312,104	20,580

The 9,763 virtual shares converted into cash under the STIP resulted in payments to the Management Board in an amount of EUR 124 k within the 2017 business year. The conversion amount was the

weighted average price of the first 20 trading days in the 2017 calendar year plus the dividend paid during the vesting period. It amounted to EUR 12.68, of which EUR 11.68 related to the share price and EUR 1.00 related to the dividend paid. Under the LTIP, 86,114 virtual shares were converted, resulting in a payout of EUR 1,371 k.

In 2017, the LTIP and the STIP generated remuneration expenses amounting to EUR 1,488 k (2016: EUR 1,001 k) and provisions amounting to EUR 2,887 k (2016: EUR 2,890 k). The Group recognises the liabilities arising from the vested virtual shares under other provisions.

### 13.2 Convertible profit participation rights program

On September 5, 2007, the Supervisory Board of the Company resolved the issuance of convertible profit participation certificates (“certificates”) to employees of the Company and of companies in which alstria office REIT-AG directly or indirectly holds a majority interest. Members of alstria office REIT-AG’s Management Board are not considered employees of the Company in terms of this convertible profit participation rights program. The Supervisory Board passed a resolution to fix the details of the convertible profit participation rights program in accordance with an authorisation granted by the General Meeting of shareholders on March 15, 2007. The convertible profit participation rights program was renewed by the Supervisory Board with minor modifications in 2012 in accordance with an authorisation granted by the general meeting of shareholders on April 24, 2012.

The main terms of the program can be summarised as follow:

The nominal amount of each certificate is EUR 1.00, which is payable upon issuance. Under the program, a maximum of 500,000 certificates may be granted for using the conditional capital III 2015 created by the Annual General Meeting in 2015. By the end of the reporting period, certificates were granted corresponding to EUR 323,425 of conditional capital III 2015. In 2017, the Annual General Meeting approved the establishment of additional conditional capital III 2017 with an aggregate nominal value of up to EUR 1,000,000 for the conversion of 1,000,000 certificates. At the end of the reporting period, certificates in relation to this conditional capital III 2017 had not been granted.

The certificates are issued as non-transferable rights and are not sellable, pledgeable, or otherwise chargeable.

The maximum term of each certificate is five years.

During its term, each certificate entitles the holder to a disbursement corresponding to the amount of the dividend per share that the Company paid for a full business year. For certificates held by a beneficiary for less than a full business year, the profit share is reduced pro rata temporis.

Each certificate shall be converted into one non-par-value bearer share in the Company on the second, third, fourth, or fifth anniversary of the issue date if the Company’s then-current stock exchange share price has exceeded the price on the issue date by 5% or more on at least seven non-subsequent trading days (market condition). For the 143,750 certificates issued on May 18, 2016, and the 179,675 certificates issued on May 19, 2017, this market condition was fulfilled until the end of the 2017

## Consolidated Financial Statements

financial year.

Upon conversion of a certificate, the beneficiary shall pay an additional conversion price to the Company for each certificate to be converted. The conversion price shall be the aggregate proportionate amount of the Company's share capital to which the certificate entitles the holder; this amount shall be payable in addition to the offer price.

The fair values of the inherent options for conversion were estimated on the respective granting dates using a binary barrier option model based on the Black-Scholes model, and the conversion will be affected automatically once the barrier has been reached. The model takes into account the terms and conditions upon which the instruments were granted.

The following share-based payment agreements under the employee profit participation program were in existence during the year:

Number of certificates				
Granting date of tranche	May 7, 2015	May 18, 2016	May 19, 2017	Total
January 1, 2017	111,000	144,750	0	255,750
Expired due to termination of employment	0	-1,000	-6,000	-7,000
Converted	-111,000	0	0	-111,000
Granted	0	0	185,675	185,675
<b>December 31, 2017</b>	<b>0</b>	<b>143,750</b>	<b>179,675</b>	<b>323,425</b>

The relevant amount for the conversion of 111,000 of the 2015 convertible profit participation rights certificates was the relevant XETRA share price on the conversion date: EUR 12.01 per share.

Total expenses relating to convertible profit participation rights amounted to EUR 1,285k in 2017 (see Note 5.5).

The following table lists the inputs used to determine the fair value of the options for conversion:

Granting date of tranche	May 7, 2015	May 18, 2016	May 19, 2017
Dividend yield (%)	4.15	4.28	4.45
Risk-free interest rate (%)	-0.18	-0.54	-0.69
Expected volatility (%)	19.30	21.20	18.37
Expected life of option (years)	2.00	2.00	2.00
Exercise share price (EUR)	2.00	2.00	2.00
Labour turnover rate (%)	9.10	8.10	8.00
Stock price as of valuation date (EUR)	12.05	11.67	11.62
Estimated fair value of one option for conversion on the granting date	8.77	8.57	8.02

Expected volatility is based on an average of the historical volatility of alstria and the comparable listed companies.

## 14. FINANCIAL RISK MANAGEMENT

### 14.1 Managing financial risk factors

The group's activities expose it to a variety of financial risks related to interest rates, credit, and liquidity. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Therefore, sources of funding are diversified and a balanced maturity profile is planned, enabling a coordinated and continuous refinancing process.

The financial instruments that the Group chiefly use are corporate bonds, bank loans, a Schuldschein, a convertible bond, and derivative financial instruments. The main purpose of the debt funding is to finance alstria's business activities. In addition, the Group also owns various financial assets, such as cash and short-term deposits, which arise directly from business activities.

The Group uses derivative financial instruments to hedge floating rate loans. The treasury function (group treasury) within the finance and controlling department carries out the management of financial risks. The group treasury identifies, evaluates, and hedges financial risks in close cooperation with the CFO. The Management Board provides written principles for overall risk management and policies that cover specific areas, such as interest rate risk and credit risk, making use of derivative and non-derivative financial instruments as well as excess liquidity investment.

Derivative financial instruments comprise interest caps. The purpose of these derivative financial instruments is to hedge against the interest risks that arise from the Group's business activities and funding.

The main risks arising from the Group's financial instruments relate to cash flow, interest rates, and liquidity. The Group is exposed to credit risks mainly due to derivative financial instruments being held as assets and due to its bank balances. The amount that best presents the maximum credit risk is the carrying amount of the financial assets. The Management Board decides on strategies and processes for managing specific risk types; these are defined in the following paragraphs.

Risks that could arise as a result of an economic slowdown are seen mainly in the potential default of payment by a major tenant. Due to the fact that all of the Company's main tenants are public institutions or are highly rated, the risk of such defaults is currently limited.

The loan agreements of alstria Group allow for loan-to-value (LTV) ratios as outlined by the following table. As represented in the overview, the Group managed to keep its LTV below the LTV of the loan at the relevant date—in some cases significantly. The risk of a breach of covenant is effectively countered.



## Consolidated Financial Statements

The following table presents the single-LTV ratios and covenants for the Group's loans as of the end of the reporting period:

### Existing loan agreements as of December 31, 2017

Liabilities	Maturity	Principal amount drawn as of December 31, 2017 (EUR k)	LTV as of December 31, 2017 (%)	LTV covenant (%)	Principal amount drawn as of December 31, 2016 (EUR k)
Loan #1	June 28, 2024	67,000	37.0	55.0	67,000
Loan #2	Apr. 30, 2021	57,975	44.2	62.0	58,896
Loan #3	Mar. 28, 2024	45,900	38.1	60.0	56,500
Loan #4	June 30, 2026	56,000	37.4	65.0	56,000
Loan #5	July 31, 2021	15,113	32.3	60.0	15,268
<b>Total secured loans</b>		<b>241,988</b>	<b>38.4</b>	-	<b>253,664</b>
Bond #1	Mar. 24, 2021	326,800	-	-	500,000
Bond #2	Apr. 12, 2023	325,000	-	-	500,000
Bond #3	Nov. 15, 2027	350,000	-	-	-
Convertible bond	June 14, 2018	73,500	-	-	79,200
Schuldschein 10y/fix	May 6, 2026	40,000	-	-	40,000
Schuldschein 7y/fix	May 8, 2023	37,000	-	-	37,000
Schuldschein 4y/fix	May 6, 2020	38,000	-	-	38,000
Schuldschein 7y/variable	May 8, 2023	17,500	-	-	17,500
Schuldschein 4y/variable	May 6, 2020	17,500	-	-	17,500
Revolving credit line	June 15, 2020	-	-	-	-
<b>Total unsecured loans</b>		<b>1,225,300</b>	<b>-</b>	<b>-</b>	<b>1,229,200</b>
<b>Total</b>		<b>1,467,288</b>	<b>43.0</b>		<b>1,482,864</b>
<b>Net LTV</b>			<b>40.0</b>		

Apart from the risks mentioned above, the Group is not exposed to any commodity or currency risks.

#### a) Interest rate risk

The following tables display the carrying amount of the Group's financial instruments that are exposed to interest rate risk by maturity:

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
<b>Financial year ending Dec. 31, 2017</b>						
<i>Variable interest</i>						
Mortgage bank loans	1,076	1,076	1,076	69,858	131,800	<b>204,886</b>
Schuldschein	0	0	17,500	0	17,500	<b>35,000</b>
<b>Total</b>	<b>1,076</b>	<b>1,076</b>	<b>18,576</b>	<b>69,858</b>	<b>149,300</b>	<b>239,886</b>

## Consolidated Financial Statements

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
<b>Financial year ending Dec. 31, 2016</b>						
<i>Variable interest</i>						
Mortgage bank loans	1,076	1,076	1,076	1,076	212,258	216,562
Schuldschein	0	0	0	17,500	17,500	35,000
<b>Total</b>	<b>1,076</b>	<b>1,076</b>	<b>1,076</b>	<b>18,576</b>	<b>229,758</b>	<b>251,562</b>

With its noncurrent financial liabilities with variable interest rates, alstria is exposed to risks from fluctuations in market interest rates. The interest base for the financial liability (loan) is the three-month EURIBOR rate, which is adjusted every three months. A number of derivative financial instruments were acquired to secure the interest expense. The derivatives' terms to maturity generally correspond to those of the loans. The derivative financial instruments relate to interest caps; that is, the interest is capped at a predetermined maximum. If the maximum interest rate is exceeded, the difference between the actual interest rate and the cap rate is paid out.

The derivative financial instruments of alstria office REIT-AG as of December 31, 2017, are presented on page 91.

These interest rate caps are also used to hedge the obligation underlying the loans.

The following table shows the sensitivity of the Company's loans to consolidated profit or loss and equity due to a reasonably possible change in interest rates (due to the effect on the floating-interest loans). All variables remain constant; the effects from the derivative financial instruments were not factored into this calculation.

### Interest expenses per annum

EUR k	2017	2016
+ 100 bps	2,399	2,516
- 50 bps	-700	-753

The fair market value of derivative financial instruments is also subject to interest rate risks. A change in the interest rate would give rise to the following changes in respective fair market values:

#### aa) Impact on equity

##### Financial derivatives qualifying for cash flow hedge accounting

EUR k	2017	2016
+ 100 bps	80	321
- 50 bps	-10	-65

**ab) Impact on income statements and on equity**

**Financial derivatives not qualifying for cash flow hedge accounting**

Impact from 3-month EURIBOR interest rate changes:

EUR k	2017	2016
+ 100 bps	9	1,247
- 50 bps	0	-13

Impact from changes in alstria office REIT-AG's share price (only relating to the embedded derivative):

EUR k	2017	2016
Share price compared to the 2017 year-end price (EUR 12.90)		
+ 10 percent	-9,738	-8,850
- 10 percent	10,377	7,802

**b) Credit risk**

Except for those relating to accounts receivable balances, credit risks are managed at the group level.

The department responsible for managing the operating business property oversees and analyses credit risks in relation to each reletting activity before the standard payment and lease terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, and credit exposures to customers (including outstanding receivables and other compensatory commitments). Only banks and financial institutions are accepted as counterparties—and only if they are independently rated parties with a minimum rating of “investment grade.” If tenants are independently rated, these ratings are applied. If there is no independent rating, the tenant’s credit quality is assessed, taking into account his or her financial position, past experience, and other factors. Credit limits are generally not provided to tenants. Lease receivables from tenants are settled in bank transfers, which are usually due at the beginning of each payment term. Tenants must pay a deposit or provide other warranties prior to the start of a lease term.

**c) Liquidity risk**

The Company continually monitors the Group-wide risk of potential liquidity bottlenecks through the use of a liquidity planning tool. The tool uses the expected cash flows from business activities and the maturity of the financial liabilities as a basis for analysis. The Group’s long-term refinancing strategy ensures that these medium- and long-term liquidity requirements are met. Such forecasting considers the Group’s debt-financing plans, covenant compliance, compliance with internal balance sheet targets, and, if applicable, external regulatory or legal requirements (e.g., G-REIT equity ratio).

At the end of the reporting period, the nominal financial liabilities had the following maturities in line with their contractual maturity (based on the three-month EURIBOR) as of December 31, 2017.

## Consolidated Financial Statements

The following chart shows the related future undiscounted cash flows of financial liabilities:

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Financial year ending Dec. 31, 2017</b>							
Corporate bond	0	0	0	0	326,800	675,000	1,001,800
Loans	1,076	1,076	1,076	69,860	0	168,900	241,988
Interest	19,855	19,160	19,651	18,759	11,328	37,984	126,737
Schuldschein	0	0	55,500	0	0	94,500	150,000
Convertible bond	73,500	0	0	0	0	0	73,500
Trade payables	7,268	0	0	0	0	0	7,268
Other liabilities	62,879	882	882	882	882	882	67,289
	<b>164,578</b>	<b>21,118</b>	<b>77,109</b>	<b>89,501</b>	<b>339,010</b>	<b>977,266</b>	<b>1,668,582</b>

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Financial year ending Dec. 31, 2016</b>							
Corporate bond	0	0	0	0	500,000	500,000	1,000,000
Loans	1,076	1,076	1,076	1,078	69,858	179,500	253,664
Interest	30,376	29,368	28,481	28,727	27,801	39,007	183,760
Schuldschein	0	0	0	55,500	0	94,500	150,000
Convertible bond	0	79,200	0	0	0	0	79,200
Trade payables	4,584	0	0	0	0	0	4,584
Other liabilities	65,438	562	562	562	561	561	68,246
	<b>101,474</b>	<b>110,206</b>	<b>30,119</b>	<b>85,867</b>	<b>598,220</b>	<b>813,568</b>	<b>1,739,454</b>

Details on the loans, borrowings, and bonds can be found in Note 7.3. The maturity profile of the loans is shown on page 20 in the Group Management Report. To secure the bank loans, receivables from rental and property purchase agreements and from insurance and derivative financial instruments were assigned to the lenders; liens were granted on bank accounts, and charges were registered on the land. Obligations arising from floating-interest bank loans were fully secured. Land charges for real estate properties with a carrying amount of EUR 618,329 k (December 31, 2016: EUR 567,315 k) were provided as collateral. The decline compared to the previous year's balance sheet date is based on the repayment of mortgage bank loans in favour of corporate bonds and promissory notes.

### 14.2 Capital management

Capital management activities are aimed at maintaining the Company's classification as a REIT in order to support its business activities and maximise shareholder value.

The Group actively manages its capital structure and makes adjustments in response to changes in economic conditions. To maintain or adjust the capital structure, the Group can make a capital repayment to its shareholders or issue new shares. No changes had been made to the aims, guidelines, and processes as of both December 31, 2017 and December 31, 2016.

The Company monitors its capital structure by using the LTV indicator as well as the performance

## Consolidated Financial Statements

indicators relevant for its classification as a REIT. The REIT equity ratio, which is the ratio of equity to immovable assets, is the most important of these indicators. According to the Group's strategy, the REIT equity ratio is aimed at between 45% and 55%, within the relevant term provided by the REIT law. G-REIT status is unaffected as long as the G-REIT ratio is not below 45% at the end of the business year for three consecutive business years.

The following ratios are also used to manage capital:

### Ratios according to G-REIT law

%	2017	2016	G-REIT covenant
Equity ratio according to G-REIT law	57.12	56.67	> 45
Immovable assets	95.47	90.17	> 75
Revenues gained from immovable assets	100.00	100.00	> 75
Income gained from disposal of immovable assets	32.58	32.75	< 50 <sup>1)</sup>

<sup>1)</sup> Within five years based on the average property value during this period.

The following table shows the carrying amount and fair value of all financial instruments disclosed in the consolidated financial statements:

Assets as per balance sheet (EUR k) as of Dec. 31, 2017	Carrying amount	Nonfinancial assets	Financial assets				Total	Fair value
			Loans and receivables at amortised costs	Fair value through p/l <sup>1)</sup>	Fair value - other income			
Financial assets	36,567	0	36,567	0	0	36,567	36,567	
Derivatives	14	0	0	14	0	14	14	
<b>Total long-term</b>	<b>36,581</b>	<b>0</b>	<b>36,567</b>	<b>14</b>	<b>0</b>	<b>36,581</b>	<b>36,581</b>	
Trade receivables	7,153		7,153	0	0	7,153	7,153	
Tax receivables	25	0	25	0	0	25	25	
Receivables and other assets	14,760	10,303	4,457	0	0	4,457	4,457	
Cash and cash equivalents	102,078	0	102,078	0	0	102,078	102,078	
<b>Total short-term</b>	<b>124,016</b>	<b>10,303</b>	<b>113,713</b>	<b>0</b>	<b>0</b>	<b>113,713</b>	<b>113,713</b>	
<b>Total</b>	<b>160,597</b>	<b>10,303</b>	<b>150,280</b>	<b>14</b>	<b>0</b>	<b>150,294</b>	<b>150,294</b>	

## Consolidated Financial Statements

Liabilities as per balance sheet (EUR k) as of Dec. 31, 2017	Carrying amount	Nonfinancial liabilities	Financial liabilities			
			Fair value through p/l	Loans and receivables at amortised costs	Total	Fair value
Ltd. equity of noncontrolling interests	53,834	0	0	53,834	53,834	53,834
Long-term loans	1,381,965	0	0	1,381,965	1,381,965	1,442,660
Other liabilities	4,408	0	0	4,408	4,408	4,408
<b>Total long-term</b>	<b>1,440,207</b>	<b>0</b>	<b>0</b>	<b>1,440,207</b>	<b>1,440,207</b>	<b>1,500,902</b>
Ltd. equity of noncontrolling interests	47	0	0	47	47	47
Short-term loans	86,450	0	0	86,450	86,450	86,450
Trade payables	7,268	0	0	7,268	7,268	7,268
Derivatives	27,529	0	27,529	0	27,529	27,529
Tax liabilities	13,675	0	0	13,675	13,675	13,675
Other liabilities	49,204	3,313	0	45,891	45,891	45,891
<b>Total short-term</b>	<b>184,173</b>	<b>3,313</b>	<b>27,529</b>	<b>153,331</b>	<b>180,860</b>	<b>180,860</b>
<b>Total</b>	<b>1,624,380</b>	<b>3,313</b>	<b>27,529</b>	<b>1,593,538</b>	<b>1,621,067</b>	<b>1,681,762</b>

Assets as per balance sheet (EUR k) as of Dec. 31, 2016	Carrying amount	Nonfinancial assets	Financial assets			
			Loans and receivables at amortised costs	Fair value through p/l	Fair value - other income	Fair value
Financial assets	34,803	0	34,803	0	0	34,803
Derivatives	109	0	0	10	99	109
<b>Total long-term</b>	<b>34,912</b>	<b>0</b>	<b>34,803</b>	<b>10</b>	<b>99</b>	<b>34,912</b>
Trade receivables	7,257		7,257	0	0	7,257
Derivatives	5	0	0	5	0	5
Tax receivables	25	0	25	0	0	25
Receivables and other assets	41,578	8,318	33,260	0	0	33,260
Cash and cash equivalents	247,489	0	247,489	0	0	247,489
<b>Total short-term</b>	<b>296,354</b>	<b>8,318</b>	<b>288,031</b>	<b>5</b>	<b>0</b>	<b>288,036</b>
<b>Total</b>	<b>331,266</b>	<b>8,318</b>	<b>322,834</b>	<b>15</b>	<b>99</b>	<b>322,948</b>

## Consolidated Financial Statements

Liabilities as per balance sheet (EUR k) as of Dec. 31, 2016	Carrying amount	Nonfinancial liabilities	Financial liabilities			
			Fair value through p/l	Loans and receivables at amortised costs	Total	Fair value
Ltd. equity of noncontrolling interests	58,458	0	0	58,458	58,458	58,458
Long-term loans	1,466,521	0	0	1,466,521	1,466,521	1,546,813
Derivatives	20,099	0	20,099	0	20,099	20,099
Other liabilities	2,808	0	0	2,808	2,808	2,808
<b>Total long-term</b>	<b>1,547,886</b>	<b>0</b>	<b>20,099</b>	<b>1,527,787</b>	<b>1,547,886</b>	<b>1,628,178</b>
Ltd. equity of noncontrolling interests	12,966	0	0	12,966	12,966	12,966
Short-term loans	19,330	0	0	19,330	19,330	19,330
Trade payables	4,584	0	0	4,584	4,584	4,584
Tax liabilities	20,104	0	0	20,104	20,104	20,104
Other liabilities	45,334	2,758	0	42,576	42,576	42,576
<b>Total short-term</b>	<b>102,319</b>	<b>2,758</b>	<b>0</b>	<b>99,560</b>	<b>99,560</b>	<b>99,560</b>
<b>Total</b>	<b>1,650,205</b>	<b>2,758</b>	<b>20,099</b>	<b>1,627,347</b>	<b>1,647,446</b>	<b>1,727,738</b>

Independent experts determined the fair value of the derivative financial instruments by discounting the expected future cash flows at prevailing market interest rates.

The net gains and losses from these financial instruments are as follows:

EUR k	2017	2016
Fair value - hedging instruments	-41	-10,558
Fair value - financial liabilities	-14,635	-1,484
Loans and receivables	-10,015	-467
<b>Total</b>	<b>-24,691</b>	<b>-12,509</b>

The net losses during the reporting period resulted from valuation losses and, in the case of loans and receivables, from write-downs of trade receivables.

### 14.3 Determination of fair value

The fair value of financial instruments that are not traded in an active market (i.e., over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely on entity-specific estimates as little as possible. If all significant inputs required to ascertain the fair value of an instrument are observable, the instrument is included in level 2.

An independent expert determined the fair value of the derivative financial instruments by discounting the expected future cash flows at prevailing market interest rates. Future cash flows were estimated at the end of the reporting period based on forward interest rates from observable yield curves and on contractually agreed interest rates. These rates are discounted to reflect the credit risk of

the various counterparties.

All of the Group's financial instruments, which are measured at fair value in the balance sheet, are valued by applying the level 2 valuation measurement approach. This only applies to the Group's financial derivatives, as no other financial instruments are measured in the balance sheet at fair value.

### 15. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

#### Conversion convertible bond

As of January 4, 2018, 29 shares with a notional amount of EUR 2,900 k of the convertible bond were converted. The conversion resulted in an issue of 315,152. As of January 31, 2018, further 14 shares with a notional amount of EUR 1,400 k of the convertible bond were converted. The conversion resulted in an issue of 152,142 new shares. The conversions into new shares were made by making use of the conditionally increased capital provided for such purposes (Conditional Capital 2013).

#### Capital increase

A total of 15,323,121 new shares were issued for cash considerations. They increased alstria office REIT-AG's share capital by EUR 15,323,121.00. The capital increase was entered into the commercial register on January 31, 2018.

As result of the conversions and the capital increase, alstria office REIT-AG's share capital increased by EUR 15,790,415.00 to EUR 169,752,069.00 value bearer shares from December 31, 2016 to December 31, 2017.

#### Transfer of benefits and burdens

With effective date February 1 2018, the benefits and burdens of one of the two properties for which the notarial purchase agreement had already been signed during the reporting period were transferred.

Additionally, in January 2018, alstria signed a purchase contract for the disposal of a property. The transaction price mounted to EUR 3,600 k, transfer of benefits and burden is expected until end of June 2018. On February 20, 2018, the notarization of the sale of another property at a transaction price of EUR 10,000 k took place. The transfer of the property to the buyer is expected in the third quarter of 2018.



## 16. UTILISATION OF EXEMPTING PROVISIONS

The following German subsidiaries included in the consolidated financial statements of alstria office REIT-AG have made use of the exemption granted in Section 264b HGB:

Certain subsidiaries that have been included in the consolidated financial statements of alstria office REIT-AG have claimed exemption from the obligation to prepare annual financial statements in accordance with the provisions applicable to corporations in accordance with Section 264b HGB. An overview of the companies that made use of the exemption can be found in the table on page 67-68 in Section 2.2.2 of the Notes.

## 17. DISCLOSURES PURSUANT TO THE WERTPAPIERHANDELSGESETZ [GERMAN SECURITIES TRADING ACT] AND EUROPEAN MARKET ABUSE REGULATION [MAR]

### 17.1 Ad hoc announcements

The following table summarises the announcements pursuant to Art. 17 MAR as published by the Company during the reporting period:

Date	Topic
Apr 24, 2017	Acquisition of a portfolio of twelve office buildings in Hamburg, Düsseldorf, and Berlin
Nov 8, 2017	alstria issues a corporate bond with a nominal value of EUR 350,000,000 and invites holders of existing corporate bonds to offer their bonds to alstria
Nov 16, 2017	alstria announces the indicative results of the invitation to tender existing corporate bonds
Jan 29, 2018	Capital increase of up to 15,323,121 new shares as well as Portfolio valuation gain 2017 expected to amount to c. EUR 180 m
Jan 29, 2018	alstria successfully executed capital increase

## Consolidated Financial Statements

### 17.2 Directors' dealings

The following transactions regarding the shares of the Company (ISIN DE000A0LD2U1) have been reported to the Company pursuant to Art. 19 MAR during the reporting period:

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	8,805.00
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.73	2,545.41
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.73	8,797.50
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.73	3,307.86
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	6,985.30
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	3,498.52
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,242.34
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	1,631.86
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	4,848.62
Alexander Dexne	CFO	Buy	XETRA	May 18, 2017; UTC + 2	11.74	2,571.06

Aggregated information for the transactions by Mr. Dexne on May 18, 2017:

Average weighted share price: EUR 11.74; aggregated volume: EUR 58,687.51

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume
Dr Johannes Conradi	Chairman of the Supervisory Board	Buy	XETRA	May 19, 2017; UTC + 2	11.82	7,564.80
Dr Johannes Conradi	Chairman of the Supervisory Board	Buy	XETRA	May 19, 2017; UTC + 2	11.82	69,265.20
Dr Johannes Conradi	Chairman of the Supervisory Board	Buy	XETRA	May 19, 2017; UTC + 2	11.82	12,978.36
Dr Johannes Conradi	Chairman of the Supervisory Board	Buy	XETRA	May 19, 2017; UTC + 2	11.82	63,851.64

Aggregated information for the transactions by Dr Conradi on May 19, 2017:

Average weighted share price: EUR 11.82; aggregated volume: EUR 153,660.00

Name of person subject to the disclosure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume
Olivier Elamine	CEO	Buy	Outside a trading venue	May 19, 2017; UTC + 2	11.76	11,760.00
Olivier Elamine	CEO	Buy	Outside a trading venue	May 19, 2017; UTC + 2	11.76	11,760.00
Olivier Elamine	CEO	Buy	Outside a trading venue	May 19, 2017; UTC + 2	11.76	15,288.00
Olivier Elamine	CEO	Buy	Outside a trading venue	May 19, 2017; UTC + 2	11.76	15,288.00
Olivier Elamine	CEO	Buy	Outside a trading venue	May 19, 2017; UTC + 2	11.76	4,704.00

Aggregated information for the transactions by Mr. Elamine on May 19, 2017:

Average weighted share price: EUR 11.76; aggregated volume: EUR 58,800.00

## Consolidated Financial Statements

Name of person subject to the dis- closure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume
Dr Bernhard Düttmann	Member of the Supervisory Board	automatic conversion of a financial instrument into shares of the Company	Outside a trading venue	June 22, 2017; UTC + 2	10.80	25,380.00
Dr Bernhard Düttmann	Member of the Supervisory Board	automatic conversion of a financial instrument into shares of the Company	Outside a trading venue	June 22, 2017; UTC + 2	10.61	21,220.00

Aggregated information for the transactions by Dr Düttmann on June 22, 2017:  
Average weighted share price: EUR 10.71; aggregated volume: EUR 46,600.00

Name of person subject to the dis- closure requirement	Function	Transaction	Place	Transaction date	Price per share in EUR	Volume
Richard Mully	Member of the Supervisory Board	Buy	XETRA	Sep 15, 2017; UTC + 2	12.25	122,500.00

### 17.3 Voting right notifications

Information according to Section 160 para. 1 No. 8 German Stock Corporation Act (AktG): The following table shows shareholdings in the Company that were in place on the balance sheet date of 2017, were communicated to us pursuant to Section 33 para. 1 WpHG (Section 21 para. 1 WpHG old version), and have been published pursuant to Section 40 para. 1 WpHG (Section 26 para. 1 WpHG old version). Moreover, shareholdings were considered that were in place until the date of the preparation of the financial statements, were communicated to us pursuant to Section 33 para. 1 WpHG (Section 21 para. 1 WpHG old version), and have been published pursuant to Section 40 para. 1 WpHG (Section 26 para. 1 WpHG old version). The Company did not receive any notifications pursuant to Section 20 para. 1 and 4 AktG or pursuant to Section 33 para. 2 WpHG (Section 21 para. 1a WpHG old version) during the reporting period.

No.	Shareholders, registered office	Voting rights (new) (in %)	Date of change	Attribution of voting rights	Contains 3% or more of voting rights from
1	Prédica, Paris, France	3.0265	Apr 5, 2016	No	-
2	SAS Rue la Boétie, Paris, France	5.7691	Apr 12, 2016	Yes	Prédica
3	Government of Singapore, acting by and through the Ministry of Finance, Singapour, Singapour	12.61	Apr 22, 2016	Yes	GIC Private Limited (4.71%) Euro Periwinkle Private Limited (7.90%)
4	GIC Private Limited, Singapour, Singapour	12.61	Apr 22, 2016	Yes	Euro Periwinkle Private Limited
5	GIC (Realty) Private Limited, Singapour, Singapour	7.90	Apr 22, 2016	Yes	Euro Periwinkle Private Limited
6	Europe Realty Holdings Pte Ltd, Singapour, Singapour	7.90	Apr 22, 2016	Yes	Euro Periwinkle Private Limited
7	Euro Periwinkle Private Limited, Singapour, Singapour	7.90	Apr 22, 2016	No	-
8	Cohen & Steers, Inc., New York, USA	2.99	Oct 19, 2017	Yes	n/a
9	Brookfield Investment Management Inc., New York, USA	2.99	Jan 17, 2018	Yes	n/a
10	Julius Baer Group Ltd., Zurich, Switzerland	4.31 <sup>1)</sup>	Jan 30, 2018	Yes	Kairos International SICAV
11	Kairos International SICAV, Luxembourg, Luxembourg	3.63 <sup>1)</sup>	Jan 30, 2018	No	-
12	BNP PARIBAS ASSET MANAGEMENT France S.A.S., Paris, France	3.19	Nov 1, 2017	Yes	n/a
13	BlackRock, Inc., Wilmington, DE, USA	4.04 <sup>1)</sup>	Dec 14, 2017	Yes	-

<sup>1)</sup> Contains financial instruments pursuant to Sec. 38 para. 1 No. 1 and No. 2 WpHG (Sec. 25 para. 1 No. 1 and No. 2 WpHG old version).

### 18. DECLARATION OF COMPLIANCE PURSUANT TO AKTG SECTION 161

The Management Board and the Supervisory Board have submitted the declaration of compliance that is required by AktG Section 161 with respect to the recommendations of the German Corporate Governance Code as developed by a government commission. It is permanently available to the public on alstria office REIT-AG's website ([www.alstria.com](http://www.alstria.com)) and is included in the Group's declaration of corporate management according to HGB Section 315d.

## 19. AUDITORS' FEES

On May 16, 2017, the general meeting elected Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Dammtorstrasse 12, Hamburg) as auditors of the separate and consolidated financial statements for the 2017 financial year. The fees totalled EUR 757 k in 2017. Of this, EUR 628 k was attributable to audit services, and EUR 129 k was attributable to other audit services. The other audit services relate to the review of the Group's quarterly reports, half-yearly financial reports and the sustainability report as well as the preparation of a comfort letter.

## 20. MANAGEMENT BOARD

During the financial year, the Company's members of the Management Board were:

<b>Olivier Elamine</b>	<b>Hamburg, Germany</b>	<b>CEO of the Company</b>
since April 26, 2017	COIMA RES S.p.A. SIIQ	Non-Executive Director
<b>Alexander Dexne</b>	<b>Hamburg, Germany</b>	<b>CFO of the Company</b>
since October 16, 2017	Brack Capital Properties N.V.	Chairman of the Board

The attached remuneration report contains the details of the principles used to define the Management Board's and Supervisory Board's remuneration.

## 21. SUPERVISORY BOARD

Pursuant to the Company's Articles of Association (Section 9), the Supervisory Board consists of six members who are elected at the general meeting of the shareholders.

During the 2017 financial year, the members of the Supervisory Board and their membership in supervisory boards of German companies or comparable German or foreign controlling committees of commercial enterprises were as follows:

<b>Dr Johannes Conradi</b> <b>Chairman</b>	<b>Hamburg, Germany</b>	<b>Lawyer and Partner, Freshfields Bruckhaus Deringer LLP</b>
until March 31, 2017	Freshfields Bruckhaus Deringer LLP	Global Head of Real Estate Member of the German Management Group
since November 21, 2017	Elbphilharmonie Hamburg Bau GmbH & Co. KG	Member of the Supervisory Board
since November 21, 2017	Elbphilharmonie & Laeiszhalle Betriebsgesellschaft mbH	Member of the Advisory Board
	Hamburg Musik gGmbH	Member of the Supervisory Board

## Consolidated Financial Statements

<p><b>Richard Mully</b> Vice-Chairman</p> <p>since July 1, 2017</p>	<p><b>Cobham (Surrey), United Kingdom</b></p> <p>Actis LLP Great Portland Estates plc Standard Life Aberdeen PLC (former Aberdeen Asset Management PLC) St Modwen Properties PLC TPG Europe LLC</p>	<p><b>Director, Starr Street Limited</b></p> <p>Senior Advisor Non-Executive Director Director  Director Senior Advisor</p>
<p><b>Dr Bernhard Düttmann</b> office started per January 3, 2017 since July 12, 2017</p>	<p><b>Meerbusch, Germany</b></p> <p>CECONOMY AG</p>	<p><b>Executive consultant</b></p> <p>Member of the Supervisory Board</p>
<p><b>Stefanie Frensch</b></p>	<p><b>Berlin, Germany</b></p> <p>BBU Verband Berlin-Brandenburgi- scher Wohnungsunternehmen e.V.</p>	<p><b>Managing Director, HOWOGE Wohnungsbaugesellschaft mbH</b></p> <p>Chairman of the audit committee</p>
<p><b>Benoît Hérault</b></p> <p>Until August 31, 2017</p>	<p><b>Uzès, France</b></p> <p>Marie Birzard Wine &amp; Spirits SA (former Belvédère SA) EUROSIC  Westbrock Partners</p>	<p><b>Managing Director, Chambres de l'Artémise S.à r.l</b></p> <p>Chairman of the Board  Board member, Chairman of the remuneration committee Senior Advisor for France</p>
<p><b>Marianne Voigt</b></p>	<p><b>Berlin, Germany</b></p> <p>BDO AG Wirtschaftsprüfungsgesell- schaft</p>	<p><b>Managing Director, bettermarks GmbH</b></p> <p>Member of the Supervisory Board</p>

The local court in Hamburg appointed Dr Bernhard Düttmann as a member of the Supervisory Board effective on January 3, 2017 und limited to the end of the next general meeting of the shareholders. The Company's Annual General Meeting on May 16, 2017 appointed Dr Bernhard Düttmann as member of the Supervisory Board of alstria office REIT-AG.

Hamburg, February 20, 2018

**alstria office REIT-AG**

The Management Board

**Olivier Elamine**  
CEO

**Alexander Dexne**  
CFO

## RESPONSIBILITY STATEMENT

To the best of our knowledge we confirm that, in accordance with the applicable reporting principles, the consolidated financial statements 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report 2017 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, February 20, 2018

**alstria office REIT-AG**

The Management Board

**Olivier Elamine**

CEO

**Alexander Dexne**

CFO

## INDEPENDENT AUDITOR'S REPORT

To alstria office REIT-AG, Hamburg

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

#### Audit Opinions

We have audited the consolidated financial statements of alstria office REIT-AG, Hamburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the business year from January 1 to December 31, 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of alstria office REIT-AG, Hamburg, for the business year from January 1 to December 31, 2017. In accordance with German legal requirements, we have not audited the content of the group management report specified in the "Other information" section of our auditor's report.

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 International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the business year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material aspects, 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 the group management report specified in the "Other information" section of our auditor's report.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and 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 Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No.



## Independent Auditor's Report

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 (IDW). Our responsibilities under these requirements and principles are further described in the “Auditor’s Responsibility 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 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 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 business 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 the following we present the key audit matters we have determined in the course of our audit:

1. Measurement of investment property
2. Purchase and sale of properties
3. Compliance with covenants and computation of associated key ratios
4. Revenue recognition

## Independent Auditor's Report

Our presentation of these key audit matters has been structured as follows:

a) Description (including reference to corresponding information in the consolidated financial statements)

b) Auditor's response

### 1. Measurement of investment property

a) Properties with a total value of EUR 3,331.9 million are disclosed in the consolidated financial statements of alstria office REIT-AG under the reporting line "Investment property". The net positive impact in the consolidated income statement for the business year 2017, deriving from the measurement of such property, amounted to EUR 181.5 million.

In accordance with IAS 40, in conjunction with IFRS 13, investment property is measured at fair value. The measurement is carried out by two independent expert appraisers, who determine the fair values using a capitalised earnings valuation model - the so-called "hardcore and top slice" technique. The input parameters used for the purposes of the valuation are based on numerous assumptions, so that the calculation of the fair value is discretionary in nature, and is thus subject to considerable uncertainty. The most important associated input parameters are the assumed rental income, the vacancy rate and the yield. Against this backdrop, and due to the great complexity of the valuation model, this subject was of particular importance within the context of our audit.

The disclosures of the executive directors with respect to the measurement of investment property are included in sections 2.4 and 6.1 of the notes to the consolidated financial statements.

b) When conducting our audit, we examined the internal control system that was in place to assess the fair values determined by the external appraisers and tested the controls that had been implemented. We made a critical assessment of the competence, capabilities and objectivity of the external appraisers. Together with our own internal real estate valuation experts, we examined the conformity of the valuation technique applied with IAS 40, in conjunction with IFRS 13, and made sample on-site visits, held critical discussions with the external experts and checked the calculation logic supporting the values that had been determined. We checked the input parameters used in the measurement process by reference to underlying contractual data, or respectively - to the extent that they were based on assumptions and estimates - assessed their reasonableness by reference to available market data. In addition, we audited the completeness and appropriateness of the disclosures made in the notes to the consolidated financial statements in compliance with IAS 40 and IFRS 13.

### 2. Purchase and sale of properties

- a) In business year 2017, three properties were sold for a combined selling price of EUR 44.3 million and 13 properties were acquired for a total purchase price of EUR 177.0 million. The net gain deriving from the sales, amounting to EUR 19.7 million, is recognised in the consolidated income statement. The rights and obligations associated with the ownership of two further properties sold had not yet passed over to the respective buyers. These properties, amounting to EUR 60.2 million, are disclosed as assets held for sale. From our perspective, these transactions were of particular importance in the context of our audit of the consolidated financial statements, due to their large number, the underlying contractual bases, as well as their significant impact on the consolidated financial statements.

The disclosures in respect to these property transactions are included in the group management report under the section "PORTFOLIO OVERVIEW" and in the notes to the consolidated financial statements in sections 2.4, 5.8, 6.1 and 6.9.

- b) Within the context of our audit, we obtained an overview of the processes involved and the internal control system in place to record and measure the amount of property purchases and sales. We examined the underlying contractual documentation and, in particular, we audited the point in time at which the rights and obligations associated with ownership were transferred, as well as the related accounting treatment and the measurement of the amounts recorded as additions and disposals. In this connection, we assessed compliance with the requirements for the accounting disclosure of the properties as assets held for sale and their related measurement.

### 3. Compliance with covenants and computation of associated key ratios

- a) In each of the business years 2015, 2016 und 2017, a corporate bond was placed and a bonded loan (Schuldschein) was placed in 2016. The corporate bonds in 2015 and 2016 each had a respective nominal value of EUR 500 million with terms to maturity up to March 24, 2021 and April 12, 2023 respectively. They bear respective interest rates of 2.250 % and 2.125 % p.a. Due to the partial redemption of the corporate bonds, their remaining carrying amounts as of December 31, 2017 were EUR 327 million and EUR 325 million respectively. The bonded loan had a nominal value of EUR 150 million, an average coupon rate of 2.07 % and an average term to maturity of 7.1 years. The corporate bond placed in 2017 has a nominal value of EUR 350 million and a term to maturity up to November 15, 2027. It bears interest at 1.500 % p.a. The conditions associated with the corporate bonds and the bonded loan obligate alstria office REIT-AG to comply with certain covenants. From our perspective, compliance with the covenants and the computation of the associated key ratios were of particular importance in the context of our audit, due to the materiality of the financial liabilities, as well as their significant impact on the consolidated financial statements with respect to the financial position of the Group and also the presentation and note disclosure obligations in the event of non-compliance with them.

## Independent Auditor's Report

The disclosures relating to financial liabilities are included in section 7.3 of the notes to the consolidated financial statements and those relating to the covenants are included in the group management report in the section "FINANCIAL AND ASSET POSITION".

- b) In order to audit compliance with the covenants and the computation of the associated key ratios, we examined the contractual bases of the covenants and checked the calculation logic supporting the computation of the key ratios, we reconciled the input parameters used in the calculation to information contained in the consolidated financial statements and other available information, as well as checking the calculations of the related key ratios. We subsequently checked compliance with the specified covenants by reference to the conditions specified for the corporate bonds and the bonded loan.

#### 4. Revenue recognition

- a) The revenues recognised in the consolidated income statement, amounting to EUR 193.7 million mainly include rental income deriving from investment property (EUR 191.3 million). The rental income is based on the terms of rental agreements, which in part contain special conditions covering such things as rent-free periods or variable rents. The revenue recognition area was of particular importance for the purposes of our audit, due to the significant risks associated with revenue recognition, as well as the large number of different contracts.

The disclosures with respect to revenue recognition are included in sections 2.4 und 5.1 of the notes to the consolidated financial statements.

- b) When conducting our audit, we examined the internal control system that was in place to record revenue and tested the controls that had been implemented. By reference to the underlying rental agreements, we conducted extensive analytical audit procedures and reconciled the revenues recognised in the consolidated income statement with the expected values that had been determined by us. We also audited the linearization of income deriving from the rental agreements with applicable rent-free periods by testing the controls that had been implemented in this area and subsequently carrying out analytical audit procedures. The revenue that was recorded was tested on a sample basis to the underlying rental agreements. Fraud-related risks were confronted by making detailed tests of journal entries.

#### Other information

The executive directors are responsible for the other information. The other information comprises

- the explanations contained in the group management report that are made in the section entitled "SUSTAINABILITY REPORT" relating to the subject of sustainability and concerning the sustainability report, which is referred to in the group management report,
- the statement on corporate governance pursuant to Section 315d German Commercial Code (HGB), which is referred to in the group management report,
- the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code,

## Independent Auditor's Report

- the executive directors' confirmation relating to the consolidated financial statements and to the group management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB) respectively, and
- all remaining parts of the Annual Report, with the exception of the audited consolidated financial statements and group management report, as well as the declaration of the executive directors for the compliance with the requirements of Section 11 to 15 REIT Act (REIT-Gesetz) and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19 (3) and Section 19a REIT Act 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 group 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 Section 315e (1) German Commercial Code (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 misstatements, 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

## Independent Auditor's Report

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 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 misstatements, whether due to fraud or to 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 Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statements 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.

## Independent Auditor's Report

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the consolidated financial statements and of the group management report, whether due to fraud or to 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 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 opinion on the effectiveness 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 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 net assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (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.

## Independent Auditor's Report

- Evaluate the consistency of the group management report with the consolidated financial 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.



## Independent Auditor's Report

### 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 May 16, 2017. We were engaged by the supervisory board on May 16, 2017. We have been the group auditor of alstria office REIT-AG, Hamburg, without interruption since the business year 2011.

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 Annika Deutsch.

Hamburg, February 20, 2018

#### **Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

(Reiher)

Wirtschaftsprüfer

[German Public Auditor]

(Deutsch)

Wirtschaftsprüferin

[German Public Auditor]

## CORPORATE GOVERNANCE

### REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In this report, we present an overview on the supervision and advising activities of the Supervisory Board to monitor the Company's management. Furthermore, we present the main topics discussed by the plenary Supervisory Board and its committees, in addition to the audit of the annual and consolidated financial statements, the Company's corporate governance during the reporting period, and we report on changes to the supervisory board.

#### MAIN POINTS OF DISCUSSION

The main points of discussion for the Supervisory Board and its committees during financial year 2017 were the financial and profit situation, bigger asset transactions and leases as well as the Company's strategic direction. Based on the Management Board's reports we have deliberated intensively on the Company's performance and we have broadly discussed decisions and operations which have been important to the Company. Furthermore, in the beginning of the financial year, the Supervisory Board and the nomination and remuneration committee deliberated intensively on the appointment of the Management Board members for another term and the further advancement of the remuneration system for the Management and Supervisory Boards. In summer and autumn, the Supervisory Board and the audit committee dealt in detail with the tender process for the audit for the financial year 2018. In late autumn, the Supervisory Board discussed the optimisation of the maturity profile for the Company's financing portfolio by the issuance of a bond with a total nominal amount of EUR 350 million and at the same time buying back parts of the bonds that were issued in the financial years 2015 and 2016.

#### SUPERVISION AND ADVISING OF THE COMPANY'S MANAGEMENT BOARD

During the 2017 reporting period, we performed the duties required by the statutory provisions and the Company's Articles of Association. We advised and supervised the Company's Management Board and its conducting of business. Moreover, we were intensively involved in matters of material importance to the Company.

During the meetings of the Supervisory Board and its committees, the Management Board provided us with regular, prompt and detailed reports on the development of the business and the financial situation of the Company. Furthermore, we were informed about issues concerning the Company's planning, important business events and current risks, risk management and the Company's compliance. The Management and Supervisory Boards cooperated to determine the strategic direction of the Company. Between meetings, the Management Board further informed the Supervisory Board of important events orally and in writing. The Chairman of the Supervisory Board regularly met with

the Management Board to exchange information and advice on matters concerning the Company's business strategy, planning, business development, current risks, risk management and compliance.

We have intensively consulted with the Management Board on all transactions requiring our approval. After careful examination and consultation, the Supervisory Board voted on all matters brought to its attention as dictated by law in the Articles of Association or rules of procedure. This also included the Company's budget planning.

### MEETINGS OF THE SUPERVISORY BOARD

In financial year 2017, the Supervisory Board held four ordinary and three extraordinary meetings. All members of the Supervisory Board attended a minimum of at least half of the meetings. The presence of the members in the meetings of the Supervisory Board averaged 98%. Additionally, we passed written resolutions on four issues based on detailed documents. In 2018, the Supervisory Board met for two additional meetings and passed two written resolutions prior to the finalization of this report.

In all ordinary meetings, the Supervisory Board and the Management Board discussed the situation and development of the Company as well as its business performance, market situation and financial results (quarterly interim statements and half-year financial reports, financial statements and consolidated financial statements).

In its January 2017 extraordinary meeting, the Supervisory Board deliberated with the Management Board regarding the Company's strategy. The Supervisory Board appointed the Management Board members for another term of office, advanced the Management Board remuneration system and as well as the personal composition of the audit committee. In February 2017, the Supervisory Board decided on the annual compliance statement jointly made with the Management Board regarding the recommendations by the German Corporate Governance Code by way of a written circular resolution.

During its financial meeting in March 2017, the Supervisory Board dealt with the consolidated financial statements, the financial statements as of December 31, 2016 and the management reports, and then discussed them with the auditors. The Supervisory Board approved the financial statements of alstria office REIT-AG and the consolidated financial statements as of December 31, 2016 and confirmed the Management Board's proposal regarding the appropriation of profits for financial year 2016. The Supervisory Board passed a resolution on its report to the Annual General Meeting for financial year 2016 and on the corporate governance statement. The Management and Supervisory Boards discussed different possibilities for the Company to acquire real estate portfolios. The Supervisory Board resolved to establish a special committee for transactions and authorised this committee to grant all necessary approvals and make all other declarations to the Supervisory board in connection with the acquisition and financing of this real estate portfolio. The Supervisory Board deliberated with the Management Board further on the advancement of the Supervisory Board remuneration system and agreed on a self-commitment of all Supervisory Board members to acquire and hold Company shares. Furthermore, the Management and Supervisory Boards discussed the agenda and proposals for resolutions for the Annual General Meeting of the Company. In addition, the Supervisory Board

discussed and decided on the amount of the long-term variable remuneration for the members of the Management Board for financial year 2013 and of the short-term variable remuneration for financial year 2016 based on the nomination and remuneration committee's recommendations and after carrying out a vertical remuneration comparison. It thereby considered the board members' individual performances and also discussed the parameters of the variable remuneration for the members of the Management Board for financial year 2017.

In its ordinary meeting in May 2017, the Supervisory Board deliberated with the Management Board on real estate disposals and acquisitions, determined the target quota for women's participation in the Supervisory and Management Boards of the Company and resolved on editorial amendments to the Company's Articles of Association due to a conditional capital increase of EUR 111,000.00, which was executed in May 2017 for the purposes of the Company's employee participation program. In an extraordinary meeting held as a telephone conference in July 2017, the Supervisory and Management Boards discussed real estate transactions and agreed on the disposal of two assets. In September 2017, the Supervisory Board allowed one Management Board member to serve as a non-executive board member outside the alstria-group by way of a written circular resolution.

In the ordinary meeting in September 2017, the Management and Supervisory Boards agreed on the framework for creating a budget for the financial year 2018 and deliberated on the optimisation of the maturity profile for the financing portfolio of alstria office REIT-AG as well as the strategic use of one asset. The Supervisory Board approved investments in one asset, established a Corporate Social Responsibility Committee, which shall deal with corporate social responsibility issues, and dealt with corporate governance topics. Members also discussed the good results from the review of the composition and efficiency check of the work of the Supervisory Board, which the Supervisory Board members had performed by means of questionnaires in summer 2017. In October 2017, the Supervisory Board resolved on the basis of a recommendation by the audit committee regarding the proposed resolution for the ordinary Annual General Meeting for the appointment of the auditors 2018 by way of a written circular. This was based on the declaration of the audit committee that its recommendation was free of undue influence by third parties and it had not entered into any contractual clause that could restrict the choice within the meaning of Art. 16 para 6 of the EU Audit Regulation.

In an extraordinary meeting held as a telephone conference in November 2017, the Supervisory and Management Boards deliberated on the optimisation of the maturity profile for the financing portfolio of alstria office REIT-AG and agreed on the issuance of a new bond with a total nominal amount of EUR 350 million as well as buying back parts of the notes from the corporate bonds that were issued in the financial years 2015 and 2016, with a total nominal amount of EUR 350 million. In December 2017, the Supervisory Board resolved editorial amendments to the Company's Articles of Association due to a capital increase of EUR 619,437.00 from conditional capital, executed in November 2017 from the conversion of parts of the convertible bonds, which was issued by the Company in 2013. In its ordinary meeting in December 2017, the Supervisory and Management Boards discussed the

Company and budget planning for the financial year 2018 and approved these. The Supervisory Board advised the Management Board on planned real estate acquisitions and disposals as well as on the possibilities to finance these acquisitions. The Supervisory Board continued its discussions on the results of the composition and efficiency check of its work and agreed upon a profile of skills and expertise containing the objectives for the composition of the Supervisory Board.

In its extraordinary meeting in January 2018, the Supervisory and Management Boards and external advisors discussed the strategy for the Company in detail and resolved on the establishment of a special committee capital increase, and they authorised this special committee to grant all necessary approvals and make all other declarations required in connection with the execution of a capital increase by up to 10% of the share capital against cash contributions by utilizing the Company's Authorised Capital 2017 (Sec. 5 para. 3, para. 4 and para. 4a of the Company's Articles of Association). In February 2018, the Supervisory Board resolved by way of two written circular resolutions on the annual compliance statement regarding the recommendations by the German Corporate Governance Code and on the Corporate Governance Report. In its financials meeting in March 2018, the Supervisory Board particularly dealt with the consolidated financial statements and financial statements for the year ending on December 31, 2017. It further reviewed the Management Board's recommendation for profit appropriation. The Supervisory Board passed a resolution on its report for the Annual General Meeting for financial year 2017. Management Board and Supervisory Board discussed the agenda and proposals for resolution for the Annual General Meeting of the Company for financial year 2017. The Supervisory Board also dealt with variable remuneration for the members of the Management Board.

### COMMITTEES OF THE SUPERVISORY BOARD

According to the Company's Articles of Association, the Supervisory Board has six members. It has formed four permanent committees to support it in its work, each of which are composed of at least three members. The composition of the committees is described in the Company's Corporate Governance Statement on pages [143 to 154] of the annual report.

In some cases, the committees prepare the resolutions that the Supervisory Board will pass by making proposals. In some cases, the committees have been given decision-making powers, to the extent permitted by law. During the ordinary Supervisory Board's meetings, the committee's chairmen report on their committees' work. In financial year 2017, the Supervisory Board's committees focused on the topics detailed below.

The audit committee held five meetings in financial year 2017. All of them were attended by the Chief Financial Officer. In the course of auditing the accounts of the Company, the audit committee dealt with the consolidated financial statements and financial statements as of December 31, 2016 as well as the management reports. It discussed the documents with the independent auditors and carried out a respective preliminary examination of the annual and consolidated financial statements and the Management Board's recommendation for the appropriation of profit. As a result, the committee submitted corresponding proposals for resolution to the Supervisory Board. Furthermore,

the audit committee dealt with the half-year financial report as of June 30, 2017 and discussed it with the auditors and the Management Board prior to its publication. The Company's risk situation was addressed regularly. Further topics included a recommendation to the Supervisory Board regarding the proposed resolution of the Supervisory Board for the choice of the auditors for the financial year 2017 Annual General Meeting, the auditors' independence and any additional services to be performed by them. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg branch, was appointed as auditor. The audit committee decided on the engagement agreement and set the key audit areas. In addition, the Company's accounting, accounting process, risk management system and key risks were discussed. Moreover, the effectiveness of the Company's internal controlling audit and compliance systems were discussed. The audit committee also dealt with the results of the Company's internal audit. By way of written circular resolution in June 2017, the audit committee resolved to initiate and execute a tender process pursuant to Art. 16 Auditor regulation (regulation 537/2014 of the European Parliament and Council) for the audit of the financial year 2018, which was addressed by the audit committee in several meetings in the financial year 2017. In October 2017, after checking the independence of the auditor and in accordance with the auditor regulation of the European Union, the audit committee submitted two recommendations for the auditor for the financial year 2018 with one reasoned preference.

The nomination and remuneration committee, which also carries out the tasks of a nomination committee, met three times during financial year 2017. The committee discussed the amount of variable remuneration for the members of the Management Board. In light of this discussion, each Management Board member's individual performance was discussed, providing the Supervisory Board with corresponding resolution proposals. In light of the office terms of Management Board members coming to an end in financial year 2017, the nomination and remuneration committee continued its intensive deliberations in financial year 2016 regarding the personnel planning for the Management Board in the financial year 2017. By involving an external independent remuneration expert, the committee reviewed the possibilities to further advance the Management Board remuneration system. In January 2017, the committee recommended the Supervisory Board to appoint both members of the Management Board for another term in office. Moreover, the committee dealt with the succession planning for the Supervisory Board, involving an external independent advisor and submitted a proposal to the Supervisory Board for a resolution to the Annual General Meeting with regard to the election of one new board member. Furthermore, the nomination and remuneration committee reviewed the appropriateness of the existing Supervisory Board remuneration system and recommended to propose adapting the remuneration of the Supervisory Board during the Annual General Meeting. Finally, the nomination and remuneration committee dealt with the determination of the target quota for women's participation in the Supervisory and Management Boards and also prepared a proposal for a resolution to the Supervisory Board in this matter.

In financial year 2017, the finance and investment committee deliberated with the Management Board on the financing strategy of alstria office REIT-AG and real estate transactions in five meetings. The committee approved the acquisition of a real estate portfolio executed in financial year 2017, the disposal of a logistics real estate portfolio and the conclusion of a financing agreement. Finally, the finance and investment committee agreed on advisory services from the law firm Freshfields Bruckhaus Deringer LLP, of which the Chairman of the Supervisory Board is a partner.

In the financial year 2017, the members of the newly established Corporate Social Responsibility Committee came together for first discussions on the focal points of the future activities of the committee.

The special committee transactions, established in March 2017, was composed of four members and authorised to grant all necessary approvals and make all other declarations required in connection with the acquisition of real estate portfolios and their financing. It met in the financial year 2017 once and approved the acquisition of a real estate portfolio and the conclusion of a financing agreement.

The special committee capital increase, established in January 2018, had two meetings in January 2018. It approved, inter alia, according to its authorisation, the increase of the Company's share capital by up to 10% of the share capital against cash contributions by utilising the Company's Authorised Capital 2017 and excluding shareholders' subscription rights.

The composition of the special committee is also described in the Company's Corporate Governance Statement on pages 143 to 154 of the annual report.

### **AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS**

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg branch, audited the financial statements and management report of alstria office REIT-AG and its consolidated financial statements, including the management report of the Group for the financial year from January 1 to December 31, 2017. All reports were prepared by the Management Board and each issued with unqualified audit statements.

Immediately after their preparation, the members of the Supervisory Board were presented with the financial statements and management report of alstria office REIT-AG. Likewise, the consolidated financial statements, including the management report of the Group, the auditors' report and the Management Board's recommendation for the appropriation of the annual net profit, were presented. The Supervisory Board examined the documents provided by the Management Board in detail in both its audit committee and at a plenary meeting. In the meeting of the audit committee, the auditors presented the essential results of their audit (including the audit of the internal control and risk-management system) and were available to answer questions. The audit committee prepared the Supervisory Board's audit and dealt, in particular, with the key audit matters described in the auditors' opinion, including the audit procedures implemented. The audit committee reported to the plenary Supervisory Board in the presence of the auditors of the financial statements of alstria office REIT-AG and its consolidated financial statements. The auditors reported on the scope, focal points

and main findings of their audit, addressing, in particular, key audit matters and the audit procedures implemented. The plenary meeting examined and discussed the annual financial statements of the Company and the consolidated financial statements as prepared by the Management Board, as well as the auditors' results. There were no objections to the results, concluding the review conducted by the Supervisory Board. The Supervisory Board approved the financial statements of alstria office REIT-AG and its consolidated financial statements. The annual financial statements are thus endorsed. The Supervisory Board also shared the Management Board's recommendation for the appropriation of the profit.

### CORPORATE GOVERNANCE

In the reporting period, the Supervisory Board also dealt with whether alstria office REIT-AG fulfilled the recommendations of the German Corporate Governance Code. The Management Board and the Supervisory Board last issued the annual declaration of compliance with the German Corporate Governance Code in February 2018, in accordance with Section 161 AktG; it was subsequently made permanently available to shareholders on the Company's website. In their declaration, the Management and Supervisory Boards explained that most of the recommendations of the German Corporate Governance Code have been, or will be, adopted. Furthermore, information on the recommendations that have not been, or will not be, followed, is presented together with the reasons for making these decisions.

Concerning its own composition, the Supervisory Board developed a profile of skills and expertise with specific objectives for its composition and a diversity concept, which are published in the Company's Corporate Governance Report on pages 143 to 154 of the annual report, together with the status of their implementation. Based on a self-assessment of the members of the Supervisory Board in summer 2017, it could be concluded that the composition of the Supervisory Board as of December 31, 2017 met these objectives and that the profile of skills and expertise was fulfilled.

No conflicts of interest concerning members of the Supervisory Board or Management Board arose during financial year 2017.



### CHANGES IN THE SUPERVISORY BOARD

The local court (*Amtsgericht*) of Hamburg appointed Mr. Bernhard Düttmann as member of the Supervisory Board, effective January 3, 2017. The court's appointment was limited to the end of the Annual General Meeting in the financial year 2017. This Annual General Meeting appointed Dr Bernhard Düttmann as a member of the Supervisory Board until the end of the Annual General Meeting, which shall resolve upon formal approvals of the actions of the supervisory board members in the financial year 2020.

The Supervisory Board would like to thank the Management Board and all employees for their dedication and their successful work in financial year 2017.

Hamburg, March 2018

For the Supervisory Board

**Johannes Conradi**

Chairman of the Supervisory Board

## CORPORATE GOVERNANCE STATEMENT

In this declaration, the Management Board and the Supervisory Board report on the corporate governance of alstria office REIT-AG (“alstria”) pursuant to Section 289f and 315d of the German Commercial Code (“HGB”) as well as Section 3.10 of the German Corporate Governance Code (“Code”).

### DECLARATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT ON THE GERMAN CORPORATE GOVERNANCE CODE

The suggestions and recommendations of the Government Commission, as appointed by the German Federal Ministry of Justice, contain internationally and nationally recognised standards for effective and responsible corporate management. The Company’s declaration of compliance with the recommendations of the German Corporate Governance Code is published on the Company’s website ([www.alstria.com](http://www.alstria.com)). After careful consideration, alstria has chosen not to comply with some of the Code’s recommendations. These items and the reasons for the Company’s nonconformity are set out in the declaration of compliance as issued by the Management Board and the Supervisory Board on February 13, 2018:

#### Declaration of compliance, dated February 13, 2018

“Since the prior declaration of compliance, dated February 15, 2017, the Company has – apart from the exceptions stated below – complied with the recommendations of the “Government Commission German Corporate Governance Code” in the version as amended on February 7, 2017 (respectively, until it came into force on April 24, 2017, in the version as amended on May 5, 2015). The Company intends to continue to comply with the recommendations of the Code as amended on February 7, 2017, to the same extent:

#### *Deductible for D&O insurance for the Supervisory Board, Section 3.8 of the Code*

The D&O insurance for the alstria office REIT-AG Supervisory Board does not comprise a deductible. The Supervisory Board believes its members will carry out their duties responsibly irrespective of any such deductible.

#### *Change of performance targets for elements of variable remuneration, Section 4.2.3 of the Code*

The short-term incentive remuneration element of the Management Board is mainly based on the achievement of a funds from operations (FFO) target or for grantings starting in financial year 2018 by means of the achieved FFO per share. In the event that the achieved FFO or FFO per share in a financial year is positively and materially impacted by new acquisitions, the Supervisory Board adjusts the FFO or FFO per share target accordingly. In doing so, the Supervisory Board ensures the Management Board is not incentivised to enter into acquisitions by means of achieving personal short-term benefits. The impact of any acquisition on the management remuneration is solely linked to multi-year remuneration elements, therefore aligning the interest of the Management Board with

those of the Company and its shareholders. Vice versa, the Supervisory Board adapts the FFO or FFO per share target to disposals.

### ***Determination of a level of benefits for the private pension plan, Section 4.2.3 of the Code***

As the Company has opted for a defined contribution model for the private pension plan of the Management Board members for reasons of transparency and risk management, the Supervisory Board has not fixed a level of benefits for the private pension plan of the Management Board members. The Supervisory Board believes it is in the best interest of the Company to have a defined contribution model rather than a defined benefit model, as the defined contribution does not create any unforeseen future liability for the Company.

### ***Discussion of the financial reports by the Supervisory Board or its audit committee and the Management Board prior to their publication, Section 7.1.2 of the Code***

The quarterly interim statements are made available to the Supervisory Board prior to their publication and are discussed with the Supervisory Board in detail soon after publication. In the event of considerable differences to the budget or business plan as approved by the Supervisory Board, the Supervisory Board is given the opportunity to discuss the figures with the Management Board before they are published. Half-year financial reports are discussed with the audit committee of the Supervisory Board prior to publication. The Management Board and Supervisory Board consider this approach appropriate and adequate.”

## **CORPORATE MANAGEMENT PRACTICES**

To achieve a value-oriented and trust-building corporate management, alstria applies a corporate management practice to an extent beyond what is legally required.

### **Corporate Governance**

The Management Board and the Supervisory Board of alstria are aware of their responsibilities concerning the corporate governance of alstria regarding the Company’s shareholders, employees, tenants and business partners. Good corporate governance is the basis for our decision-making and supervising processes. It stands for a responsible, value and long-term success-driven governance and supervision of the Company, a target-orientated and efficient cooperation between the Management Board and the Supervisory Board, respect for the interests of our shareholders and employees, transparency and responsibility in all entrepreneurial decisions as well as an appropriate handling of risks.

alstria has already implemented many parts of the German Corporate Governance Code (as last amended February 7, 2017) to an extent beyond what is legally required. alstria office REIT-AG complied and complies with the recommendations of the German Corporate Governance Code with the few exceptions named and reasoned in the declaration of compliance. Beyond that, alstria also complied and complies with the suggestions of the German Corporate Governance Code in major parts.

alstria has appointed a corporate governance officer within the Company who will report any changes of the Code to the Management Board and the Supervisory Board at least once per year and whenever

necessary. In this way, alstria ensures consistent compliance with these principles.

### **Integrity and compliance**

A conduct of integrity is one of alstria's most important principles. The entire Company shares the understanding that the trust of alstria's shareholders, tenants, employees and business partners crucially depends on the behaviour of each employee. The Management Board of the Company has set up a compliance organisation to ensure that the legal provisions and internal Company guidelines are complied with and, moreover, that sets standards for treating business partners, competitors and employees fairly.

A code of conduct lists guidelines for behaviour and provides orientation to resolve conflicts (e.g., conflicts of interest), thereby serving as a model for correct behaviour for all employees of the Company. The code of conduct is published on the Company's website.

The compliance officer is responsible for communicating these values by answering questions on the implementation of the code of conduct and by offering in-house training for all employees. Compliance is monitored by colleagues, supervisors and the compliance officer, as well as via regular investigation by auditors. alstria also has set up a hotline through which employees can anonymously report any violations of the code of conduct or the Company's internal guidelines. Furthermore, the Management Board regularly discusses Company compliance with the Supervisory Board's audit committee. Violations of the code of conduct will not be tolerated; they will be fully investigated, and the violators will be punished. This can include anything from disciplinary measures to dismissal, a claim for damages or even prosecution.

A conduct of integrity also is an essential condition for a trusting partnership and cooperation with our business partners. For this reason, alstria has introduced a code of conduct for its service providers and craftsmen, which defines fundamental legal and ethical requirements. The code is published on the Company's website and defines expectations of the Company in a behaviour of integrity and compliance from business partners.

### **Communication and transparency**

A transparent corporate governance and good communication with the shareholders and the public contributes to strengthening investor and public trust in alstria's work.

#### ***Relationship to the shareholders***

alstria respects the rights of its shareholders and makes the best efforts to guarantee the exercise of those rights to the extent stipulated by the law or its bylaws. In particular, these include the right to freely purchase and sell shares, to have an appropriate level of access to information, to an adequate number of voting rights per share (one share, one vote) and to participate in our Annual General Meeting. Shareholders have the option of exercising their voting rights personally, via an authorised representative present at the Annual General Meeting or by sending voting instructions to their proxies. The invitation to the Annual General Meeting includes an explanation of how voting

instructions can be issued. It is possible to send invitations and documents for General Meetings to the shareholders electronically upon request. The invitation and the documents are to be made available for viewing prior to the upcoming Annual General Meetings pursuant to the legal provisions and will be published on the Company's website with additional documents pursuant to Section 124a of the German Stock Corporation Act (*Aktiengesetz*, AktG) and the agenda. The results of the votes will likewise be published on the Company's website following the Annual General Meeting.

### ***Communication with the public***

When sharing information with people outside the Company, the Management Board follows the principles of transparency, promptness, openness and clarity, and a policy of equal treatment of its shareholders. alstria informs its shareholders and the interested public about the Company's situation and significant business events in particular through financial reports, analyst and press conferences, press and ad-hoc announcements and the Annual General Meeting. The alstria website includes information on the Company and its shares and other financial instruments, share price tracking and the Managers' Transactions Disclosure pursuant to Article 19 of the Market Abuse Regulation (Regulation (EC) No. 596/2014 of the European Parliament and the Council) (Directors' Dealings). Moreover, alstria's financial reports and website include a financial calendar that indicates all dates of importance to shareholders. The announcements and pieces of information are additionally published in English.

### ***Financial reporting***

alstria regularly informs shareholders and third parties by publishing its consolidated and half-year financial statements, as well as quarterly interim statements, during each financial year. For the Company group's accounting, the International Financial Reporting Standards (IFRS) as applied in the European Union, are relevant. For legal reasons (calculating dividends, creditor protection), financial statements for alstria office REIT-AG also are prepared in accordance with the HGB.

The Annual General Meeting appoints the independent auditor for alstria office REIT-AG and the company group as well as for the audit review of the interim financial reports. Following the election of the Annual General Meeting, the audit committee of the Supervisory Board appoints an external auditing firm to audit the financial statements and negotiates the respective auditing fees. The auditors participate in the plenary sessions of the audit committee and the Supervisory Board to advise on the consolidated financial statements and the financial statements of alstria office REIT-AG as well as in the meeting of the audit committee regarding the deliberations on the half-year financial report and to present the respective key findings of the audit. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg branch, was appointed to audit the annual and half-year financial statements of alstria office REIT-AG and of the Group for the 2017 financial year and for further interim financial reports until the next ordinary general meeting in 2018. WP/StB Annika Deutsch is the professionally qualified auditor in charge for the financial statements of alstria office REIT-AG and the company group since financial year 2016 (and before for the financial years 2011 to 2013). Furthermore WP/StB Gerald Reiher is since financial year 2011 the responsible partner for the entire engagement.

In financial year 2017, the Supervisory Board and the audit committee conducted a tender process for the audit performances for the financial year 2018 pursuant to Art. 16 of the auditor regulation (regulation (EC) No. 537/2014 of the European Parliament and Council). In accordance with the auditor regulation, the audit committee submitted two recommendations for the auditor for the financial year 2018 with one reasoned preference. The Supervisory Board will make a proposal for resolution to the Annual General Meeting in April 2018.

### Sustainability

alstria's sustainability approach is based on a three-pillar model, taking the impact of business on the following pillars into account: economy, environment and social issues. As a commercial organisation, alstria's main objective is to optimise its long-term sustainable value. It strives to generate the best yield possible on its equity over time. alstria's approach to sustainability does not solely focus on environmental matters, but it considers the economic and social impacts of its actions as well. The Company weighs the risk-benefit ratio of the three areas before making any decisions and adapts its actions to what it feels is the most viable course of action in each case. The result of this approach is that alstria might not always make decisions that maximise its short-term benefits, striving to always take the path that will yield the best long-term prospects for the Company.

alstria's sustainability approach, its achievements in its three defined areas of sustainability and the Company's related future targets are described in detail in the Company's yearly sustainability report. The report is available on the Company's website.

### MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and the Supervisory Board cooperate closely and faithfully in the interest of the Company. The chairman of the Supervisory Board has regular contact with the Management Board and deliberates with it questions on strategy, planning, development of business, risk situation, risk management and compliance of the Company. On notable events, which are of substantial meaning for the evaluation of the situation and development as well as the governance, the chairman of the supervisory board informed without delay by the Management Board.

#### Management Board

The Management Board has two members: Olivier Elamine as Chief Executive Officer and Alexander Dexne as Chief Financial Officer.

The Management Board is responsible for running alstria in the interest of the Company with the aim of sustainably increasing the Company's value. It sets the business goals and – in conjunction with the Supervisory Board – the strategic direction of the Company. The tasks of the Management Board, the allocation of responsibilities between the individual members of the Management Board as well as the reporting and information duties towards the Supervisory Board are stipulated in the rules of procedure for the Management Board.

The members of the Management Board are appointed by the Supervisory Board, who monitors and advises the Management Board on management issues. The Management Board involves the Supervisory Board in all decisions of fundamental importance to the Company. The rules of procedure for the Supervisory Board stipulate that certain, significant business transactions by the Company are subject to the approval of the Supervisory Board. For example, the acquisition or disposal of real estate property for a consideration of more than EUR 30 m, entering into financing agreements with a volume of more than EUR 30 m, entering or prematurely terminating lease contracts with an annual consideration of more than EUR 2 m, or investing in Company assets (modernization measures) with an annual total sum of more than EUR 2 m, if such investments have not already been included in the budget as approved by the Supervisory Board must be approved.

The members of the Management Board are obligated to the Company's interest. The members of the Management Board must immediately disclose any conflicts of interest to the Supervisory Board. Major business transactions between the Company and members of the Management Board, or with any persons or companies in close association with them, require the approval of the Supervisory Board. All such business transactions must be concluded at customary commercial conditions. The members of the Management Board may only conduct secondary activities, particularly memberships in the supervisory boards of companies not affiliated with the Group, with the approval of the Supervisory Board. The members of alstria's Management Board had no conflicts of interest in the reporting year. There were no contracts regarding such business transaction between the Company and the Management Board members, persons or companies in close association with them during the reporting period. Each member of the Management Board serves on one supervisory board of a company outside of the Group with approval of the Supervisory Board of the Company. A list of the memberships of the Management Board in supervisory boards of listed companies or in supervisory boards of companies with comparable requirements pursuant to Section 285 No. 10 HGB can be found on pages [122] to [123] of the Company's financial report.

### Supervisory Board

In accordance with the articles of association, the Supervisory Board is composed of six members. No former Management Board members sit on the Supervisory Board. The Supervisory Board is composed of members who have the necessary knowledge, competence and professional experience to properly carry out their duties.

The following changes took place in the composition of the Supervisory Board in 2017: After Hermann Dambach resigned from the Supervisory Board, effective October 31, 2016, Dr Bernhard Düttmann was appointed successor of Mr Dambach until the end of the ordinary Annual General Meeting in 2017 by resolution of the Hamburg Local Court (Registration Court) to the Supervisory Board in January 2017. The Annual General Meeting held on May 16, 2017, elected Dr Bernhard Düttmann as a member of the Company's Supervisory Board until the end of the Annual General Meeting, which resolves on the discharge of the members for the financial year 2020.

## Corporate Governance

The Supervisory Board is composed of the following members:

Member	Profession	Appointed until
Dr Johannes Conradi (Chairman)	Lawyer and partner, Freshfields Bruckhaus Deringer LLP	2020 <sup>1)</sup>
Richard Mully (Vice Chairman)	Director, Starr Street Limited	2019 <sup>1)</sup>
Dr Bernhard Düttmann	Independent business consultant	2021 <sup>1)</sup>
Stefanie Frensch	Managing Director, HOWOGE Wohnungsbaugesellschaft mbH	2021 <sup>1)</sup>
Benoît Héroult	Managing Director, Chambres de l'Artémise S.à r.l.	2019 <sup>1)</sup>
Marianne Voigt	Managing Director, bettermarks GmbH	2020 <sup>1)</sup>

<sup>1)</sup> Until the close of the Annual General Meeting

The Supervisory Board considers all its members to be independent.

On the website of the Company (Company > Supervisory Board), a curriculum vitae for each member of the Supervisory Board as well as an overview of other material activities besides the Supervisory Board mandate can be found. A list of all memberships of the Supervisory Board members in supervisory or similar controlling bodies in companies external to the Group pursuant to Section 285 No. 10 of the HGB is presented as well on pages 122 to 123 of the annual report.

In its report to the Annual General Meeting, the Supervisory Board reports on its activities undertaken in financial year 2017. The report is presented on pages 135 to 142 of the annual report.

### Supervisory Board committees

The Supervisory Board has formed four standing committees: an audit committee, a finance and investment committee, a nomination and remuneration committee and a solemnly advising corporate social responsibility committee. Each committee that has a resolution-making competence has its own rules of procedure to specify its concerns, tasks and resolution-making competence.

#### *Audit committee*

The audit committee monitors the Company's accounting and the accounting process, risk management, internal control, internal audit and compliance. Moreover, the audit committee deals with the selection of the auditors, the necessary independence of the auditor and the respective engagement, the key audit areas, the auditors' compensation as well as the additional rendered services by the auditor. In the complete 2017 financial year, the audit committee was composed of Marianne Voigt as Chair and Benoît Héroult as a further member. Moreover, Richard Mully was a member of the audit committee until January 18, 2017. On the same date, Dr Bernhard Düttmann was elected as his successor to the audit committee.



### ***Finance and investment committee***

The finance and investment committee discusses the Company's financing strategy and approves the acquisition or disposal of real estate property or other assets worth between EUR 30 m and EUR 100 m, as well as financing agreements with a financing volume between EUR 30 m and EUR 100 m. Transactions of a value greater are to be presented to the entire Supervisory Board for approval. The finance and investment committee, furthermore, approves the conclusion, renewal or early termination of lease agreements with third parties with a total annual consideration of more than EUR 2 m, as well as contracts with Supervisory Board members, according to Section 114 of the German Stock Corporation Act (*Aktiengesetz, AktG*). In the complete 2017 financial year, the finance and investment committee composed of Richard Mully as Chair as well as Benoît Hérault and Stefanie Frensch as further members.

### ***Nomination and remuneration committee***

The nomination and remuneration committee prepares resolutions for the entire Supervisory Board for the appointment and dismissal of members of the Management Board, for the Management Board's compensation system and for the total remuneration of individual members of the Management Board. Furthermore, it deals with the resolution of, or amendments to, the rules of procedure for the Management Board, as well as the approval of certain other activities and primary contracts of members of the Management Board. Apart from the amount of compensation, the nomination and remuneration committee decides on the conclusion, amendment, extension and termination of contracts with Management Board members and on the content of such contracts. Finally, the committee prepares the resolutions for the Supervisory Board regarding the proposal of the appointment of suitable Supervisory Board members at the Annual General Meetings. In the financial year 2017, the nomination and remuneration committee was composed of Dr Johannes Conradi as Chair as well as Stefanie Frensch and Richard Mully as further members.

### ***Corporate social responsibility committee***

The corporate social responsibility committee, which was newly established in September 2017, will deal with topics of corporate social responsibility and real estate innovations in the future. The committee was composed of Dr Johannes Conradi as Chair as well as Richard Mully and Marianne Voigt as further members.

### ***Special committees***

Additionally, the Supervisory Board established a special committee transactions in March 2017, which was composed of Richard Mully as Chair as well as Dr Johannes Conradi, Stefanie Frensch and Benoît Hérault as further members. The special committee transactions was authorised to grant all necessary approvals and make all other declarations required in connection with the acquisition and financing of real estate portfolios.

In January 2018 the Supervisory Board established a special committee capital increase, which was comprised of Richard Mully as Chair as well as Dr Johannes Conradi, Stefanie Frensch and Benoît

Hérault as further members. The special committee capital increase was authorised to grant all necessary approvals and make all other declarations required in connection with the execution of a capital increase from the Authorised Capital 2017 (Sec. 5 para. 3, 4 and 4a of the articles of association) against cash contributions in the amount of up to ten percent of the Company's share capital.

The Supervisory Board reports on the activities of the committees of the Supervisory Board during the 2017 financial year in its report to the Annual General Meeting on pages 135 to 142 of the annual report.

### **DETERMINATION TO PROMOTE WOMEN'S PARTICIPATION IN LEADING POSITIONS PURSUANT TO SECTION 76 PARA. 4 AND SECTION 111 PARA. 5 AKTG**

For the Company, employees and their development in the Company are of central meaning to achieve sustainable success. The Management Board pursues diversity in filling its management positions and aims to adequately consider women for these positions. The Management Board determined that the number of females in the first management level below the Management Board should be no less than 30%. This target quota has been achieved with 41.7% as of December 31, 2017, and applies until December 31, 2021. In lack of a further management level with decision-making competence and budget responsibility, a target quota of women's participation for the second management level was not to be determined.

The Supervisory Board determined a target quota of at least 30% for the Supervisory Board. This quota has been achieved with 33.33% and applies until December 31, 2021.

For the participation of women in the Management Board, the Supervisory Board determined a quota of 0%. This quota has been achieved and applies until December 31, 2021. Since both Management Board members are appointed until December 31, 2022, a change in the Management Board until then is not foreseeable from today's point of view. Also, pursuing a diversity concept for the Management Board is not indicated against this background.

### **PROFILE OF SKILLS AND EXPERTISE WITH OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND DIVERSITY CONCEPTION**

The aim of the alstria office REIT-AG's Supervisory Board is to have members who are equipped with the necessary skills and expertise to properly advise and control the Management Board. Therefore, in December 2017, the Supervisory Board developed, with due consideration of the specific alstria situation, the following profile of skills and expertise and diversity conception pursuant to Section 289f HGB and Section 5.4.1 of the German Corporate Governance Code, which specifies concrete objectives for the composition of the Supervisory Board, which are to be considered in its proposals to the shareholders in the General Meeting regarding new elections to the Supervisory Board:

## Requirements for the single Supervisory Board members

### **General requirement profile**

- Managerial or operational experience
- Willingness and ability to adequate content-related commitment
- Discretion and integrity
- Capacity for interaction and teamwork
- Leadership skills and persuasive power
- Willingness to participate in regular and independent advanced training
- Compliance with the limitation of the numbers of memberships as recommended by the German Corporate Governance Code (see Section 5.4.5 German Corporate Governance Code).

### **Availability**

Each member of the Supervisory Board must ensure that he or she has sufficient time to dedicate to the proper fulfilment of the Supervisory Board mandate (see also Section 5.4.1 German Corporate Governance Code). This means ensuring that the member

- can attend five ordinary Supervisory Board meetings per year, each of which requires adequate preparation work and wrap-up,
- has sufficient time for the audit of the annual and consolidated financial statements,
- can in general attend the Annual General Meeting of shareholders in person (see para. 15 sec. 4 sentence 1 of the articles of association),
- depending on possible membership in one or more of the Supervisory Board committees, has extra time to participate in these committee meetings and do the necessary preparation and wrap-up for these meetings,
- can attend extraordinary meetings of the Supervisory Board or of a committee to deal with special matters, as and when required (also on short notice).

### **Age limit**

Members of the Supervisory Board should not be older than 70 years of age as a general rule (see for the definition of an age limit Section 5.4.1 German Corporate Governance Code).

### **Length of membership**

For each member, the membership in the Supervisory Board shall not exceed 20 years as a general rule (see for the definition of a maximum length of mandate Section 5.4.1 German Corporate Governance Code).

## Requirements relating to the composition of the Supervisory Board plenum

### ***Expertise***

- Viewed as a whole, the members must be familiar with the real estate sector (see Section 100 para. 5 second half-sentence of the German Stock Corporation Act).
- At least two members shall have expertise in the sectors of real estate transactions, asset management and letting, project development and real estate valuation.
- At least one independent member of the Supervisory Board shall have expertise in accounting or the audit of annual statements (see Section 100 para. 5 first half-sentence of the German Stock Corporation Act, Section 5.3.2 German Corporate Governance Code).
- At least one member shall have expertise in the sectors of legal, human resources management, corporate finance, IT/innovation/digitalisation, corporate social responsibility and capital markets.

### ***Experience abroad***

At least two members of the Supervisory Board shall have acquired reasonable international experience.

### ***Diversity and participation of women***

The members of the Supervisory Board shall appoint new members, taking into account their backgrounds, professional experiences and expertise, to provide the Supervisory Board with the most diverse sources of experience and expertise possible. For the female representation in the Supervisory Board, a quota of at least 30% must be maintained.

### ***Independence and conflicts of interest***

At least four members of the Supervisory Board shall be independent, according to Section 5.4.2 of the German Corporate Governance Code, i.e. have no business or personal relationships, which could cause a substantial and not temporary conflict of interest, with the Company, its executive bodies, a controlling shareholder or an enterprise associated with the latter.

At least three members of the Supervisory Board shall not have any consulting or representation duties with main tenants, lenders or other business partners of the Company (see for the disclosure of conflicts of interest Section 5.5.2 German Corporate Governance Code).

**Current composition**

In December 2017, the Supervisory Board assessed the implementation of these targets and came to the conclusion that all targets named above are met. The profile of skills and expertise is completely met by the plenary body.

February 2018

**The Management Board**

**The Supervisory Board**

## REMUNERATION REPORT\*

### REMUNERATION OF THE MANAGEMENT BOARD MEMBERS

The remuneration system for the members of the Management Board is determined by the Supervisory Board and is reviewed regularly. Recently, the Supervisory Board adopted the remuneration system that became effective January 1, 2018.

Below is a description of the remuneration system and a breakdown of the amounts of remuneration for the members of the Management Board for financial year 2017, as well as a description of the adjustments to the remuneration system which came into force on January 1, 2018.

#### 1. REMUNERATION SYSTEM IN FINANCIAL YEAR 2017

The remuneration system for the members of the Management Board, as applicable in financial year 2017, was developed by the Supervisory Board with the assistance of an external, independent remuneration expert. The shareholders approved it in the general meeting for the 2009 financial year. The Supervisory Board is of the opinion that adequate remuneration for the members of the Management Board has been provided in financial year 2017, which is based on customary market terms and conditions and also takes the long-term success of the Company into account. Furthermore, the remuneration structure complies with the German Stock Corporation Act (AktG) and—except for the deviations declared in the Compliance Statement according to Sec. 161 of the AktG—with the recommendations of the German Corporate Governance Code.

The criteria for determining the appropriateness of the remuneration of the Management Board include, among other factors, the duties of each individual Management Board member, his or her personal performance, the financial situation of the Company, the success and future prospects of the Company, customary practice regarding remuneration relative to peer companies, and the remuneration structure of the Company.

The Supervisory Board determines the target remuneration for each board member. The target remuneration for each Management Board member is comprised of a fixed basic salary, short-term and long-term variable components, and ancillary benefits (benefits in kind). The majority of the target remuneration is made up of variable components that are dependent on achieving annual or multi-year targets with forward-looking characteristics, as described below. The system also establishes caps for the different variable elements of the remuneration.

#### Fixed Remuneration

The fixed element of the remuneration is a basic salary, which is independent of performance and is paid as a salary on a *pro rata* basis each month. The fixed element of the remuneration amounts to approximately 40% of the total target remuneration, excluding any ancillary benefits for the financial year.

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\* This remuneration report forms an integral part of the audited Group Management Report and Notes to the annual financial statements.

## Variable Remuneration

The variable element of the remuneration amounts to approximately 60% of the total target remuneration, excluding any ancillary benefits for the financial year, and is composed of two parts: a short-term incentive and a long-term incentive.

The table below summarises the main characteristics of each of the two programs:

	short-term incentive (STI)		long-term incentive (LTI)	
Proportion of total target remuneration	20%	20%	20%	20%
Targets to assess performance	Like-for-like budgeted funds from operations (FFO)	Total shareholder return (relative to EPRA NA-REIT Europe Ex-UK)	Absolute total shareholder return	
Min. / max. target achievements	50% / 150%	50% / 150%	50% / 150%	
Discretionary factor	0.8 / 1.2	0.8 / 1.2	0.8 / 1.2	
Deferred component	25%	100%	100%	
Form of the deferred component	Virtual shares	Virtual shares	Virtual shares	
Deferral period	2 years	4 years	4 years	
Reference share price	Average share price for the previous 20 days	Average share price for the previous 60 days	Average share price for the previous 60 days	
Payout cap for the deferred components	250% of deferred amount	Virtual shares multiplied by 250% of the reference share price on grant date	Virtual shares multiplied by 250% of the reference share price on grant date	

### **Performance target FFO for STI**

As the amount of the STI for a financial year is mainly based on the achievement of funds from operations (FFO), the Supervisory Board adapts its FFO target for a financial year if the FFO is materially impacted by acquisitions and/or disposals. In doing so, the Supervisory Board ensures the Management Board is not incentivised to enter into transactions to achieve any personal short-term benefits.

### **Min./Max. target achievements**

This category reflects the minimum performance that needs to be achieved in order for any payout to occur (threshold), as well as the maximum performance that is considered in the payout calculation (cap).

### **Discretionary factor**

This category reflects the factor that the Supervisory Board can apply to reflect the individual performance of each board member.

### **Deferred component**

This category reflects the part of the variable remuneration that is subject to a multi-year lockup.

**Payout amount**

- For the STI, the payout amount at the end of the deferral period is equal to the number of virtual shares multiplied by the reference share price, thereby adding back any dividend per alstria share paid by the Company during the deferral period.
- For the LTI, the number of virtual shares is adjusted at the end of the deferral period, reflecting the degree of performance target achievement. The payout amount is equal to the number of achieved virtual shares multiplied by the reference share price, added to the dividend per alstria share paid during the deferral period, and then multiplied by the discretionary factor.

**Reference share price**

This is the share price used to convert the target amount into virtual shares when they are granted and to convert virtual shares into a payout amount at the end of the deferral period.

**Virtual shares**

The number of virtual shares granted is equal to the amount of the deferred component divided by the reference share price.

The table below summarises the number of virtual shares granted under the existing STI and LTI programs in the reporting period and outstanding as of December 31, 2017.

	Start of deferral period	Reference share price in EUR	End of deferral period	Olivier Elamine Number of virtual shares	Alexander Dexne Number of virtual shares
STI 2015	2016	11.63	2018	5,949	4,868
STI 2016	2017	11.68	2019	5,142	4,207
LTI 2014	2014	9.44	2018	46,610	38,136
LTI 2015	2015	10.97	2019	40,109	32,817
LTI 2016	2016	11.71	2020	37,575	30,743
LTI 2017	2017	11.52	2021	38,194	31,250

**Ancillary Benefits**

Furthermore, the members of the Management Board receive ancillary benefits granted as benefits in kind, which essentially consist of insurance premiums, pension benefits, and the private use of a company car.

**Termination of Membership in Management Board**

If membership to the Management Board is terminated, members have agreed to a postcontractual noncompete agreement of up to twelve months, which may be waived by alstria with a six-month notice period. As long as alstria exercises this postcontractual noncompete agreement, the members of the Management Board shall receive a compensation payment for this period equivalent to their last fixed salary. In the event of an early termination of a Management Board service contract by mutual agreement, the members of the Management Board will remain entitled to their remuneration claims during the remaining term of the service contract. These are, however, capped at a value of



two years' worth of remuneration. If the appointment is terminated due to the board member's death, the benefits to be paid by the Company amount to the fixed salary for the month in which the member died in addition to an equal payment for the following three months. The incentive payment for this period shall be paid *pro rata* up to and including the month of death. The Management Board contracts do not include any change of control clauses.

### Benefits by Third Parties

No individual member of the Management Board was granted or rendered any benefits by third parties with regard to the Management Board's work in the 2017 financial year.

### 2. AMOUNT OF REMUNERATION IN THE 2017 FINANCIAL YEAR

In the last financial year, the total target remuneration for the members of the Management Board amounted to EUR 2,190 k. The total amount paid to the Management Board in that financial year amounted to EUR 2,792 k (including payouts on multi-year remuneration elements). The correctness of the calculated payout amounts for the multi-year variable remuneration elements was confirmed by an independent remuneration expert. The remuneration of individual Management Board members is presented based on model tables pursuant to the German Corporate Governance Code, as amended on February 7, 2017.

The "Benefits granted" table shows the fixed remuneration and the target values of the variable remuneration elements granted in the respective business year as well as hypothetical minimum and maximum amounts for a future payout of the variable remuneration elements. We explicitly make reference to the fact that the hypothetical maximum amounts could only be attained in the extraordinary situation where all the conditions named in the "Conditions to attain maximum amounts for variable remuneration elements granted in 2017" table occurred at the same time.

The "Allocation/benefits paid out" table shows the fixed remuneration and the amounts paid out in the respective business year as variable remuneration elements.

Benefits granted

Benefits granted  in EUR k	Olivier Elamine CEO				Alexander Dexne CFO			
	2016	2017	2017 (Min)	2017 (Max) <sup>10)</sup>	2016	2017	2017 (Min)	2017 (Max) <sup>10)</sup>
	<b>Total amount of fixed compensation and ancillary benefits</b>	<b>448</b>	<b>447</b>	<b>447</b>	<b>447</b>	<b>378</b>	<b>381</b>	<b>381</b>
Fixed compensation <sup>1)</sup>	440	440	440	440	360	360	360	360
Ancillary benefits <sup>2)</sup>	8	7	7	7	18	21	21	21
<b>Total amount of one-year variable compensation</b>	<b>173</b>	<b>173</b>	<b>0</b>	<b>312</b>	<b>142</b>	<b>142</b>	<b>0</b>	<b>255</b>
One-year variable compensation (STI 2016)	173 <sup>3)</sup>	-	-	-	142 <sup>3)</sup>	-	-	-
One-year variable compensation (STI 2017)	-	173 <sup>3)</sup>	0	312 <sup>4)</sup>	-	142 <sup>3)</sup>	0	255 <sup>4)</sup>
<b>Total amount of multi-year variable compensation</b>	<b>498</b>	<b>498</b>	<b>0</b>	<b>2,240</b>	<b>407</b>	<b>407</b>	<b>0</b>	<b>1,833</b>
STI 2016 (3 years)	58 <sup>5)</sup>	-	-	-	47 <sup>5)</sup>	-	-	-
STI 2017 (3 years)	-	58 <sup>5)</sup>	0	260 <sup>6)</sup>	-	47 <sup>5)</sup>	0	213 <sup>6)</sup>
LTI 2016 (4 years)	440 <sup>7)</sup>	-	-	-	360 <sup>7)</sup>	-	-	-
LTI 2017 (4 years)	-	440 <sup>7)</sup>	0	1,980 <sup>8)</sup>	-	360 <sup>7)</sup>	0	1,620 <sup>8)</sup>
<b>Total amount of fixed and variable compensation</b>	<b>1,119</b>	<b>1,118</b>	<b>447</b>	<b>2,999</b>	<b>927</b>	<b>930</b>	<b>381</b>	<b>2,469</b>
Service costs <sup>9)</sup>	84	84	84	84	58	58	58	58
<b>Total</b>	<b>1,203</b>	<b>1,202</b>	<b>531</b>	<b>3,083</b>	<b>985</b>	<b>988</b>	<b>439</b>	<b>2,527</b>

<sup>1)</sup> Annual base salary according to service contracts.

<sup>2)</sup> Benefits related to company car.

<sup>3)</sup> 75% of the STI target value for the respective financial year.

<sup>4)</sup> Maximum attainable payout amount for 75% of the STI after 1 year: (target value STI x 0.75 x 1.5 x 1.2).

<sup>5)</sup> 25% of the STI target value for the respective financial year.

<sup>6)</sup> Maximum attainable payout amount for 25% of the STI after 3 years: ((target value STI x 0.25 x 1.5 x 1.2) x 2.5).

<sup>7)</sup> LTI target value for the respective financial year.

<sup>8)</sup> Maximum attainable payout amount for the LTI after the holding period of 4 years: (1.5 x granted virtual shares x (2.5 x share price on grant date) x 1.2).

<sup>9)</sup> Benefits for insurance and pension plans.

<sup>10)</sup> Hypothetical maximum attainable payout amount under the condition that all assumptions described in the "Conditions to attain maximum amounts" table are fulfilled.

Conditions to attain maximum amounts for variable remuneration elements granted in 2017

<b>One-year variable compensation</b>	1. alstria FFO 2017 = EUR 170.7 m (budgeted FFO of approx. EUR 113.8 m is achieved by 150%)
and	2. Supervisory Board passes resolution on discretionary factor of 1.2
<b>Multi-year variable compensation</b>	
LTI (4 years)	1. Absolute total shareholder return $\geq$ 9% (i.e. total shareholder return for alstria investors over 4 years of 9% p.a. or more)
and	2. Relative total shareholder return (TSR vs. EPRA) $\geq$ 25% (i.e. alstria overperforming EPRA/NA-REIT Europe Index Ex UK by 25%)
and	3. Company share price increases by 250% (share price of EUR 11.52 on granting date --> share price of EUR 28.80 on payment date after 4 years)
and	4. Supervisory Board passes resolution on discretionary factor of 1.2
STI (3 years)	Price of Company shares increases by 250% (e.g. share price of EUR 11.68 on deferral date --> share price of EUR 29.20 on payment date)

## Benefits paid out

in EUR k Allocation/benefits paid out	Olivier Elamine		Alexander Dexne	
	CEO		CFO	
	2016	2017	2016	2017
<b>Total amount of fixed compensation and ancillary benefits</b>	<b>448</b>	<b>447</b>	<b>378</b>	<b>381</b>
Fixed compensation <sup>1)</sup>	440	440	360	360
Ancillary benefits <sup>2)</sup>	8	7	18	21
<b>Total amount of one-year variable compensation</b>	<b>208</b>	<b>180</b>	<b>170</b>	<b>147</b>
One-year variable compensation (STI 2015) <sup>3)</sup>	208	-	170	-
One-year variable compensation (STI 2016) <sup>3)</sup>	-	180	-	147
<b>Total amount of multi-year variable compensation</b>	<b>870</b>	<b>822</b>	<b>712</b>	<b>673</b>
STI 2013 (3 years) <sup>4)</sup>	75	-	61	-
STI 2014 (3 years) <sup>4)</sup>	-	68	-	56
LTI 2012 (4 years) <sup>5)</sup>	795	-	651	-
LTI 2013 (4 years) <sup>5)</sup>	-	754	-	617
<b>Total amount of fixed and variable compensation</b>	<b>1,526</b>	<b>1,449</b>	<b>1,260</b>	<b>1,201</b>
Service cost <sup>6)</sup>	84	84	58	58
<b>Total</b>	<b>1,610</b>	<b>1,533</b>	<b>1,318</b>	<b>1,259</b>

<sup>1)</sup> Annual base salary according to service contracts.

<sup>2)</sup> Benefits related to company car.

<sup>3)</sup> Payout amount for 75% of the STI after 1 year.

<sup>4)</sup> Payout amount for 25% of the STI after 3 years.

<sup>5)</sup> Payout amount for LTI after holding period of 4 years.

<sup>6)</sup> Benefits for insurance and pension plans.

### 3. REMUNERATION SYSTEM SINCE THE 2018 FINANCIAL YEAR

In January 2017, the Supervisory Board resolved upon amendments to the system for the remuneration of the members of the Management Board of alstria office REIT AG, which took effect on January 1, 2018, and was approved by the shareholders in the Annual General Meeting in May 2017. The amendments resolved by the Supervisory Board aim at better aligning the interests of the Management Board and the shareholders of the Company, focusing on sustainable long-term value creation and reducing complexity. The structure of the remuneration system is kept substantially unchanged and only simplifications and amendments are made. The amounts of the fixed annual remuneration and the target values for the variable remuneration remain unchanged. When reviewing and adapting the remuneration system for the members of the Management Board, the Supervisory Board was advised by an external, independent remuneration expert.

Just as before, the criteria for appropriateness of the Management Board remuneration are the duties of the individual Management Board member and his or her personal performance; the financial situation, success, prospects, and sustainable development of the Company; the appropriateness of the remuneration with consideration of the scope of comparison; and the Company's applicable remuneration structure.

The remuneration structure still consists of a fixed basic remuneration, a short-term and long-term variable remuneration component, and ancillary benefits (payments in kind) for each member of the Management Board. As required by the German Stock Corporation Act and the German Corpo-

## Corporate Governance

rate Governance Code, the majority of the remuneration consists of variable remuneration components that are mainly based on multi-year assessments with forward-looking characteristics. Furthermore, Share Ownership Guidelines have been introduced under which the members of the Management Board are obliged to invest part of their remuneration in shares of the Company.

### Overview of the essential amendments

	2017	2018
<b>STI (Short-Term Incentive)</b>	<ul style="list-style-type: none"> <li>▪ FFO as target value</li> <li>▪ Threshold for the performance target: 50%</li> <li>▪ Discretionary factor to reflect individual performance: 0.8–1.2</li> <li>▪ 75% cash payout / 25% payout in virtual shares</li> </ul>	<ul style="list-style-type: none"> <li>▪ FFO per share as target value</li> <li>▪ Threshold for the performance target: 70%</li> <li>▪ Discretionary factor to reflect individual performance: 0.7–1.3</li> <li>▪ 100% cash payout</li> </ul>
<b>LTI (Long-Term Incentive)</b>	<ul style="list-style-type: none"> <li>▪ Virtual shares with term of 4 years, then payout in cash</li> <li>▪ Performance subject to absolute TSR (50%) and relative TSR (EPRA/NAREIT Europe Ex-UK Index) (50%)</li> <li>▪ Discretionary factor to reflect individual performance: 0.8–1.2</li> </ul>	<ul style="list-style-type: none"> <li>▪ Stock awards with term of min. 4 years, payout in Company shares</li> <li>▪ Performance subject to absolute TSR (25%) and relative TSR (FTSE EPRA/NAREIT Developed Europe Index) (75%)</li> <li>▪ Discretionary factor to reflect individual performance: 0.7–1.3</li> </ul>
<b>Share Ownership Guidelines</b>	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>	<ul style="list-style-type: none"> <li>▪ Obligation of the members of the Management Board to acquire shares of the Company amounting to three times their fixed annual remuneration and to hold the same until they leave their office</li> </ul>

## Variable Remuneration Elements

### **Short-Term Incentive Plan 2018**

Just as before, the members of the Management Board receive a short-term variable remuneration component (STI) with a target value in Euro in each financial year. Since January 1, 2018, the STI is based on the budgeted funds from operations *per share* (FFO per share) as the performance target (previously: funds from operations). The amount of the STI depends on the degree to which the performance target is achieved, i.e. the relation between the FFO per share achieved in the corresponding financial year and the budgeted FFO per share. The previous remuneration system provided for a threshold of at least 50% of the performance target that must be met for payments to be made. This threshold has been increased to at least 70% of the performance target to be met for a payout, i.e. if the achieved FFO per share is not at least 70% of the budgeted FFO per share, remuneration from the STI will not be granted. A maximum of 150% of the performance target can be achieved (cap).

The achieved payout value is adjusted at the discretion of the Supervisory Board, i.e. multiplied with a discretionary factor of 0.7 to 1.3 (previously: 0.8 to 1.2). This enables the Supervisory Board to consider the individual performance of each Management Board member in addition to the performance target achievement. Criteria for this may be, in particular, the individual performance of each Management Board member in the relevant financial year as well as his or her tasks and responsibilities within alstria and the alstria Group. In total the STI is limited to a maximum of 150% of the target value (cap).

According to the remuneration system as applicable until the end of financial year 2017, only 75% of the STI were paid out in cash to the Management Board members, and 25% of the STI were converted into virtual shares which were subject to a minimum holding period of two years. Now, the STI no longer provides for a long-term component with a conversion into virtual shares and will be paid out completely in cash without deferral. This change aims to simplify the remuneration system and was made in light of the Company's introduction of Share Ownership Guidelines under which the members of the Management Board are obliged to acquire and hold Company shares (for details see below under Share Ownership Guidelines).

### **Long-Term Incentive Plan 2018**

The members of the Management Board may still also be granted a long-term variable remuneration component (LTI) in each financial year with a target value in Euro to be determined by the Supervisory Board. The LTI is still being weighted more strongly than the STI. As of January 1, 2018, the Long-Term Incentive Plan 2018 no longer provides for virtual shares but for stock awards which will be converted into shares of the Company after a holding period of at least four years (previously: cash payout). The absolute total shareholder return and the relative total shareholder return remain as performance targets. However, the relative total shareholder return has been given a greater weighting of 75% (previously: 50%). In order to better align with real estate industry standards, the reference index for the relative total shareholder return is now the FTSE EPRA/NAREIT

Developed Europe Index (previously: EPRA/NAREIT Europe Ex-UK Index). The individual performance of the Management Board member is taken into account with a discretionary factor of 0.7 to 1.3 (previously: 0.8 to 1.2).

In detail:

The number of stock awards to be granted results from a target value defined by the Supervisory Board in Euro and divided by the arithmetic mean of the share price of one alstria share (commercially rounded to two decimal places) during the last 60 trading days prior to being granted. The Management Board member must hold the stock awards for a holding period of at least four years beginning with the granting date. The number of the stock awards will be adjusted at the end of each respective holding period depending on the performance of the alstria share during the holding period. Twenty-five percent of the performance target determined by the Supervisory Board is made up of the absolute total shareholder return derived from the “weighted average cost of capital” (WACC) and compared to the XETRA-based Total Return Index. Seventy-five percent will be calculated on the basis of the relative total shareholder return compared to the reference index FTSE EPRA/NAREIT Developed Europe.

Furthermore, as with the STI, the individual performance of each Management Board member during the holding period is taken into consideration with a discretionary factor which is determined by the Supervisory Board within a corridor of 0.7 to 1.3. Criteria for this may be, in particular, the individual performance of each Management Board member during the relevant holding period as well as his or her tasks and responsibilities within alstria and the alstria Group. This allows these factors to be taken into account in addition to the performance target achievement. After the expiration of the holding period, the number of stock awards adjusted with regard to the performance target achievement will be multiplied with the discretionary factor and thus determine the alstria shares to be delivered for payout. Additionally, the dividends accumulated during the holding period for the payout shares are taken into account. This is the accumulated gross dividend divided by the arithmetic mean of the alstria stock market price (rounded to two decimal places) of the last 60 trading days prior to the relevant maturity date. The resulting stock awards will be converted into alstria shares at a ratio of 1:1 and granted to the Management Board member. In addition, the amount paid out in the Long-Term Incentive Plan 2018 is limited by a cap (to a maximum of 250% of the target value in Euro).

If the Company is not in a position to provide the alstria shares, the payout will be made in cash (determined by the number of shares to be delivered multiplied with the arithmetic mean (commercially rounded to two decimal places) of the alstria stock market price of the last 60 trading days prior to the relevant maturity date).

### Ancillary Benefits

The Management Board members continue to receive payments in kind, which essentially consist of insurance premiums and the private use of a company car. As a component of the remuneration, taxes on these ancillary benefits are to be paid by each individual Management Board member. Each Management Board member is in principle equally entitled to these ancillary benefits, but the amount varies depending on the personal situation of each member. Moreover, as in the past, the Company still grants the members of the Management Board a monthly cash amount for the purpose of a private pension plan. These benefits now amount to 20% of each Management Board member's annual fixed salary. Pension entitlements do not exist.

### Share Ownership Guidelines

Share Ownership Guidelines have been introduced for the first time. According to such guidelines, the members of the Management Board are obliged since the beginning of financial year 2018 to set up a portfolio of shares equivalent to three times the fixed annual remuneration over a period of five years and to hold the same until they leave their office. The Share Ownership Guidelines aim in particular at reconciling the interests of the members of the Management Board with those of the shareholders and thus promoting sustainable entrepreneurial approaches.

## REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

The remuneration system for the members of the Supervisory Board is being resolved upon by the Annual General Meeting of the Company. The remuneration system which had been applicable until the end of financial year 2017 was adjusted by the Annual General Meeting of the Company in May 2017, effective January 1, 2018. Please find below a description of the remuneration system for the members of the Supervisory Board which was in effect in financial year 2017 as well as a description of the amendments made.

### 1. SUPERVISORY BOARD REMUNERATION IN THE 2017 FINANCIAL YEAR

For financial year 2017, the members of the Supervisory Board each received an annual fixed remuneration of EUR 42 k. The Chairman of the Supervisory Board received an additional annual amount of EUR 21 k; the Vice-Chairman received an additional amount of EUR 10.5 k. Membership in the audit committee entitled a member to an additional remuneration of EUR 10 k, while the chair of the audit committee received EUR 15 k per year. Membership in the nomination and remuneration committee as well as the finance and investment committee entitled a member to an additional annual remuneration of EUR 5 k. The chairpersons of these committees are compensated with another EUR 2.5 k per year. Membership in other committees did not entitle a member to additional remuneration. Members who sit on the Supervisory Board for only part of a year receive a *pro rata temporis* remuneration.

The total remuneration for the Supervisory Board members in 2017 amounted to EUR 353 k. The remuneration for the individual Supervisory Board members for the 2016 and 2017 financial years is as follows.

Supervisory Board member	Function on the Supervisory Board	Function on the Committees <sup>1)</sup> in 2017	Remuneration for 2016 EUR k	Remuneration for 2017 EUR k
Dr. Johannes Conradi	Chairman	NRC (ch) <sup>2)</sup>	65.66	70.50
Richard Mully	Vice-Chairman	AC <sup>2)</sup> , NRC, FIC (ch)	61.81	65.49
Dr. Bernhard Düttmann since January 3, 2017	Member	AC <sup>2)</sup>	-	51.30
Stefanie Frensch since May 12, 2016	Member	NRC, FIC	29.99	52.00
Benoît Hérault	Member	AC, FIC	57.00	57.00
Marianne Voigt	Member	AC (ch)	57.00	57.00
Alexander Stuhlmann until May 12, 2016			25.62	-
Hermann Dambach until October 31, 2016			50.28	-
<b>Total</b>			<b>347.36</b>	<b>353.29</b>

<sup>1)</sup> AC=audit committee, FIC=finance and investment committee, NRC=nomination and remuneration committee, ch=chair.

<sup>2)</sup> Temporarily.



## 2. REMUNERATION OF THE SUPERVISORY BOARD SINCE THE 2018 FINANCIAL YEAR

The Annual General Meeting on May 16, 2017, resolved to adjust the remuneration system for the Supervisory Board members effective January 1, 2018. In order to make the remuneration attractive compared with other enterprises as well as to take into account the Supervisory Board members' increasing workload and responsibility, a corresponding amendment of the remuneration was proposed. Especially the comprehensive and time-consuming duties of the Chairman and deputy have been taken into account more strongly by providing differentiation in remuneration levels of 1:1.5:3 for ordinary members of the Supervisory Board, Vice-Chairman, and Chairman. Furthermore, the increased responsibility and workload of the chairpersons of the committees have been taken into account by providing differentiation in remuneration levels of 1:2 for ordinary committee members and chair.

In this context, the members of the Supervisory Board have agreed upon and entered into a binding commitment to acquire shares of alstria office REIT-AG for an amount corresponding to one time the adjusted fixed annual compensation for their activity as member, Chairman, or Vice-Chairman of the Supervisory Board (without committees and before taxes) and declared that they will hold them for the duration of their membership in the Company's Supervisory Board (Self-Commitment). The Self-Commitment has to be fulfilled within four years beginning January 1, 2018. By means of this Self-Commitment the members of the Supervisory Board intend to adhere to the guiding principles of the Share Ownership Guidelines introduced for the members of the Management Board and to declare their sustained commitment to the Company.

Since the financial year 2018, the Chairman of the Supervisory Board receives a fixed remuneration of EUR 150 k p.a., his or her deputy a remuneration of EUR 75 k p.a., and each ordinary member of the Supervisory Board receives 50 k p.a.

In addition to this, each member of the audit committee receives a remuneration of EUR 10 k p.a.; the chair of the audit committee receives an annual remuneration EUR 20 k p.a. Furthermore, each member of the nomination and remuneration committee and of the finance and investment committee of the Supervisory Board receives a fixed remuneration in the amount of EUR 7.5 k p.a.; the chair of the nomination and remuneration committee and the chair of the finance and investment committee each receive a remuneration in the amount of EUR 15 k p.a. Membership in other committees does not entitle a member to any additional remuneration. Supervisory Board members who have served the Supervisory Board on one of its above-mentioned committees for only part of a financial year receive remuneration *pro rata temporis*.

## REIT DISCLOSURES

### REIT DECLARATION

#### STATEMENT OF THE MANAGEMENT BOARD

In relation with our financial statements according to Section 264 of the German Commercial Code (*Handelsgesetzbuch, HGB*) and our consolidated financial statements according to Section 315a HGB as per December 31, 2017, the management board issues the following declaration regarding compliance with the requirements of Sections 11 to 15 of the REIT Act (German Real Estate Investment Trust Act) and regarding the calculation of the composition of income subject to and not subject to income tax for the purpose of Section 19 paragraph 3 REIT Act in conjunction with Section 19a REIT Act:

1. As per balance sheet date, 72.41% of alstria's shares were free float according to Section 11 paragraph 1 REIT Act. This was disclosed to the German Federal Financial Supervisory Authority (BaFin).
2. In accordance with Section 11 paragraph 4 REIT Act, as per balance sheet date, no shareholder owned directly 10% or more of our shares or shares of such an amount, that he holds 10% or more of the voting rights.
3. In relation to the sum of the assets pursuant to the consolidated statements less the distribution obligation and the reserves pursuant to Section 12 paragraph 2 REIT Act
  - a) as per the balance sheet date the immovable assets amounted to EUR 3,421,766 k which equals to 95.47% of the assets, therefore at least 75% of the assets belong to the immovable assets;
  - b) the assets belonging to the property of REIT service companies as per balance sheet date which were included in the consolidated statements amount to a maximum of 20%, namely EUR 1,496 k and therefore 0.04%.
4. In relation to the sum of the entire sales revenue plus the other earnings from immovable assets pursuant to the consolidated financial statements according to Section 12 paragraph 3 and 4 REIT Act
  - a) for the financial year 2017, the entire sales revenues of the Group plus other earnings from immovable assets amounted to EUR 423.0 m. This equals 100% of total revenues plus other earnings from immovable assets;
  - b) the sum of the sales revenue plus the other earnings from immovable assets of REIT service companies amounted to EUR 186 k in the financial year 2017. This equals 0.04% of total revenue plus other earnings from immovable assets.

## REIT Disclosures

5. In the financial year 2017, a dividend payment of EUR 79,680 k for the prior financial year was distributed to the shareholders. The financial year 2016 resulted in a net gain amounted to EUR 25,814 k according to commercial law pursuant to Section 275 HGB.
6. alstria office REIT-AG's dividend does not derive from already taxed parts of the profit.
7. Since 2013, the Group has realised 32.58% of the average portfolio of its immovable assets and therefore did not trade with real estate according to Section 14 REIT Act.
8. On balance sheet date the Group's equity as shown in the consolidated financial statements according to Section 12 paragraph 1 REIT Act was EUR 1,954.7 m. This equals to 57.12% of the value of the immovable assets which are shown in the consolidated financial statements in conformance with Section 12 paragraph 1 REIT Act.

Hamburg, February 20, 2018

**alstria office REIT-AG**

**Olivier Elamine**  
CEO

**Alexander Dexne**  
CFO

## REIT MEMORANDUM

We summarised the result of our audit in an auditor's memorandum according to Section 1 (4) Clause 5 of the Act on German Real Estate Stock Corporations with listed Shares:

**Auditor's memorandum according to Section 1 (4) of the Act on  
German Real Estate Stock Corporations with listed Shares (REIT Act)**

To alstria office REIT-AG, Hamburg

As auditor of the annual financial statements and the consolidated financial statements of alstria office REIT-AG, Hamburg, for the financial year from January 1 to December 31, 2017, we have audited the information given in the attached declaration of the management board members for the compliance with the requirements of Section 11 to 15 of the REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19 (3) and Section 19a REIT Act as of December 31, 2017 (hereinafter referred to as "REIT declaration"). The information given in the REIT declaration is in the responsibility of the management board of the Company. Our responsibility is to express an opinion on the information given based on our audit.

We conducted our audit considering the audit guidance promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW): Particularities concerning the audit of a REIT stock corporation according to Section 1 (4) REIT Act, a pre-REIT stock corporation according to Section 2 Clause 3 REIT Act and the audit according to Section 21 (3) Clause 3 REIT Act (IDW PH 9.950.2). Therefore we have planned and performed our audit to make a judgment with reasonable assurance if the free float ratio and the maximum stock ownership per shareholder according to Section 11 (1) and (4) REIT Act agrees with the announcements due to Section 11 (5) REIT Act as of December 31, 2017 and if the provided information concerning the requirements of Section 12 to 15 REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19a REIT Act is appropriate. It was not part of our engagement to fully assess the companies tax assessments or position. Within our audit procedures we compared the information concerning the free float ratio and the maximum stock ownership per shareholder according to Section 11 (1) and (4) REIT Act provided within the REIT declaration with the announcements due to Section 11 (5) REIT Act as of December 31, 2017 and agreed the provided information concerning the requirements of Section 12 to 15 REIT Act with the information disclosed in the annual financial statements and the consolidated financial statements of the Company. Furthermore we tested the adjustments made to the valuation of immovable assets held as investment for their compliance with Section 12 (1) REIT Act. We believe that our audit provides a reasonable basis for our opinion.

## REIT Disclosures

In our opinion based on the findings of our audit, the information given in the REIT declaration concerning the free float ratio and the maximum stock ownership per shareholder due to Section 11 (1) and (4) REIT Act agrees with the announcements made according to Section 11 (5) REIT Act as of December 31, 2017 and the information provided concerning the compliance with Section 12 to 15 REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19a REIT Act are appropriate.

This memorandum is solely provided for submission to the tax authorities of the city of Hamburg within the tax declaration according to Section 21 (2) REIT Act and is not to be used for other purposes.

Hamburg/Germany, February 20, 2018

**Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

*(Seal)*

**Signed: Reiher**

Wirtschaftsprüfer

[German Public Auditor]

**Signed: Deutsch**

Wirtschaftsprüferin

[German Public Auditor]

## FINANCIAL CALENDAR

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### Events 2018

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April 26	<b>Annual General Meeting</b>
May 3	<b>Publication of Q1</b> Interim report
August 7	<b>Publication of Q2</b> Half-year interim report
November 6	<b>Publication of Q3</b> Interim report Publication of sustainability report

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## CONTACT/IMPRINT

alstria office REIT-AG is a member of DIRK (Deutscher Investor Relations Verband, the German Investor Relations Association).

Other reports issued by alstria office REIT-AG are posted on the Company's website.

### Forward-looking statements

This annual report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise the actual results could differ materially from the results currently expected.

### Note

This report is published in German (original version) and English (non-binding translation).

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# BUILDING YOUR FUTURE

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