

# FINANCIAL STATEMENTS 2016

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**Translation:** German version prevails

## TABLE OF CONTENTS

- 1. MANAGEMENT REPORT AND FINANCIAL STATEMENTS
  - 1.1. MANAGEMENT REPORT
  - 1.2. INCOME STATEMENT
  - 1.3. BALANCE SHEET
  - 1.4. NOTES TO THE FINANCIAL STATEMENTS
- 2. AUDITORS' REPORT

# alstria office REIT-AG, Hamburg

## MANAGEMENT DISCUSSION AND ANALYSIS 2016

### ECONOMICS AND STRATEGY

#### ECONOMIC CONDITIONS

##### Framework

The German economy proved to be solid again in 2016. Germany's GDP increased by 1.9%, a slightly higher growth rate than in 2015 (1.7%) and again above the average growth for the last 10 years (+1.4%).\* This development was also reflected in the German labor market, as the unemployment rate decreased by 0.6 percentage points to 5.8%. The employment level reached a peak of 43.8 m employees, which is 0.7% more than last year.\*\*

The German real estate market developed in a slightly negative manner in 2016 after six years (2010-2015) of continued rises. The total investment volume on the commercial real estate market dropped to approx. EUR 52.9 b, which was 4% lower than in the previous year. This volume reduction was caused by a shortage of adequate commercial real estate. Germany still offers great investment opportunities due to its strong economic and real estate key figures.\*\*\*

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

##### *Development of office rents*

In 2016, the average rents for office space remained mostly at previous year's level in the most important commercial real estate markets - Berlin, Düsseldorf, Frankfurt/Main, Hamburg, Cologne, Munich, and Stuttgart - known as the Big 7. Average rent slightly decreased to EUR 18.70 per sqm in Frankfurt and increased to EUR 16.30 per sqm in Berlin. Average rents were EUR 16.00 per sqm in Munich, EUR 15.10 per sqm in Hamburg, EUR 14.90 per sqm in Düsseldorf, EUR 13.00 per sqm in Stuttgart, and EUR 11.85 per sqm in Cologne.

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\* Federal Statistics Office (Statistisches Bundesamt).

\*\* Federal Employment Agency (Bundesagentur für Arbeit).

\*\*\* Numbers referred to in this section are sourced from Jones Lang Lasalle's market reports, except of the numbers in the chapter "Development of office rents" which are sourced from Collier's Office market report.

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

The vacancy rate of office properties in German cities decreased from 6.4% in 2015 to 5.5% in 2016, which represents a total vacancy of 5.1 m sqm (a decrease of 0.6 m sqm). Among the Big 7, the highest vacancy rate was noted in Frankfurt (9.1%), followed by those in Düsseldorf (8.1%), Hamburg (5.6%), Cologne (4.7%), Munich (4.5%), Berlin (4.3%), and Stuttgart (3.7%).

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

In 2016, new lease contracts were signed for more than 3.98 m sqm of office space in the Big 7 German cities. This reflects an increase of 0.3 m sqm, or 9.3%, compared to the previous year. The highest increases were registered in Cologne (41.2%), Stuttgart (38.6%), and Frankfurt (34.2%), followed by minor increases in Berlin (3.9%), Munich (2.0%), and Hamburg (1.9%). A decrease was registered only in Düsseldorf (-19.6%).

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

In 2016, the delivery of new office and commercial spaces amounted to approx. 1,100,000 sqm. Compared to last year, this was an increase of around 28%. The most significant increase took place in Hamburg (109.3%), followed by smaller increases in Stuttgart (42.3%), Frankfurt (28.9%), Munich (26.1%), Berlin (16.8%), and Cologne (6.1%). In Düsseldorf (-40.2%), the delivery of new office and commercial spaces was lower than the previous year. For 2017, a slight decrease of the completion volume (approx. 800,000 to 1,000,000 sqm) is forecasted.

### ***Investment markets***

The positive trend in the investment markets did not continue in fiscal year 2016. Total investment volume was about 4% (EUR 52.9 bn for commercial assets) lower than the previous year's result. The transaction volume in 2016 also did not reach previous year's result. The Big 7 cities recorded a transaction volume of around EUR 29.6 bn, of which approx. one quarter was registered in Frankfurt (EUR 7.3 bn). With regard to the deal structure, approx. 65% of the commercial investment turnover in fiscal year 2016 was related to single-asset deals, and the share of portfolio transactions amounted to 35%; these values are in accordance with those from the previous year.

There was no apparent fundamental change in investment strategies due to the price increase of real estate, although there were indications of a slightly higher risk tolerance. Although investors still focused on core assets, which are characterized 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. In December 2016 DO Deutsche Office AG, which had been consolidated into the alstria Group by the end of 2015, was converted into alstria office Prime Portfolio GmbH & Co. KG (hereafter referred to as “alstria office Prime”) and relocated to Hamburg. Hence, as of December 31, 2016, the alstria Group consisted of the corporate parent, alstria office REIT-AG, and 62 direct and indirect subsidiaries (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 assets, 36 subsidiaries held 52 assets as of December 31, 2016.

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 extant 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 characterized 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 realized through constant modernization measures and reduced vacancy.
- Value enhancements’ potential is realized 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 conditions than the competition are successful.

The aim of this strategy is the steady development of revenues and operating profit (FFO).

Due to its active Asset Management approach and its high level of discipline regarding prices, alstria 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 has a long-term lease portfolio (with a weighted average unexpired lease term - WAULT - of around 6.0 years). Approx. 67% of its rental income is derived from a small number of high-quality tenants. Around 36% of its rental income is generated from public authorities or institutions, which are not immediately affected by economic developments.
- alstria pursues a non-trading strategy and focuses on long-term value creation by conducting work on and within each building (i.e., classic Asset and Property Management). At alstria,

these activities are handled internally, which positively differentiates the Company from its competitors. In the end of financial year 2016, alstria office Prime's Real Estate Operations Management (Asset and Property Management), which had been partly conducted by external service providers, was also integrated into alstria's operations.

- A key element of alstria's strategy is supporting tenants in optimizing 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 optimizing costs using active Asset and Property Management will offer new potential for successful letting activities.

## FINANCIAL ANALYSIS

### EARNINGS POSITION

The following table shows the key operating figures of the audited income statements for the 2016 and 2015 financial years:

Profit and Loss Statement					
	2016	%	2015	%	Change
in EUR k	of oper.perf.		of oper.perf.		
Total operating performance	88,724	100.0	80,998	100.0	7,726
Other operating income	75,753	85.4	35,805	44.2	39,948
Cost of purchased services	-16,238	-18.3	-15,862	-19.6	-376
Personnel expenses	-11,907	-13.4	-11,175	-13.8	-732
Depreciation	-27,102	-30.5	-38,328	-47.3	11,226
Other operating expenses	-53,490	-60.3	-29,042	-35.9	-24,448
Net financial result	-29,926	-33.7	-196,528	-242.6	166,602
<b>Net profit/- loss</b>	<b>25,814</b>	<b>29.1</b>	<b>-174,132</b>	<b>-215.0</b>	<b>199,946</b>

### OPERATING PERFORMANCE 2016

The net profit for the 2016 financial year was EUR 25,814 k (2015 net loss of EUR 174,132 k). As the Company is exempt from income taxes, no expenses arose due to taxes in 2016. Therefore, the consolidated net profit was equal to the profit before taxes.

The increase in the net result by EUR 199,946 k was significantly influenced by the rise in the net financial result by EUR 166,602 k, the increase in other operating income by EUR 39,948 k, the reduction of depreciation by EUR 11,226 k, and the increase in total operating performance by EUR 7,726 k.

This effect was partly compensated by an increase in other operating expenses by EUR 24,448 k.

#### Total operating performance

alstria's total operating performance improved in the 2016 financial year, primarily due to an increase in let area. In the reporting period revenues amounted to EUR 87,771 k. Along with the changes in

inventories by EUR 953 k, alstria's total operating performance amounted to EUR 88,724 k (previous year EUR 80,998 k).

### Other operating income

The increase of other operating income by EUR 39,948 k was mainly based on a reversal of a write-down on an investment in an affiliate (EUR +38,994 k).

### Depreciation and amortisation

The depreciation decreased by EUR 11,226 k compared to the previous period to EUR 27,102 k. The effect was mainly due to a decrease in nonscheduled depreciation by EUR 10,928 k.

### Other operating expenses

Other operating expenses increased by EUR 24,448 k compared to fiscal year 2015 to EUR 53,490 k in the reporting period. The increase was mainly based on the reversal of deferred acquisition costs of a derivative financial instrument (EUR 28,512 k) that was terminated before its maturity.

Next to this, expenses for donations increased, mainly due to a contribution of EUR 2,557 k that was paid for eligible purposes.

The effect was partly compensated by lower real estate operating expenses due to a decreased demand for tenant fit-outs (EUR -3,294 k). Finally, legal and consulting fees decreased by EUR 6,014 k. In the previous period, the legal and consulting expenses were exceptionally increased due to expenses related to the acquisition of alstria office Prime Portfolio GmbH und Co. KG (formerly "DO Deutsche Office AG"; hereinafter also referred to as "alstria office Prime") (EUR 4,700 k) as well as expenses for the rating process (EUR 1,006 k).

### Financial result

in EUR k	2016	2015	Change (in %)
Interest expense from <i>Schuldscheindarlehen</i> ("senior unsecured debt")	-2,036	0,0	-
Interest expense from syndicated loan	-6,106	-7,914	-22.8
Interest expense from bank loans	-1,464	-1,714	-14.6
Interest result from financial derivatives	-8,520	-10,403	-18.1
Interest expenses from bonds	-18,959	-1,168	>100.0
Interest expenses from convertible bond	-2,178	-2,180	-0.1
Interest related expenses	-8,056	-4,957	62.5
<b>Financial expenses</b>	<b>-47,319</b>	<b>-28,336</b>	<b>67.0</b>
Income from participating interests	0	168	-100.0
Income from loans to affiliates	16,870	1,008	>100.0
Other interests and similar income	523	69	>100,0
Write down on long-term financial assets	0	-169,437	-100.0
<b>Net financial result</b>	<b>-29,926</b>	<b>-196,528</b>	<b>-84.7</b>

Compared to the previous period, **financial expenses** increased by EUR 18,983 k to EUR 47,319 k. The growth was mainly due to an increase in interest from bonds by EUR 17,791 k.

The increase in **interest expenses from bonds** by EUR 17,791 k resulted from the placement of a second corporate bond with a notional amount of EUR 500,000 k as well as a corporate bond issued in the previous period, which now bore interest for all twelve months of the year.

In addition, **interest related expenses** increased by EUR 3,099 k compared to the previous year, mainly due to transaction costs in connection with the repayment of the syndicated loan.

Finally, the increase in the **interest expense of the *Schuldschein*** (“senior unsecured debt”) in the amount of EUR 2,036 k resulted from the placement of a *Schuldschein* in the amount of EUR 150,000 k in the reporting period.

The increase in financial expenses was partly compensated by an improvement in **interest result from financial derivatives** by EUR 1,883 k, mainly due to the termination of a financial instrument that was designated in a hedging position with the syndicated loan. Finally, interest expenses from the syndicated loan decreased by EUR 1,808 k as a result of its repayment.

**Income from loans to affiliates increased** as a result of three loans granted to subsidiaries.

In the course of the reporting period, a loan to a subsidiary amounting to EUR 149,356 k as of the 2015 balance sheet date was increased by an amount of EUR 350,644 k, leading to a value of EUR 495,765 k as of December 31, 2016, including interest. The corresponding interest income amounted to EUR 11,064 k.

In May 2016, an additional loan was granted to subsidiaries of alstria office Prime in the amount of EUR 187,946 k. The loan was amortized by EUR 58,800 k during the reporting period and amounted to EUR 129,146 k as of the balance sheet date. The loan resulted in interest income of EUR 2,802 k.

Finally, a loan of EUR 90,000 k was granted to the alstria office Prime in May. In the reporting period EUR 50,000 k were repaid, so an amount of EUR 40,000 k remained as of the balance sheet date. EUR 1,145 k in interest income arose from the loan.

The **write-down on long-term financial assets** decreased by EUR 169,437 k compared to the previous year’s period. While there was no requirement for depreciation of financial assets in the reporting period, the carrying amount of a subsidiary was impaired by EUR 169,437 k in the previous financial year.

## FINANCIAL AND ASSET POSITION

On the balance sheet date, alstria owned 56 real estate properties (in 2015: 58). The following table illustrates alstria's changes in investment property in 2016:

Change in Land and Buildings (in EUR m)	
<b>Land and Buildings on December 31, 2015</b>	<b>1,045.89</b>
Investments	12.24
Adjustments	58.63
Disposals	-64.53
Appreciation	15.04
Ordinary Depreciation	-26.65
<b>Land and Buildings as of December 31, 2016</b>	<b>1,040.62</b>

The line item **Land and Buildings** decreased by EUR 5.27 m. During the reporting period, one property was purchased at a total price of EUR 9.15 m, and EUR 3.09 m were invested in the existing portfolio. Adjustments of EUR 58.63 m resulted from the purchase price for a property prepaid in fiscal year 2015 (EUR 39.91 m), whose benefits and burdens were transferred in the reporting period, as well as constructions in progress that were completed during the period. The disposals concerned the sale of four properties, the transfers resulted in an accounting profit of EUR 13.67 m.

The following table shows the real estate transactions during the period:

Asset	City	Sales price (EUR k) <sup>1)</sup>	Signing SPA	Transfer of benefits and burdens
<b>Disposals</b>				
Dieselstraße 18	Ditzingen	13,395	31.08.2015	25.06.2016
Hoffmannstraße 51	München	44,387	05.11.2015	30.06.2016
Wandsbeker Chaussee 220	Hamburg	5,920	19.05.2016	30.06.2016
Landshuter Allee 174	München	14,000	11.06.2016	30.06.2016
		<b>77,702</b>		
<b>Acquisitions</b>				
Gasstraße 18	Hamburg	38,000	26.11.2015	01.01.2016
Tempelhofer Damm 146	Berlin	8,350	25.08.2016	01.11.2016
		<b>46,350</b>		

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

The reversal of write-downs on land and buildings of EUR 15,036 k resulted from increased market values on investment properties. The prepayments and constructions in progress decreased by EUR 41,415 k to EUR 17,572 k compared to the previous balance sheet date. The decrease was mainly due to a prepayment of EUR 39,906 k on an investment property, which increased the line item on the previous balance sheet date. Because benefits and obligations of the property were transferred in fiscal year 2016, the amount was transferred to the line item land, property rights, and buildings. Next to this, EUR 18,720 k were reclassified to the line item land, property rights, and buildings due to the completion of several projects. Finally, EUR 17,189 k were invested in constructions in progress.

Compared to December 31, 2015, **financial assets** increased by EUR 562,718 k to EUR 1,571,126 k as of December 31, 2016. The increase resulted from the granting of loans to subsidiaries in the amount of EUR 515,555 k as well as from the deposit of EUR 34,803 k on a bank account. Additionally, the shares in affiliated companies rose by EUR 12,360 k, mainly due to the reversal of write-downs on the investment in alstria office Prime.

**Inventories** increased by EUR 953 k, as compared to the previous balance sheet date, to EUR 21,884 k. The increase was mainly the result of an increase in area let.

**Receivables from affiliated companies** decreased by EUR 10,123 k, as compared to the previous balance sheet date, to EUR 70,367 k.

The Company's **cash position** decreased by EUR 387,460 k to EUR 83,214 k. The decline was mainly a result of the redemption of loans, the dividend payment as well as the transfers of cash inflows from bonds to subsidiaries.

Total **equity** amounted to EUR 1,307,078 k, reflecting an equity ratio of 46.5%. This represents a reduction of 4.3 percentage points compared to 50.8 % in the prior year. The decrease in the equity by EUR 38,734 k was based on EUR 76,564 k in dividend payment. The effect was partly compensated by the net result of EUR 25,814 k as well as equity contributions of EUR 12,017 k.

**Other provisions** decreased by EUR 3,280 k compared to the previous balance sheet date to EUR 12,257 k as of December 31, 2016. They include mainly accruals due to outstanding balances (EUR 6,175 k), share-based remuneration (EUR 2,890 k), bonuses (EUR 2,153 k), auditing fees (EUR 368 k), risks of litigation (EUR 300 k), Supervisory Board compensation (EUR 297 k), and miscellaneous provisions (EUR 344 k).

Additionally, **liabilities** increased by EUR 205,722 k as compared to the prior year, mainly due to the increase of a bond worth EUR 500,000 k, as well as a Schuldschein amounting to EUR 150,000 k. Finally, due to the placement of the second corporate bond, the accrued interest liabilities increased by EUR 15,240 k.

The increase of liabilities was partly reduced by the repayment of the syndicated loan, which amounted to EUR 470,556 k as of December 31, 2015.

## **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 level and the portfolio level. alstria's main financial goal is to establish a sustainable long-term financial structure. Therefore, alstria diversifies its sources of financing and strives for a balanced maturity profile to enable coordinated and constant refinancing.

## **CORPORATE MANAGEMENT**

Since alstria analyses the developments at group level the following report relates to group level figures based on IFRS.

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 operating result and is derived from real estate management. It excludes valuation effects and other adjustments, such as non-cash expenses/income and non-recurring effects.

For financial year 2016, the Group forecasted revenues of EUR 200 m and an FFO of EUR 115 m. Due to the Group's good letting performance in financial year 2016, its revenues were approx. EUR 203 m, slightly higher than in the forecast. In financial year 2016, FFO totalled EUR 116 m (without minorities), which is in line with the forecast.

The Group also monitors the progress of its LTV, its G-REIT equity ratio, and its liquidity, whereby these are not classified as for the internal control of the Group most relevant performance indicators. alstria's LTV for the loan financing was 44.7% as of December 31, 2016, compared to 52.1% at the end of financial year 2015. The G-REIT equity ratio was 56.7%, compared to 49.4% in the previous year and the minimum statutory rate of 45%.

# 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 minimize - 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 materialize; the risk owner is also responsible for the assigned risk category:

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

<b>Risk category</b>	<b>Risk owner</b>
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. The Management Board must be immediately notified of any risks that represent a potential economic loss of more than EUR 2.0 m via ad hoc announcements.

**Risk valuation**

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

**Classification according to likelihood**

<b>Probability/likelihood of occurrence</b>	<b>Description</b>
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**

<b>Expected impact in EUR m</b>	<b>Degree of impact</b>
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	high
Greater than 15	critical

Based on the likelihood that a risk 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	H
likely	L	M	M	H	H	H
possible	L	L	M	M	M	H
unlikely	L	L	L	M	M	M
very unlikely	L	L	L	L	L	M
Degree of impact	minor	low	moderate	high	critical	

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

In 2016, 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 organizational 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 specialized 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 optimize 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 2017 to 2019.

### Corporate risks

	Likelihood	Risk impact	Risk level	Change since prior year
<b>Strategic risks</b>				
Market environment	unlikely	moderate	L	unchanged
Risks in relation to changes to the legal environment	unlikely	moderate	L	unchanged
Risk due to inefficient organizational structures	unlikely	moderate	L	unchanged
<b>Operational risks</b>				
Maintenance risks	possible	high	M	unchanged
Refurbishment projects	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	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
Liquidity risks	unlikely	moderate	L	unchanged
Refinancing on unfavourable terms	very unlikely	high	L	decreased
Interest rate risks	very unlikely	high	L	decreased
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 organization.

### ***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 been identified as factors causing uncertainty in the previous year's balance sheet. 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 also affect the German markets through a decrease in demand for goods and services from these markets. To date, however, the German market has proven to be unimpressed, as it has been stable in spite of such circumstances.

Regarding the overall strategic risk situation that can be linked to the macroeconomic environment, no direct risk can currently be identified.

As long as there is no substantial change in the economic environment, the market environment's risk level will remain stable and low (L).

### ***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 of inefficient organizational structures***

Further risks exist as part of the business organization's strategic direction due to inefficient organizational structures and the Company's dependence on IT systems and structures. Both the organizational structure and the IT infrastructure support strategic and operational objectives. The risk of strategic corporate organization 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.

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 is medium (M).

### *Shortfall of rental payments*

An operational risk is a potential shortfall of rental payments from one or more major tenants; it could be realized as a result of an economic downturn or a particular case. Because all 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 risk*

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 categorized as medium (M), as it was in the previous year.

### *Refurbishment projects*

alstria realizes 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 risk resulting from refurbishment projects is categorized as moderate (M), which is unchanged from the end of the previous reporting period.

### *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; 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 security*

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. Structural security measures are in place to protect the computer center. 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 materialize; as in the prior year, their possible consequences are considered to be low (L).

### *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*

alstria is exposed to risks arising from environmental liabilities and from possible damage resulting from natural events such as fire or flooding. In some cases, alstria's buildings may contain undetected hazardous materials (such as asbestos) to an unanticipated extent. These buildings might also be affected by environmental risks or liabilities, such as pre-existing pollution and soil contamination. To mitigate these risks, alstria undertakes a due-diligence examination when acquiring new properties in addition to warranties issued by the sellers.

alstria's environmental risk management considers climate change. Specific insurance policies covering the impacts of natural catastrophes are in place, where applicable. All the 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 2015/2016 sustainability report.

### **Compliance risks**

#### **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 organized market and its registered office and management must be in Germany. Its registered share capital must amount to at least EUR 15 m. 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 and maximize shareholder value.

alstria manages its capital structure and makes adjustments in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Company can issue new shares or make a capital repayment to its shareholders.

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 56.7% 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, 2019.

### **Compliance risks**

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 and thereby negatively affect future business opportunities. alstria has implemented a compliance organization, which deals with adequate and documented compliance rules and regulations and provides training to all employees concerning compliance-related topics. The materialization of compliance risks is assessed to be unlikely (L), which is unchanged from the previous year.

### **Litigation**

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 the year 2016***

Some shareholders of former DO Deutsche Office AG have filed voidance and nullity suits (Sec. 246, 249 AktG) against the resolution of the annual general meeting of former DO Deutsche Office AG on July 12, 2016, to transform DO Deutsche Office AG into the limited partnership alstria office Prime Portfolio GmbH & Co. KG (associated with the transfer of the company's domicile and changes to the company name).

On the basis of the clearance decision taken by the 18th Civil Chamber of the Cologne Higher Regional Court on December 7, 2016, the change of legal form was registered with the commercial register of the local court in Cologne and subsequently on the same day with the commercial register of the local court in Hamburg. With this, the change of the legal form has become effective.

After an exchange of various written pleadings by the parties to the proceeding, a first court hearing was held on January 13, 2017. A decision has yet not been made. If the suits were found to be successful, alstria office Prime Portfolio GmbH & Co. KG would be obliged to compensate the plaintiffs for damages incurred by them as a consequence of the registration of the transformation. These

potential claims for compensation 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. However, the registration of the transformation is not affected by the outcome of the proceeding.

Furthermore, 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 annual general 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. 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 to 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 a view to establish the enterprise value and the 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***

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. After an exchange of various written pleadings by the parties to the proceedings, a first court hearing was held on February 12, 2015. 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 significant 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 are 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 civil rights proceedings or any 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. The alstria Group's current Net LTV is 40.9%. This is a reasonable or even low 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. 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 prior to financial year 2021. As a result, the risk of refinancing on unfavourable terms is to be classified at the present time as low (L). As of the previous year's reporting date, the risk was still moderate (M) due to outstanding short-term refinancing.

### ***Breach 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 (loan-to-value) 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 risk***

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 fixed-interest bonds and is therefore not subject to interest rate risk up to its maturity. As a consequence of the hedging of floating interests and long-term fixed-interest loans and bonds, the interest rate risk is currently considered to be low (L). At the end of the previous reporting date the risk was categorized as medium (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.

Having implemented refinancing in the previous years, including the placement of a convertible bond and a corporate bond, the major liquidity risk resulting from balloon repayments on loan facilities was successfully averted. 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 minimize 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 recognized experts. In summary, the risk of unexpected devaluations is, as in the previous year, classified as moderate (M).

### *Counterparty risk*

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 recognized 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 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 planned restructuring, which has already been implemented in part during the business year, and in particular the conversion of the legal form of these companies into limited partnerships, results in the taxation of hidden reserves and hidden liabilities existing within the acquired companies. The resulting tax expenses are taken into account through December 31, 2016, given the current tax provisions.

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 2016, only minor or immaterial changes were noted in alstria's risk level matrix for risks categorized as high (H) or medium (M). At the end of the year, risks categorized as "high" accounted for 1.0% (December 31, 2015: 0.0%) of all identified risks while risks categorized as "medium" accounted for 42.6% (December 31, 2015: 47.1%) of all identified risks.

On the one hand, this is due to the economic environment in Germany, which still proves to be relatively stable 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 integration of alstria office Prime, taken over in the previous year, is proceeding as planned. The risks associated with the implementation of organizational employee-related and system-based integration, have been considered in the individual risk areas.

Sufficient precautionary measures have been undertaken to counteract identifiable risks.

In addition to assessing the potential impact of the realization 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 27.5 m 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. This applies both to the individual Group companies and the Group.

## **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 supports the monitoring of growth initiatives within the budget and planning-approval processes.

The alstria Management Board is regularly (usually via a monthly report) 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. An indicator-based report coordinated by the central controlling department is provided to the Management Board; in this report, the planned performance indicators are compared to the actual figures. 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 characterized 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 aims to identify properties with the described opportunity structure. Its investment strategy therefore focuses on the acquisition of properties and portfolios that have higher vacancy rates and thus are open to additional growth opportunities through the stabilization of these properties' leases. The acquisition will only be performed if the investment volume offers the prospect of achieving a sustainable increase in value.

### ***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 modernization 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 optimization 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 40.9%), 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 in the previous year.

### **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 received from S&P 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 4.9 years and potential increases in rents due to decreasing vacancy rates and adjustments on the consumer price index. 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 takeover of alstria office Prime provides opportunities because this group's portfolios open up growth opportunities through the lease of vacant office space. Furthermore, the alstria office Prime portfolio enabled a better focus on office properties and a geographical focus on Germany's metropolitan regions; in addition to the synergies and other economies of scale, the portfolio also allowed a greater presence and more efficiency in alstria's key markets.

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 the management of assets. 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 2016, alstria published its seventh sustainability report. The report is organized and presented based on the GRI G4 reporting framework and has received for the first time a third-party assurance for all disclosed environmental performance indicators. It provides information about alstria's next steps toward a carbon-neutral economy and familiarizes 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 organization. To alstria, pursuing a path of continuous improvement and innovation is what sustainability is all about.

Over the course of 2016, alstria has successfully implemented a framework agreement for procuring 100% of its electricity from renewable sources and 100% climate-neutral natural gas over a four-year period. This contract covers all landlord-shared services in alstria's portfolio as well as its corporate offices. Because of this action, alstria was able to save approximately 11,000 t CO<sub>2</sub>, which is equivalent to the amount needed to power approximately 600 German households. With a focus on increasing the operational control of its own offices, alstria has continued to utilize an energy management system that complies with the ISO 50001 standard. Finally, alstria continues to play a pivotal role in real estate and has been recognized for the second consecutive year by the Climate Disclosure Project as a sector and country leader (A-rating).

For further information on the Company's sustainability engagement, please refer to alstria's annual sustainability report 2015/2016 at

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

## DISCLOSURES REQUIRED BY TAKEOVER LAW

Disclosures and the explanatory report pursuant to Sections 289 para. 4, 315 para. 4 of the German Commercial Code (*Handelsgesetzbuch, HGB*).

### COMPOSITION OF SUBSCRIBED CAPITAL

On the balance sheet date as of December 31, 2016, the share capital of alstria amounted to EUR 153,231,217.00, divided into 153,231,217 no-par-value bearer shares. All shares 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 Section 136 AktG, 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, 2016, 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 they held approximately 12.61% of alstria's shares. In addition, please refer to the disclosures in the Notes under no. 5.3 Voting Right Notifications.

### SHARES WITH SPECIAL RIGHTS

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

### SYSTEM OF CONTROL OF ANY EMPLOYEE SHARE SCHEME WHERE THE CONTROL RIGHTS ARE NOT EXERCISED DIRECTLY BY THE EMPLOYEES

The employees who hold alstria shares exercise their rights of control as any other shareholders, 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 authorized to make changes in, and amendments to, the Articles of Association that merely affect the wording without passing a resolution of the shareholders in the general meeting. The Supervisory Board has, in addition, been authorized to adapt the wording of the Articles of Association to the utilization of the Conditional Capital 2013 and the Authorized Capital 2016 and, after expiration of the applicable authorization periods, by resolution of the Annual General Meetings on May 29, 2013, and May 12, 2016.

Pursuant to Section 15 para. 5 of the Articles of Association in conjunction with Sections 179 para. 2 and 133 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 by resolution passed by the Supervisory Board on September 8, 2016: Section 5 para. 1, 2 and 8 of the Articles of Association were formally adapted to a capital increase executed from the Company's Conditional Capitals III 2012.

## **AUTHORITY OF MANAGEMENT BOARD REGARDING THE ISSUE AND BUYBACK OF SHARES**

### **1. Authorized Capital**

The Articles of Association authorize the Management Board, with the approval of the Supervisory Board, to increase the share capital through May 11, 2018, 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 76,082,142.00. 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.* AktG), which are regulated in Sections 5 para. 5, 6 and 8 of the Company's Articles of Association.

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

The share capital is conditionally increased by an amount of up to EUR 37,979,618.00 by issuing up to 37,979,618 no-par-value bearer shares. The Management Board is authorized 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 AktG. The conditional capital increase is only carried out to the extent that the holders of option rights or conversion rights or those holders with conversion obligations from bonds with warrants or convertible bonds, profit participation rights, or participating bonds that were issued through November 28, 2014, based on the authorization resolved by the shareholders in the general meeting on May 29, 2013, utilize their option rights or conversion rights or, insofar as such holders have conversion obligations, 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 2012***

The share capital is conditionally increased in an amount of up to EUR 215,750.00 by issuing up to 215,750 no-par-value bearer shares. The conditional capital increase exclusively serves shares to the holders of convertible profit participation certificates issued by the Company through April 23, 2017, in accordance with the authorization of the general meeting held on April 24, 2012. 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 for servicing 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 2015***

Furthermore, the share capital is conditionally increased in 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 authorization 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.

**3. Purchase of treasury shares**

In the general meeting held on May 12, 2016, the shareholders authorized 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 issuance of the authorization until May 11, 2021. The acquired shares and other treasury shares that are in the possession of, or to be attributed to, alstria pursuant to Sections 71a *et seq.* 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**

Significant financing agreements of alstria office REIT-AG 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 of 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 the financial year 2013 also provided termination rights or an adaptation of the conversion price in the case of a change of control. Such change of control occurs, 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 and 2016 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 1,288 m 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 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 DISCLOSURE**

##### **EMPLOYEES**

As at December 31, 2016, alstria had 106 employees (December 31, 2015: 69). The annual average number of employees was 95 (previous year: 66). These figures exclude Management Board members.

##### **REMUNERATION REPORT**

Management Board members' compensation comprises a fixed and a variable component 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 component of remuneration.

Members of the Supervisory Board receive a fixed remuneration.

The remuneration report (appendix to this management report\*), which contains details of the principles for the definition of the Management Board and Supervisory Board remuneration, forms an integral part of the audited management report.

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\* See Page 34

## **CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A 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)).

### **REPORT ON EXPECTED DEVELOPMENTS**

The report on expected developments contains statements related to anticipated future developments. The Company’s development depends on various factors. Some of these factors are beyond the Company’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 a very good condition. The GDP growth was at 1.9% compared to the previous year, which is the strongest economic growth since 2011. The employment rate also developed positively in 2016. The German government expects a GDP growth of 1.4% and a positive development in the German labor market of 0.7% for 2017.

German economic associations also estimate a positive economic development for 2017, although they expect lower growth in comparison to 2016. The construction industry and related industries, in particular, look confidently to the future.

#### **Development of the real estate market: Outlook for 2017**

In connection with low interest rates, the importance of real estate as a class of investment is still going to be at a high level. In 2017 a continuing high demand for real estate in core areas is estimated. 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 the financial year 2017 could have an impact on the projections.

Due to the disposals in 2016, alstria is expecting revenues to decrease in 2017 by approximately EUR 18 m to EUR 185 m as compared to revenues in 2016.

For fiscal year 2017, the Company is expecting an FFO of around EUR 108 m. The year-on-year decrease in FFO compared the 2016 FFO of EUR 116 m is mainly due to lower revenues resulting from

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\* Please refer to Annual Economic Report 2017 (Bundesministerium für Wirtschaft und Energie), as well as the economic forecast of Tagesschau.

the disposals in financial year 2016. This effect will be partially offset by a further reduction of financing costs.

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 21, 2017

## 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. The Supervisory Board is of the opinion that adequate remuneration for the members of the Management Board is provided, which is based on customary market terms and conditions and also takes the long-term success of the Company into account. The remuneration system for the members of the Management Board, as described below, was developed by involving an external and independent remuneration expert. The shareholders approved it in the general meeting for the 2009 financial year. Since then, it has been applied without changes. 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, which are used as part of the remuneration system, include, among others:

- 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, taking into account the level of compensation of the Management Board in comparison to that of the Company's senior management and its staff in general, particularly in terms of its development over time.

#### 1. THE MANAGEMENT BOARD REMUNERATION STRUCTURE

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 multiyear targets, 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.

## 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 summarizes 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%
Targets to assess performance	Like-for-like budgeted 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 incentivized 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 multiyear lockup.

### **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.

### **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.

The table below summarizes the number of virtual shares granted under the existing STI and LTI programs in the reporting period and outstanding as of December 31, 2016.

				Olivier Elamine	Alexander Dexne
	Start of deferral period	Reference share price in EUR	End of deferral period	Number of virtual shares	Number of virtual shares
STI 2014	2015	10.97	2017	5,370	4,393
STI 2015	2016	11.63	2018	5,949	4,868
LTI 2013	2013	9.29	2017	47,363	38,751
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

### **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.

## **2. REMUNERATION OF THE MANAGEMENT BOARD IN THE 2016 FINANCIAL YEAR**

In the last financial year, the total target remuneration for the members of the Management Board amounted to EUR 2,188 k. The total amount paid to the Management Board in that financial year amounted to EUR 2,928 k (including payouts on multiyear remuneration elements). The correctness of the calculated payout amounts for the multiyear 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 May 5, 2015.

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 2016” 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

in EUR k

Benefits granted	Olivier Elamine				Alexander Dexne			
	CEO				CFO			
	2015	2016	2016 (Min)	2016 (Max) <sup>10)</sup>	2015	2016	2016 (Min)	2016 (Max) <sup>10)</sup>
<b>Total amount of fixed compensation and ancillary benefits</b>	450	448	448	448	380	378	378	378
Fixed compensation <sup>1)</sup>	440	440	440	440	360	360	360	360
Ancillary benefits <sup>2)</sup>	10	8	8	8	20	18	18	18
<b>Total amount of one-year variable compensation</b>	173	173	0	312	142	142	0	255
One-year variable compensation (STI 2015)	173 <sup>3)</sup>	-	-	-	142 <sup>3)</sup>	-	-	-
One-year variable compensation (STI 2016)	-	173 <sup>3)</sup>	0	312 <sup>4)</sup>	-	142 <sup>3)</sup>	0	255 <sup>4)</sup>
<b>Total amount of multiyear variable compensation</b>	498	498	0	2,240	407	407	0	1,833
STI 2015 (1 plus 2 years)	58 <sup>5)</sup>	-	-	-	47 <sup>5)</sup>	-	-	-
STI 2016 (1 plus 2 years)	-	58 <sup>5)</sup>	0	260 <sup>6)</sup>	-	47 <sup>5)</sup>	0	213 <sup>6)</sup>
LTI 2015 (4 years)	440 <sup>7)</sup>	-	-	-	360 <sup>7)</sup>	-	-	-
LTI 2016 (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>	1,121	1,119	448	3,000	929	927	378	2,466
Service costs <sup>9)</sup>	84	84	84	84	58	58	58	58
<b>Total</b>	<b>1,205</b>	<b>1,203</b>	<b>532</b>	<b>3,084</b>	<b>987</b>	<b>985</b>	<b>436</b>	<b>2,524</b>

<sup>1)</sup> Annual base salary according to service contracts

<sup>2)</sup> Includes 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 1 year plus 2 further 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> Includes 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 2016**

<b>One-year variable compensation</b>	1. alstria FFO 2016 = EUR 172.5 m (budgeted FFO of approx. EUR 115 m is achieved by 150%)
and	2. Supervisory Board passes resolution on discretionary factor of 1.2
<b>Multiyear 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 outperforming EPRA/NA-REIT Europe Index Ex UK by 25%)
and	3. Company share price increases by 250% (share price of EUR 11.71 on granting date --> share price of EUR 29.28 on payment date after 4 years)
and	4. Supervisory Board passes resolution on discretionary factor of 1.2
STI (1 plus 2 years)	Price of Company shares increases by 250% (e.g., share price of EUR 11 on deferral date --> share price of EUR 27.50 on payment date after 2 years)

**Benefits paid out**

in EUR k

Allocation/benefits paid out	Olivier Elamine CEO		Alexander Dexne CFO	
	2015	2016	2015	2016
<b>Total amount of fixed compensation and ancillary benefits</b>	450	448	380	378
Fixed compensation <sup>1)</sup>	440	440	360	360
Ancillary benefits <sup>2)</sup>	10	8	20	18
<b>Total amount of one-year variable compensation</b>	177	208	145	170
One-year variable compensation (STI 2014) <sup>3)</sup>	177	-	145	-
One-year variable compensation (STI 2015) <sup>3)</sup>	-	208	-	170
<b>Total amount of multiyear variable compensation</b>	350	870	286	712
STI 2012 (1 plus 2 years) <sup>4)</sup>	86	-	70	-
STI 2013 (1 plus 2 years) <sup>4)</sup>	-	75	-	61
LTI 2011 (4 years) <sup>5)</sup>	264	-	216	-
LTI 2012 (4 years) <sup>5)</sup>	-	795	-	651
<b>Total amount of fixed and variable compensation</b>	977	1,526	811	1,260
Service cost <sup>6)</sup>	84	84	58	58
<b>Total</b>	1,061	1,610	869	1,318

<sup>1)</sup> Annual base salary according to service contracts

<sup>2)</sup> Includes benefits related to company car

<sup>3)</sup> Payout amount for 75% of the STI after 1 year for the respective previous year

<sup>4)</sup> Payout amount for 25% of the STI after 1 year plus 2 further years

<sup>5)</sup> Payout amount for LTI after holding period of 4 years

<sup>6)</sup> Includes benefits for insurance and pension plans

In 2016, the LTI for 2012 was paid out. Over the four-year holding period, the Absolute Total Shareholder Return on an alstria share was 11.90% *per annum*, and the Absolute Total Shareholder Return performance target was capped at 150%. The average Relative Total Shareholder Return for an alstria share was 1.68% *per annum*. As a result, approximately 115% of the virtual shares vested, leading to a final LTI payout amounting to approximately 181% of the target value for the LTI for 2012.

In 2015, the LTI for 2011 was paid out. Over the four-year holding period, the Absolute Total Shareholder Return for an alstria share was 5.8% *per annum*, and the average Relative Total Shareholder Return for an alstria share was -10.9% *per annum*. The threshold for the performance target of the Relative Total Shareholder Return was not met. As a result, approximately 48% of the virtual shares vested, leading to a final LTI payout amounting to approximately 60% of the target value for the LTI for 2011.

### 3. OTHER MANDATORY DISCLOSURES

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.

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 2016 financial year.

## REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

### 1. STRUCTURE OF THE SUPERVISORY BOARD REMUNERATION

The members of the Supervisory Board each receive an annual fixed remuneration of EUR 42 k. The Chairman of the Supervisory Board receives an additional annual amount of EUR 21 k; the Vice-Chairman receives an additional amount of EUR 10.5 k. Membership in the Audit Committee entitles the member to an additional remuneration of EUR 10 k, while the chair of the audit committee receives EUR 15 k per year. Membership in the nomination and remuneration committee as well as the finance and investment committee entitles the member to an additional annual remuneration of EUR 5 k. The chairmen of these committees are compensated with another EUR 2.5 k per year. Members who sit on the Supervisory Board for only part of a year receive a *pro rata temporis* remuneration.

### 2. REMUNERATION OF THE SUPERVISORY BOARD IN THE 2016 FINANCIAL YEAR

The total remuneration for the Supervisory Board members in 2016 amounted to EUR 347 k. The remuneration for the individual Supervisory Board members for the 2015 and 2016 financial years is as follows:

in EUR k

Supervisory Board member	Function on the Supervisory Board	Function on the Committees <sup>1)</sup> in 2016	Remuneration for 2015	Remuneration for 2016
Dr. Johannes Conradi	Chairman <sup>2)</sup>	A <sup>2)</sup> , B (ch) <sup>2)</sup>	65.63	65.66
Richard Mully	Vice-Chairman <sup>2)</sup>	A <sup>2)</sup> , B, C (ch)	54.50	61.81
Stefanie Frensch since May 12, 2016	Member <sup>2)</sup>	B <sup>2)</sup> , C <sup>2)</sup>	-	29.99
Benoît Hérault	Member	A, C	47.85	57.00
Marianne Voigt	Member	A (ch)	57.00	57.00
Alexander Stuhlmann until May 12, 2016	Chairman <sup>2)</sup>	B (ch) <sup>2)</sup> , C <sup>2)</sup>	75.08	25.62
Hermann Dambach until October 31, 2016	Vice-Chairman <sup>2)</sup>	B <sup>2)</sup> , C <sup>2)</sup>	9.92	50.28
Roger Lee until October 27, 2015	Member <sup>2)</sup>		42.74	-
<b>Total</b>			<b>352.72</b>	<b>347.36</b>

<sup>1)</sup> A=audit committee, B=nomination and remuneration committee, C=finance and investment committee, ch=chair

**alstria office REIT-AG, Hamburg**

Commercial Register No.: HRB 99204; local court of Hamburg

**Income Statement**

January 1 to December 31, 2016

	2016	2015
	EUR	EUR
1. Revenues	87,771,039.45	82,621,204.85
2. Decrease or increase in work in progress	952,695.24	-1,622,988.56
3. Total operating performance	88,723,734.69	80,998,216.29
4. Other operating income	75,752,615.31	35,805,341.53
5. Cost of materials		
Cost of purchased services	-16,237,624.07	-15,861,647.08
6. Personnel expenses		
a) Wages and salaries	-10,716,828.47	-10,288,563.27
b) Social security pension and other benefits (of which relating to pensions EUR 211,168.99; previous year EUR 203 k)	-1,189,963.98	-886,758.67
7. Amortization and depreciation of fixed intangible and tangible assets	-11,906,792.45	-11,175,321.94
8. Other operating expenses	-27,101,620.01	-38,328,243.07
9. Income from participating interests	-53,490,399.73	-29,041,556.32
10. Income from loans	0.00	167,508.25
(of which from affiliated companies EUR 16,870,133.25; previous year EUR 1,008 k)	16,870,133.25	1,008,429.37
11. Other interest and similar income	522,627.37	68,035.09
12. Write-down of financial assets	0.00	-169,436,868.77
13. Interest and similar expenses	-47,318,966.95	-28,335,658.15
(of which from discounting of provisions EUR 92,777.65; previous year EUR 65 k)		
14. Result after taxes	25,813,707.41	-174,131,764.80
15. Net loss/profit for the year	25,813,707.41	-174,131,764.80
16. Profit carried forward from previous year	11,435,766.50	4,529,642.00
18. Transfer from capital surplus	55,750,526.09	257,602,122.80
19. Balance sheet profit	93,000,000.00	88,000,000.00

alstria office REIT-AG, Hamburg

Commercial Register No.: HRB 99204; local court of Hamburg

Balance sheet as at December 31, 2016

Assets			Equity and liabilities		
	31.12.2016	31.12.2015		31.12.2016	31.12.2015
	EUR	EUR	EUR	EUR	EUR
<b>A. Non-current assets</b>			<b>A. Shareholders' equity</b>		
I. Intangible assets			I. Share capital	153,231,217.00	152,164,285.00
Licenses and similar rights acquired for consideration	104,210.05	233,389.20	(conditional capital EUR 38,695,368.00; previous year EUR 38,798 k)		
II. Property, plant and equipment			II. Capital reserves	1,060,847,277.49	1,105,648,006.08
1. Land, property rights and buildings	1,040,616,362.53	1,045,889,738.03	III. Balance sheet profit		
2. Technical plant	466,921.38	602,246.55	(of which unappropriated profits brought forward		
3. Other plant, operating and office equipment	631,799.76	404,080.62	EUR 11,435,766.50; previous year EUR 4,530 k)	93,000,000.00	88,000,000.00
4. Prepayments and construction in progress	17,571,970.42	58,986,966.35		1,307,078,494.49	1,345,812,291.08
III. Financial assets	1,059,287,054.09	1,105,883,031.55	<b>B. Provisions</b>		
1. Shares in affiliates	859,340,929.12	846,980,603.06	Other provisions	12,526,748.07	15,806,945.54
2. Loans to affiliates	674,955,812.24	159,400,813.90		12,526,748.07	15,806,945.54
3. Participating interests	2,027,094.24	2,027,094.24	<b>C. Accounts payable</b>		
4. Other loans	34,802,505.36	0.00	1. Equity participation	255,750.00	223,750.00
	1,571,126,340.96	1,008,408,511.20	2. Bonds (of which convertible 79.200.000)	1,095,704,120.30	580,368,032.78
	2,630,517,605.10	2,114,524,931.95	3. Bank loans and overdrafts	108,971,583.95	580,058,771.48
<b>B. Current assets</b>			4. Payments received	23,775,620.70	22,927,332.12
I. Inventories			5. Trade payables	1,842,664.10	3,412,101.14
Work in progress	21,884,080.81	20,931,385.57	6. Payables to affiliated companies	102,682,104.62	94,026,250.99
II. Receivables and other assets			7. Other liabilities	156,426,608.90	2,920,152.17
1. Trade receivables	1,318,905.41	1,008,772.33	(of which for taxes EUR 1,289,434.83; previous year EUR 147 k)		
2. Receivables from affiliated companies	70,367,240.49	80,490,308.67		1,489,658,452.57	1,283,936,390.68
3. Receivables from companies in which the company has a participating interest	0.00	0.00	<b>D. Deferred income</b>	1,596,818.94	1,735,912.76
4. Other assets	1,621,387.56	1,804,083.28			
IV. Cash in hand and at banks	73,307,533.46	83,303,164.28			
	83,214,182.01	387,459,527.50			
	178,405,796.28	491,694,077.35			
<b>C. Prepaid and deferred expenses</b>	1,937,112.69	41,072,530.76			
	2,810,860,514.07	2,647,291,540.06		2,810,860,514.07	2,647,291,540.06

# **alstria office REIT-AG, Hamburg**

## **1.4 NOTES ON THE FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016**

## CONTENTS

### 1.4 NOTES ON THE FINANCIAL STATEMENTS FOR THE PERIOD FROM

JANUARY 1 TO DECEMBER 31, 2016 .....	1
<b>1 GENERAL .....</b>	<b>4</b>
1.1 BASIC INFORMATION AND APPLIED REGULATIONS .....	4
1.2 ACCOUNTING AND VALUATION POLICIES .....	5
<b>2 NOTES TO THE BALANCE SHEET .....</b>	<b>7</b>
2.1 PROPERTY, PLANT AND EQUIPMENT .....	7
2.2 FINANCIAL ASSETS.....	8
2.3 INVENTORIES .....	10
2.4 RECEIVABLES .....	10
2.5 PREPAID AND DEFERRED EXPENSES.....	11
2.6 EQUITY .....	12
2.7 PROVISIONS.....	14
2.8 LIABILITIES.....	14
2.9 OTHER FINANCIAL COMMITMENTS .....	16
<b>3 INCOME STATEMENT .....</b>	<b>17</b>
3.1 REVENUES.....	17
3.2 OTHER OPERATING INCOME .....	17
3.3 COST OF MATERIALS .....	18
3.4 PERSONNEL EXPENSES .....	19
3.5 OTHER OPERATING EXPENSES.....	19
3.6 INCOME FROM LOANS FROM FINANCIAL ASSETS .....	20
3.7 OTHER INTEREST AND SIMILAR INCOME.....	20
3.8 INTEREST AND SIMILAR EXPENSES .....	20
3.9 INCOME TAXES .....	20
<b>4 OTHER NOTES .....</b>	<b>21</b>
4.1 SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD.....	21

4.2	COMPENSATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD .....	21
4.3	AUDITOR'S FEES .....	21
4.4	SHARES .....	22
4.5	DIVIDEND.....	22
4.6	SUPERVISORY BOARD .....	22
4.7	MANAGEMENT BOARD.....	24
4.8	EMPLOYEES .....	24
4.9	CONVERTIBLE PROFIT PARTICIPATION RIGHTS PROGRAM .....	25
4.10	GROUP RELATIONSHIP .....	26
5	<b>DISCLOSURES ACCORDING TO WERTPAPIERHANDELSGESETZ.....</b>	<b>27</b>
5.1	AD-HOC ANNOUNCEMENTS.....	27
5.2	DIRECTORS' DEALINGS.....	27
5.3	VOTING RIGHT NOTIFICATIONS .....	28
6	<b>DECLARATION OF COMPLIANCE ACCORDING TO SECTION 161 AKTG (AKTIENGESETZ- GERMAN STOCK CORPORATION ACT) .....</b>	<b>29</b>

**Schedule of fixed assets**

## 1 GENERAL

### 1.1 BASIC INFORMATION AND APPLIED REGULATIONS

alstria office REIT-AG (hereinafter also referred to as 'alstria' or 'Company') was incorporated on January 20, 2006, as a German limited liability company under the name Verwaltung Alstria Erste Hamburgische Grundbesitz GmbH. On October 5, 2006, the shareholders' meeting resolved upon the conversion of the Company into a German stock corporation, and the Company's name was changed to Alstria Office AG. On November 17, 2006, the conversion and the change of name were entered into the relevant commercial register and thus became effective.

In 2007 the company was converted into a German Real Estate Investment Trust (REIT or German G-REIT). The Company was registered as a REIT corporation (hereinafter also referred to as 'REIT-AG') in the commercial register on October 11, 2007; the company's name was changed to alstria office REIT-AG.

REIT-AGs are fully exempt from German corporate income and trade taxes. Therefore, the corporate income and trade tax exemption for alstria office REIT-AG was applicable as of the beginning of the Company's 2007 business year.

The Company is a real estate company according to the definition of the G-REIT Act. Pursuant to Section 2 of its Articles of Association, the Company's objective is the acquisition, management, operation and sale of owned real estate property as well as the holding of participations in enterprises, which acquire, manage, operate and sell owned property. All the aforementioned objectives are subject to the conditions of the G-REIT Act legislation.

In the previous fiscal year, alstria office REIT-AG acquired the majority of the shares in former DO Deutsche Office AG, Cologne, Germany (hereinafter referred to as "Deutsche Office AG"). The ordinary capital increase of alstria generating the new alstria shares required as compensation for the acquisition was entered into the commercial register at the Local-Regional Court of Hamburg on October 27, 2015. With the registration of the new alstria shares in the commercial register, the Company gained control over Deutsche Office AG, resulting in the first-time consolidation of Deutsche Office AG on October 27, 2015. With effective date of December 9, 2016, Deutsche Office AG was legally converted into the legal form of a Kommanditgesellschaft (limited partnership). At the same time, the company name of Deutsche Office AG was changed to 'alstria office Prime Portfolio GmbH & Co. KG' (hereinafter 'alstria office Prime').

The Company is registered in the commercial register at the local court of Hamburg under HRB No. 99204. The Company's registered office is Bäckerbreitergang 75, D-20355 Hamburg, Germany.

The fiscal year ends on December 31 of each calendar year.

These financial statements have been prepared in accordance with Sections 242 et seq. and Sections 264 et seq. HGB [‘Handelsgesetzbuch’: German Commercial Code] as amended by the Accounting Implementation Act (BilRUG), as well as in accordance with the relevant provisions of the German Stock Corporation Act [‘Aktiengesetz’: AktG]. The Company is subject to the requirements for large corporations.

The income statement has been prepared according to the total cost accounting method. A line item for “total operating performance” has been added to the income statement in order to present a subtotal. Land tax expenses are stated within the operating cost of purchased services. Land tax that is not attributable to tenants is shown under other operating charges.

These financial statements were prepared for the period from January 1 to December 31, 2016.

## **1.2 ACCOUNTING AND VALUATION POLICIES**

The following accounting and valuation policies were used to prepare the financial statements:

### **1.2.1 Intangible assets**

Purchased intangible assets are capitalized at acquisition cost and, if they have a limited useful life, are systematically amortized by respective amounts. The useful life is 2 to 22 years.

### **1.2.2 Land, property rights and buildings**

Land, property rights and buildings are capitalized at acquisition or production cost and are reduced by systematic depreciation rates according to their useful lives. The useful life is 33.3 to 50 years. For land and buildings, the allocation of acquisition costs is made based on an independent expert’s opinion. Extraordinary depreciation to the lower fair value is undertaken in case of the permanent impairment of a building’s value. This is the case if the current fair value as determined by an expert is lower than the carrying amount after five years of systematic depreciation.

If the reason for the impairment ceases to exist, appreciations are undertaken up to the extent of the amortized acquisition costs.

### 1.2.3 Property, plant and equipment

Other items of property, plant and equipment are capitalized at acquisition or production cost and, if they have a limited useful life (3 to 23 years), are reduced pro rata temporis by systematic depreciation rates accordingly. From January 1, 2010, onwards, low-value assets up to a purchase price of EUR 410 are fully depreciated in the year in which they are purchased.

### 1.2.4 Financial assets

With regard to financial assets, shares in affiliates, loans to affiliates and participating interests are recorded at the lower of cost or net realizable value. In case of permanent impairment, the lower fair value is recognized. If the reason for the impairment ceases to exist, appreciations up to the extent of the amortized acquisition costs are conducted.

### 1.2.5 Work in progress

Expenses for operating costs disbursed by the company for the tenants are capitalized as work in progress. The principle of the lower value at cost or market applies. Work in progress is valued at cost, taking the expenses that are passed on to tenants into account.

### 1.2.6 Receivables, other assets and cash and bank balances

Receivables and other assets, as well as current securities, are stated at their nominal values. Individual value adjustments are made for identifiable risks. The principle of lower value at cost or market applies.

Cash and bank balances are stated at face value.

### 1.2.7 Prepaid expenses

Prepaid expenses comprise costs paid prior to the balance sheet date, as far as they refer to expenses related to a period after the balance sheet date. Furthermore, the net book values of financial derivatives (Caps) are included in this item. These acquisition costs are allocated over the duration of the financial derivatives and are recorded as interest expenses pro rata. If the financial derivatives are in a hedge position with the floating interest rate expenses for the loan, these assets are not subject to devaluation to a lower fair value.

Hedge positions are exclusively formed as micro hedges that cover interest risks. They are disclosed by applying the fixed value method. Their effectivity is calculated based on the hypothetical derivative method. The risks compensated each other on the date of the financial statements and will most probably continue to do so in the future.

### 1.2.8 Provisions

Provisions are composed of undetermined liabilities due to uncertain liabilities and default risks connected to pending transactions. They are recorded at the estimated amounts repayable, which takes price advances into account. Provisions exceeding a maturity of one year are reduced by discounts, calculated on the basis of the remaining period and the average market interests over the last seven years, as published by the Deutsche Bundesbank and according to Section 254 para. 2 HGB. Price increases over the remaining term to 2021 are not to be expected.

### 1.2.9 Liabilities and similar obligations

Liabilities and bonds and convertible bonds are recorded at the amount repayable.

### 1.2.10 Deferred income

Deferred income is stated at the value of receipts prior to the balance sheet date that refers to income relating to events after the balance sheet date.

## 2 NOTES TO THE BALANCE SHEET

### 2.1 PROPERTY, PLANT AND EQUIPMENT

The development of the individual items of fixed assets, including depreciation and amortization for the fiscal year, is shown in the schedule of fixed assets (see attachment to the Notes).

Four real estate properties were sold during the reporting period. The book value of the disposed assets amounted to EUR 64,037 k. The assets were disposed for a total sales price of EUR 77,702 k. The transactions resulted in an accounting profit of EUR 13,665 k, which is recognized as a part of other operating income. During the reporting period, two properties were acquired. The properties were recorded by their purchase price of EUR 48,074 k.

## 2.2 FINANCIAL ASSETS

On the balance sheet date, alstria office REIT-AG held the following investments:

	Interest	Equity	
		Dec. 31, 2016	Net result 2016
	%	in EUR k	in EUR k
<b>Direct investments</b>			
alstria Bamlerstraße GP GmbH, Hamburg	100	20	-5
alstria Englische Planke GP GmbH, Hamburg	100	19	-6
alstria Gänsemarkt Drehbahn GP GmbH, Hamburg	100	29	4
alstria Halberstädter Straße GP GmbH, Hamburg	100	21	-4
alstria Hamburger Straße 43 GP GmbH, Hamburg	100	20	-5
alstria Ludwig-Erhard-Straße GP GmbH, Hamburg	100	19	-6
alstria Mannheim/Wiesbaden GP GmbH, Hamburg	100	20	-5
alstria Portfolio 1 GP GmbH, Hamburg	100	22	-1
alstria Prime Portfolio GP GmbH, Hamburg	100	12	-13
alstria Prime Portfolio GP 2 GmbH, Hamburg	100	25	0
alstria solutions GmbH, Hamburg	100	1,441	141
alstria Steinstraße 5 GP GmbH, Hamburg	100	21	-4
alstria office Bamlerstraße GmbH & Co. KG, Hamburg	100	40,046	-1,862
alstria office Englische Planke GmbH & Co. KG, Hamburg	100	2,827	2,827
alstria office Gänsemarkt Drehbahn GmbH & Co. KG, Hamburg	100	81,812	10,499
alstria office Halberstädter Straße GmbH & Co. KG, Hamburg	100	6,888	1,627
alstria office Hamburger Straße 43 GmbH & Co. KG, Hamburg	100	34,325	14,590
alstria office Insterburger Straße GmbH & Co. KG, Hamburg	100	-1,269	-1,270
alstria office Mannheim/Wiesbaden GmbH & Co. KG, Hamburg	100	36,542	13,771
alstria office Prime Portfolio GmbH & Co. KG (ehemals DO Deutsche Office AG, Köln)	90.9	772,910	-3,826
alstria office Steinstraße 5 GmbH & Co. KG, Hamburg	100	21,665	486
beehive GmbH & Co. KG, Hamburg	100	189	-136
Alte Post General Partner GmbH, Oststeinbek	49	157	-12
Alstria IV. Hamburgische Grundbesitz GmbH & Co. KG, Hamburg	49	2,905	1,146
<b>Indirect Investments (via alstria solutions GmbH, Hamburg)</b>			
Fluxus Innovations S.C.Sp, Luxemburg	100	1,980	-20

**Indirect Investments (via alstria office Prime Portfolio GmbH & Co. KG)**

German Acorn PortfolioCo I GmbH, Köln	90.9	292,854	84,770
GA Objekt 2001 Beteiligungs GmbH, Köln	90.9	2,250	0
GA Objekt 2003 Beteiligungs GmbH, Köln	90.9	11,406	0
GA Objekt 2005 Beteiligungs GmbH, Köln	90.9	5,428	0
GA Objekt 2007 Beteiligungs GmbH, Köln	90.9	9,615	0
GA Objekt 2008 Beteiligungs GmbH, Köln	90.9	23,980	0
GA Objekt 2011 Beteiligungs GmbH, Köln	90.9	24,070	0
GA Fixtures and Facility Management PortfolioCo I GmbH, Köln	90.9	764	199
German Acorn PortfolioCo II GmbH, Köln	90.9	275,694	-90,231
GA 5. Objekt 1004 Beteiligungs GmbH, Köln	90.9	5,830	0
GA 6. Objekt 1007 Beteiligungs GmbH, Köln	90.9	8,405	0
GA 7. Objekt 1008 Beteiligungs GmbH, Köln	90.9	8,208	0
GA 10. Objekt 1014 Beteiligungs GmbH, Köln	90.9	6,037	0
GA 11. Objekt 1015 Beteiligungs GmbH, Köln	90.9	6,933	0
GA 12. Objekt 1016 Beteiligungs GmbH, Köln	90.9	3,285	0
GA 13. Objekt 1019 Beteiligungs GmbH, Köln	90.9	8,027	0
GA 14. Objekt 1020 Beteiligungs GmbH, Köln	90.9	7,638	0
GA 15. Objekt 1021 Beteiligungs GmbH, Köln	90.9	13,285	0
GA 17. Objekt 1024 Beteiligungs GmbH, Köln	90.9	57,688	0
GA 18. Objekt 1027 Beteiligungs GmbH, Köln	90.9	8,321	0
GA 19. Objekt 1028 Beteiligungs GmbH, Köln	90.9	4,814	0
GA 20. Objekt 1030 Beteiligungs GmbH, Köln	90.9	10,924	0
GA 21. Objekt 1034 Beteiligungs GmbH, Köln	90.9	7,385	0
GA 23. Objekt 1036 Beteiligungs GmbH, Köln	90.9	7,760	0
GA 24. Objekt 1037 Beteiligungs GmbH, Köln	90.9	6,538	0
GA 25. Objekt 1038 Beteiligungs GmbH, Köln	90.9	15,730	0
GA 26. Objekt 1039 Beteiligungs GmbH, Köln	90.9	10,356	0
GA 27. Objekt 1040 Beteiligungs GmbH, Köln	90.9	8,321	0
GA 28. Objekt 1042 Beteiligungs GmbH, Köln	90.9	7,977	0
GA 29. Objekt 1043 Beteiligungs GmbH, Köln	90.9	4,034	0
GA 32. Objekt 1046 Beteiligungs GmbH, Köln	90.9	6,841	0
GA 34. Objekt 1048 Beteiligungs GmbH, Köln	90.9	5,614	0
GA 35. Objekt 1049 Beteiligungs GmbH, Köln	90.9	5,590	0
GA Region Nord GmbH, Köln	90.9	7,807	0
GA Region Süd GmbH, Köln	90.9	7,900	0
GA Region Mitte GmbH, Köln	90.9	11,072	0
GA Fixtures and Facility Management PortfolioCo II GmbH, Köln	90.9	436	411
DO PortfolioCo III GmbH, Köln	90.9	5	-20
DO Objekt 3001 Stuttgart GmbH, Köln	90.9	2,450	2,425
DO Fixtures and Facility Management PortfolioCo III GmbH, Köln (vormals: GA Region Leipzig GmbH)	90.9	-22	-108

In December 2016, the subsidiary DO Deutsche Office AG was converted into the legal form of a “KG” and changed its name to “alstria office Prime Portfolio GmbH & Co. KG” (see Note 1.1).

In the reporting period, 23,788 shares of DO Deutsche Office AG were acquired at EUR 93 k in public trading. Additionally, 2,530,667 shares of DO Deutsche Office AG were purchased directly from another shareholder. By means of a capital increase in return for a contribution in kind, alstria shares were exchanged against shares of DO Deutsche Office AG. For this purpose, shares in alstria with a value at the transaction day of EUR 11,811 k were issued. Finally, 9,207,012 shares were disposed at a price of EUR 35,578 k. Due to an impairment, the investment was ascribed as per balance sheet date to its fair value of EUR 675,269 k. The impairment of EUR 38,994 k resulted in other operating income of the same amount.

In the reporting period, alstria contributed an amount of EUR 1,000 k to alstria solutions GmbH. The contribution increased the value of the investment by the same amount. Additionally, alstria contributed an amount of EUR 300 k to beehive GmbH & Co. KG, which increased its carrying amount accordingly.

As per September 30, 2016, alstria merged with the subsidiary “alstria office Ludwig-Erhard-Straße GmbH & Co. KG”. The transaction resulted in gains of EUR 1,985 k, recognized in other operating income.

### 2.3 INVENTORIES

Inventories contain recoverable service charges that were paid in 2015 (EUR 11,529 k) and recoverable service charges that were paid in the reporting period (EUR 10,355 k). The settlement of recoverable charges for 2015 has not yet been entirely concluded. Therefore, recoverable service charges resulting from 2015 are still stated as per the balance sheet date.

### 2.4 RECEIVABLES

Receivables from affiliated companies decreased by EUR 10,123 k to the amount of EUR 70,367 k, as compared to the previous balance sheet date. The amount includes trade receivables of EUR 940 k (in 2015: EUR 130 k). The remaining amount of EUR 69,427 k (in 2015: EUR 80,360 k) results from the intra-group cash pooling agreement. Receivables from companies in which the Company has a participating interest are not existent as of the balance sheet date (2015: EUR 0 k).

Other assets amounted to EUR 1,621 k as of December 31, 2016 (December 31, 2015: EUR 1,804 k). They include an amount of EUR 416 k related to funds pledged as security and vendors with debit

balances amounting to EUR 337 k, as well as receivables from escrow funds with an amount of EUR 310 k.

The receivables mature before December 31, 2017.

## 2.5 PREPAID AND DEFERRED EXPENSES

Prepaid expenses (EUR 1,937 k; in 2015: EUR 41,073 k) mainly include acquisition costs for financial derivatives (EUR 1,559 k) that have to be amortized over their remaining period. In 2016, an amount of EUR 8,419 k was amortized and recorded as interest expenses (in 2015: EUR 4,144 k).

Financial derivatives include interest caps. Their purpose is to hedge the Company's exposure to interest rate risks arising from its business activities and sources of financing. alstria office REIT-AG's financial derivatives are presented below:

Product	Notional amount EUR k	Strike price per year	Maturity date	Fair value EUR k	Carrying amount EUR k
Cap	50,250	3.0000	30.09.2019	10	10
Cap	56,000	3.0000	17.12.2018	3	610
Cap <sup>1</sup>	380,870	0.0000	terminated	0	0
Cap	10,900	3.0000	29.03.2024	50	360
Cap	47,116	3.0000	30.04.2021	46	574
Cap	340,000	0.2500	31.12.2017	5	5
<b>Total</b>				<b>114</b>	<b>1.559</b>

<sup>1</sup> Terminated on Dec. 20, 2016

The fair value of the derivatives was determined by an independent expert. The expected cash flows were discounted based on current money market rates.

The cap with a notional amount of EUR 50,250 k is not effective in a hedging relationship. As of December 31, 2016, its carrying amount was depreciated by EUR 32 k to its fair value.

The cap with a notional amount of EUR 56,000 k is designated to hedge the interest of a loan agreement. The cap covers 100% of the underlying transactions. Deferred expenses were amortized, resulting in expenses of EUR 314 k. The carrying amount was simultaneously reduced by the same amount to EUR 610 k.

The cap with a notional amount of EUR 380,870 k was terminated on December 20, 2016. The cap covered 100% of the underlying transactions. Its acquisition costs were amortized by EUR 7,924 k, increasing interest expenses. Additionally, the carrying amount was reduced by an amount of EUR 2,075 k, which was received for the early termination of the cap. The remaining amount of EUR 28,512 k was written down and recorded in other operating expenses.

The cap with a notional amount of EUR 10,900 k and a term to maturity until March 29, 2024, covers 100% of the underlying transaction. Its acquisition costs were reduced by EUR 50 k to an amount of EUR 360 k as of December 31, 2016.

The cap with a notional amount of EUR 47,116 k has a term to maturity until April 30, 2021. The cap covers 100% of the underlying transaction. Its acquisition costs were released by an amount of EUR 131 k to a value of EUR 574 k as of December 31, 2016.

Moreover, a cap agreement of a notional amount of EUR 340,000 k that has a term to maturity until December 31, 2017, is not designated to a hedging relationship. The remaining acquisition costs of EUR 213 k were depreciated by EUR 208 k at its fair value as of December 31, 2016. The depreciation increased other operating expenses.

Finally, the prepaid expenses include miscellaneous expenses of EUR 378 k. A part of EUR 263 k refers to the deferred insurance premiums concerning the following period.

## 2.6 EQUITY

### 2.6.1 Share capital (subscribed capital)

In the balance sheet of the previous period, alstria office REIT-AG's share capital amounted to EUR 152,164 k. The conversion of profit participation rights in the second quarter of 2016 resulted in the issue of 102,750 new shares by utilizing the conditionally increased capital provided for such purposes.

In the context of a capital increase in return for a contribution in kind, alstria shares were exchanged against 1.4% of the shares of former DO Deutsche Office AG (see Note 0). Within this transaction, alstria emitted 964,182 new bearer shares, and the share capital increased accordingly.

Due to the aforementioned transactions, the Company's share capital has increased by EUR 1,067 k to an amount of EUR 153,231 k as per the balance sheet date.

The share capital is divided into 153,231,217 bearer shares in the form of no-par shares, each of which represents an interest in the capital stock of EUR 1.00.

### 2.6.2 Authorized capital

Due to a capital increase in the second quarter of 2016, the authorized capital of EUR 39,509 k approved by the Annual General Meeting in May 2015 was utilized by EUR 964 k.

By approval of the Annual General Meeting 2016, the remaining authorized capital 2015 was replaced by the authorized capital 2016, which amounted to EUR 76,082 k. The authorization expires on May 11, 2018.

### 2.6.3 Conditional capital

As of December 31, 2015, alstria's conditional capital amounted to EUR 38,798 k. It was divided into conditional capital 2013 (EUR 37,980 k), conditional capital III 2015 (EUR 500 k), and conditional capital III 2012 (318 k). In the reporting period, an amount of EUR 103 k of conditional capital III 2012 was utilized due to conversion of profit participation rights. As of December 31, 2016, the Company's conditional capital amounted to a total of EUR 38,695 k.

### 2.6.4 Capital surplus

alstria's capital surplus contains contributions of the shareholders and less withdrawals, as well as allocations resulting from capital increases, the issuance of a convertible bond and the placement of new shares.

In the reporting period, the Company's free capital surplus that meets the requirements of Section 272 paragraph 2 No.4. HGB ["Handelsgesetzbuch": German Commercial Code] increased by EUR 10,847 k due to a capital increase against contribution in cash. A further amount of EUR 103 k increased the capital surplus pursuant to Section 272 paragraph 2 No.1. HGB ["Handelsgesetzbuch": German Commercial Code]. The increase resulted from the conversion of profit participation rights. An amount of EUR 55,751 k was transferred to balance sheet profits, pursuant to Section 270 paragraph 1 HGB.

The capital surplus changed as follows during the fiscal year:

In EUR k	December 31, 2016	December 31, 2015
As of January 1	1,105,648	510,477
Result of capital increase in kind	0	94,822
Result of convertible bonds	0	180
Result of conversion of profit participation rights	103	156
Result of acquisition of DO Deutsche Office AG	10,847	757,615
Transfers from capital surplus	-55,751	-257,602
As of December 31	1,060,847	1,105,648

## 2.7 PROVISIONS

Other provisions (EUR 12,527 k; in 2015: EUR 15,807 k) were recognized mainly for accruals due to outstanding balances (EUR 6,175 k), share-based remuneration (EUR 2,890 k), bonuses (EUR 2,153 k), audit fees (EUR 368 k), risks of litigation (EUR 300 k), Supervisory Board compensation (EUR 297 k), and miscellaneous provisions (EUR 344 k).

## 2.8 LIABILITIES

Schedule of liabilities in EUR k:

	31 December 2016				Total
	up to 1 year	more than 1 year	between 1 and 5 years	Due in more than 5 years	
1. Equity participation	111	145	145	0	256
2. Bond loan	16,504	1,079,200	579,200	500,000	1,095,704
3. Bank loans and overdrafts	353	108,618	21,895	86,723	108,971
4. Payments received on account	23,776	0	0	0	23,776
5. Trade payables	1,843	0	0	0	1,843
6. Liabilities to affiliated companies	102,682	0	0	0	102,682
7. Other liabilities	5,157	151,269	56,769	94,500	156,426
- (thereof for taxes)	1,289	0	0	0	1,289
<b>Total</b>	<b>150,426</b>	<b>1,339,232</b>	<b>658,009</b>	<b>681,223</b>	<b>1,489,658</b>

	31 December 2015				Total
	up to 1 year	More than 1 year	between 1 and 5 years	Due in more than 5 years	
1. Equity participation	103	121	121	0	224
2. Bond loan	1,168	579,200	79,200	500,000	580,368
3. Bank loans and overdrafts	27,938	552,121	531,270	20,851	580,059
4. Payments received on account	22,927	0	0	0	22,927
5. Trade payables	3,412	0	0	0	3,412
6. Liabilities to affiliated companies	94,026	0	0	0	94,026
7. Other liabilities	1,307	1,613	1,613	0	2,920
- (thereof for taxes)	(147)	0	0	0	(147)
<b>Total</b>	<b>150,881</b>	<b>1,133,055</b>	<b>612,204</b>	<b>520,851</b>	<b>1,283,936</b>

### 2.8.1 Bond Loan

In the second quarter of the reporting period, a bond loan in a total amount of EUR 500 m and a coupon of 2.125% p.a. was issued. The bond has a maturity until March 12, 2023, and was recognized with its nominal amount of EUR 500 m; additionally, accrued interests in the amount of EUR 7,685 k were incurred as per the balance sheet date.

Another bond loan with a total amount of EUR 500 m has a coupon of 2.25% p.a. and a term to maturity until March 24, 2021. As per December 31, 2016, interest liabilities in the amount of EUR 8,723 k were accrued. The loan resulted in interest expenses of EUR 11,250 k.

The convertible bond with a value of EUR 79,200 k is divided in 792 bearer shares of EUR 100.000 each and has a term to maturity until March 24, 2021. It will be redeemed at 100 % of its principal amount. The coupon is set at 2.75% p.a., payable quarterly in arrears. In accordance with the terms of the underlying agreement, the conversion price was adjusted to the amount of EUR 9.4192 k in the reporting period.

The convertible bond value, unchanged from the prior year, was EUR 79,200 k and is convertible in its full amount. Interests with an amount of EUR 97 k were accrued as per balance sheet date.

### 2.8.2 Bank loans and overdrafts

A syndicated loan with an amount of EUR 470,556 k as per December 31, 2015, has been repaid in the reporting period. Until its repayment, the loan resulted in interest expenses of EUR 6,106 k.

On the balance sheet date, another loan was disclosed at the previous year's amount of EUR 47,223 k. Interest expenses during the reporting period amounted to EUR 620 k, of which EUR 2 k in accrued interest expenses were reported in interest liabilities.

A third loan was recognized at the balance sheet date by an amount of EUR 39,500 k. The loan resulted in interest expenses of EUR 548 k, of which EUR 2 k were accrued as interest liabilities.

Finally, a loan was recognized with a value of EUR 22,243 k as per the balance sheet date. The amount includes a current portion of EUR 348 k. alstria redeemed a portion of EUR 348 k in the reporting period. Interest expenses in the amount of EUR 297 k were incurred due to this loan, of which EUR 2 k in accrued interest expenses were reported in current interest liabilities.

The loans are secured by land charges for real estate property owned by alstria. To secure loans, alstria assigned receivables from rental and property purchase agreements as well as insurance receivables and derivative financial instruments to the lenders; in addition, liens were granted on bank accounts.

### 2.8.3 Prepayments received

The prepayments for running expenses as received from the tenants are shown under prepayments received.

### 2.8.4 Liabilities to affiliated companies

Liabilities due to affiliated companies result from the intra-group cash pooling arrangement.

### 2.8.5 Other liabilities

In the reporting period, a “Schuldschein” (senior unsecured debt) with a total value of EUR 150,000 k was issued. The loan is divided into five portions.

One portion with a value of EUR 40,000 k and a term to maturity until May 6, 2026, has a coupon of 2,750% p.a.; one portion with a value of EUR 37,000 k and a term to maturity until May 8, 2023, has a coupon of 2,270% p.a.; and finally, a portion of EUR 38,000 k and a term to maturity until May 6, 2020, has a coupon of 1,547% p.a.

Two further portions with a value of EUR 17,500 k and terms to maturity until May 8, 2023, and May 6, 2020, have variable interest rates.

The “Schuldschein” resulted in interest expenses of EUR 2,036 k.

Next to this, the other liabilities mainly include rent deposits in the amount of EUR 1,329 k, security deductions amounting to EUR 1,269 k, liabilities concerning value-added tax of EUR 1,134 k, as well as customers with credit balances in the amount of EUR 692 k.

## 2.9 OTHER FINANCIAL COMMITMENTS

Other financial obligations from ongoing maintenance and refurbishment projects amounted to EUR 23,544 k (2015: EUR 8,543 k).

As of December 31, 2016, leasing contracts resulted in future financial obligations of EUR 243 k. These commitments included EUR 134 k in agreements with a remaining maturity of less than one year and EUR 110 k in leases with a remaining maturity of one to five years.

In connection with the acquisition of four real estate properties, the subsidiaries alstria office Gänsemarkt Drehbahn GmbH & Co. KG and alstria office Halberstädter Strasse GmbH & Co. KG took out a bank loan. alstria has issued a guarantee in the amount of the loan. On the balance sheet date, this loan was valued at EUR 56,500 k.

alstria gave a further security to guarantee a liability of alstria office Insterburger Straße GmbH & Co. KG amounting to EUR 148 k.

Apart from this, alstria gave a security to guarantee a bank loan to alstria office Insterburger Straße GmbH & Co.KG amounting to EUR 8,777 k.

The underlying obligations can be fulfilled by the four companies in all cases; a drawdown is not to be expected.

### 3 INCOME STATEMENT

#### 3.1 REVENUES

Total operating performance amounted to EUR 88,724 k in the period and consists of revenues from rental income and operating costs, resulting from charging tenants, as well as inventory changes in relation to work in process.

#### 3.2 OTHER OPERATING INCOME

The other operating income is made up as follows:

In EUR k	2016	2015
Proceeds from the reversal of write downs on financial assets	38,994	0
Proceeds from appreciations on land and buildings	15,036	7,493
Proceeds from property disposals	13,665	16,077
Proceeds from a step-up merger	1,985	0
Reimbursement for service charges	1,388	1,089
Income from the reversal of accrued liabilities	1,339	7,348
Proceeds from payments in kind	970	1,463
Proceeds from compensation for early lease termination	632	1,202
Insurance proceeds	337	301
Proceeds from passed on maintenance expenses	280	0
Proceeds from personnel leasing	129	199
Refunds of value-added tax	0	119
Other	998	514
<b>Total</b>	<b>75,753</b>	<b>35,805</b>

Proceeds from the reversal of write downs on financial assets arose from the increase of a subsidiaries market value (see Note 2.2).

Proceeds from appreciations on land and buildings resulted from increased market values on investment property.

Proceeds from property disposals arose from the disposal of four objects (see Note 2.1).

Proceeds from a step-up merger resulted from the difference between the assets and liabilities of the merged subsidiary and its carrying value recognized in the financial assets of alstria. The subsidiary was merged with alstria through a step-up merger as per September 30, 2016 (see Note 2.2).

Reimbursements for service charges refers to property expenses that were prepaid by alstria and then passed on to the respective group companies.

EUR 931 k in income resulted from the release of provisions for rental guarantees that matured in the reporting period.

Proceeds from payments in kind were mainly related to charges out of payroll tax deductions as to participation certificates, which are recognized in the personnel expenses. The charges were passed on to the employees and stated in the other operating income with the same amount.

### 3.3 COST OF MATERIALS

The cost of materials is made up as follows:

In EUR k	2016	2015
Operating expenses	8,905	8,666
Land tax	3,565	3,490
Maintenance costs	1,980	2,343
Passed-on charges	1,014	498
Insurance costs	591	585
Repairs	110	77
Other	73	203
<b>Total</b>	<b>16,238</b>	<b>15,862</b>

The cost of materials comprises costs of services for all surcharge expenses related to operating lease activities, including expenses for heating, cleaning and land taxes, as well as for maintenance and refurbishment. As far as the costs of materials are costs of services allocable to the tenant, they are capitalized as work in progress. Expenses for land tax, as disclosed in the cost of materials, together with those included in other expenses, totaled EUR 3,691 k in the reporting year (previous year: EUR 3,584 k).

### 3.4 PERSONNEL EXPENSES

The salaries and wages of the reporting period amounted to EUR 11,907 k. The increase as compared to the previous year of EUR 1,596 k is mainly based on the increase in expenses for equity-based compensation (EUR +1,615 k) as well as the increase in expenses for performance-based compensation (EUR +494 k). Proceeds arising from the performance-based compensation are recognized in other operating income at the exact same amount, thus having a neutralizing effect.

### 3.5 OTHER OPERATING EXPENSES

Other operating expenses are made up as follows:

In EUR k	2016	2015
Expenses from the reversal of deferred acquisition costs on financial instrument	28,753	296
Real estate operating expenses	11,569	14,863
Legal and consulting fees	3,379	9,393
Donations	2,557	63
Cost of disposals	849	0
Losses from disposal of financial assets	794	0
Audit fee and other audit-related expenses	785	429
General administration expenses	596	405
Travel expenses	435	400
Supervisory Board compensation	412	404
Expenses for conferences and marketing	364	319
IT costs	358	222
Telecommunication and postal charges	246	171
Leasing and leasing-related expenses	220	122
Carpool expenses	196	164
Insurance costs	130	107
Other	1,847	1,684
<b>Total</b>	<b>53,490</b>	<b>29,042</b>

The reversal of deferred acquisition costs on financial instruments is mainly due to the reversal of acquisition costs concerning a cap that was terminated (See Note 2.5).

Real estate operating expenses decreased by EUR 3,294 k. This was primarily due to reduced demand of tenant fit-outs.

The legal and consulting fees decreased by EUR 6,014 k. In the previous period, the legal and consulting expenses were exceptionally increased due to expenses in the course of the acquisition of alstria office Prime Portfolio GmbH und Co. KG (former “DO Deutsche Office AG”; hereinafter also referred to as “alstria office Prime”) by EUR 4,700 k, consulting fees for development of innovative letting concepts by EUR 580 k as well as expenses for the rating process by EUR 1,006 k.

The expenses for donations were paid for charitable purposes.

### **3.6 INCOME FROM LOANS FROM FINANCIAL ASSETS**

The income from loans from financial assets in the amount of EUR 16,870 k (previous year: EUR 1,008 k) resulted from interest income on loans granted to subsidiaries.

### **3.7 OTHER INTEREST AND SIMILAR INCOME**

Interest income (EUR 523 k) results from interest income on bank deposits.

### **3.8 INTEREST AND SIMILAR EXPENSES**

Interest expenses in the reporting period amounted to EUR 47,319 k. The expenses comprise EUR 18,959 k of interest expenses due to bonds; EUR 8,419 k of interests due to the allocation of acquisition costs concerning financial derivatives (see Note 2.5), as well as EUR 101 k of other expenses related to financial derivatives; EUR 7,570 k of interest expenses due to bank loans; EUR 6,796 k of transaction costs; EUR 2,178 k of interest expenses due to a convertible bond; EUR 2,036 k of interest due to a “Schuldscheindarlehen” (senior unsecured debt) and EUR 1,260 k of other interests and similar expenses.

### **3.9 INCOME TAXES**

Because of the Company’s REIT tax exemption, there were no expenses for corporate income tax and trade tax in 2015.

## 4 OTHER NOTES

### 4.1 SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

In October 2016, alstria signed a purchase contract for the disposal of an asset in Dortmund. The transfer of benefits and burden is expected to take place on February 28, 2017, after the reporting period.

Additionally, alstria signed a purchase contract for the disposal of an asset in Dresden on December 15, 2016. The transfer of benefits and burden took place on February 1, 2017, after the reporting period.

### 4.2 COMPENSATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

#### 4.2.1 Management Board

**Management Board** The following total remuneration was granted to the members of the Management Board according to Section 285 no. 9a HGB (“Handelsgesetzbuch”):

In EUR k	2016	2015
Short-term benefits	1,159	1,162
Postemployment benefits	124	125
Share-based remuneration	905	905
<b>Total</b>	<b>2,188</b>	<b>2,192</b>

As at the reporting date, liabilities for the compensation of the members of the Management Board amounted to EUR 378 k (2015: EUR 378 k).

#### 4.2.2 Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board members’ fixed annual remuneration amounted to EUR 347 k (2014: EUR 353 k).

With respect to the required disclosures according to Section 285 no. 9a HGB (“Handelsgesetzbuch”: German Commercial Code), we refer to the Remuneration Report in the attachment to the Management Report.

### 4.3 AUDITOR’S FEES

By resolution of the Annual General Meeting held on May 12, 2016, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Dammtorstraße 12, Hamburg, was appointed to perform the audit of the separate and consolidated financial statements for financial year 2016. The fee for the audit

of the financial statements in 2016 was EUR 462 k. Other audit-related services accounted for expenses of EUR 161 k.

#### 4.4 SHARES

The share capital is divided into 153,231,217 non-par value bearer shares.

#### 4.5 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 the business year 2016: to distribute a dividend of EUR 0.52 on each share of no par value entitled to the dividend for business year 2016 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 Mai 16, 2017.

The proposed dividend of EUR 0.52 per share for the business year 2016 represents a total payment of EUR 79.7 m based on the number of shares entitled to dividend at the balance sheet date.

#### 4.6 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 2016 financial year, the members of the Supervisory Board were as follow:

<p><b>Dr. Johannes Conradi</b> Chairman since May 12, 2016</p>	<p><b>Hamburg, Germany</b></p> <p>Freshfields Bruckhaus Deringer LLP</p> <p>EBS Universität für Wirtschaft und Recht - Real Estate Management Institute</p> <p>Elbphilharmonie Hamburg Bau GmbH &amp; Co. KG</p>	<p><b>Lawyer and Partner, Freshfields Bruckhaus Deringer LLP</b></p> <p>Global Head of Real Estate Member of the German Management Group</p> <p>Member of the Board of Trustees</p> <p>Member of the Supervisory Board</p>
<p><b>Richard Mully</b> Vice Chairman since November 30, 2016</p> <p>since December 1, 2016 until April 4, 2016</p>	<p><b>Cobham (Surrey), United Kingdom</b></p> <p>Aberdeen Asset Management PLC</p> <p>Great Portland Estates plc</p> <p>ISG plc</p> <p>St Modwen Properties PLC</p>	<p><b>Director, Starr Street Limited</b></p> <p>Director</p> <p>Nonexecutive Director</p> <p>Director</p> <p>Director</p>

<p><b>Stefanie Frensch</b> office started on May 12, 2016</p>	<p><b>Berlin, Germany</b></p> <p>BBV Verband Berlin- Brandenburgischer 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><b>Uzès, France</b></p> <p>Belvédère SA EUROSIC</p> <p>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> since December 8, 2016</p> <p>until December 9, 2016</p>	<p><b>Berlin, Germany</b></p> <p>BDO AG Wirtschafts- prüfungsgesellschaft DO Deutsche Office AG</p>	<p><b>Managing Director, bettermarks GmbH</b></p> <p>Member of the Supervisory Board</p> <p>Member of the Supervisory Board</p>
<p><b>Hermann T. Dambach</b> Vice-Chairman office ended October 31, 2016</p>	<p><b>Bad Homburg, Germany</b></p> <p>Railpool GmbH</p>	<p><b>Investment Manager, Oaktree GmbH</b></p> <p>Chairman of the Advisory Board</p>
<p><b>Alexander Stuhlmann</b> Chairman office ended May 12, 2016</p> <p>since July 1, 2016 until December 9, 2016</p>	<p><b>Hamburg, Germany</b></p> <p>Bauhaus Wohnkonzept GmbH Capital Stage AG</p> <p>C.E. Danger GmbH &amp; Co. KG DO Deutsche Office AG Ernst Russ AG Euro-Aviation Versicherungs AG Frank Beteiligungs- gesellschaft mbH GEV AG (Frank-Gruppe) HASPA Finanzholding Siedlungsbaugesellschaft Hermann und Paul Frank mbH &amp; Co. KG</p>	<p><b>Management Consultant</b></p> <p>Chairman of the Advisory Board Vice Chairman of the Supervisory Board Member of the Advisory Board Member of the Supervisory Board Chairman of the Supervisory Board Chairman of the Supervisory Board</p> <p>Chairman of the Advisory Board</p> <p>Chairman of the Supervisory Board Member of the Board of Trustees Chairman of the Advisory Board</p>

At the Company's May 12, 2016, Annual General Meeting, the shareholders elected Ms. Stefanie Frensch, director of HOWOGE Wohnungsbaugesellschaft mbH, Berlin, Germany, as a member of the Supervisory Board of alstria office REIT-AG.

At the end of the Annual General Meeting held on May 12, 2016, Mr. Alexander Stuhlmann's supervisory membership term ended.

With an effective date of October 31, 2016, Mr. Hermann T. Dambach, investment manager of Oaktree GmbH, Bad Homburg, Germany, resigned as a member of the Supervisory Board.

After the end of the reporting period, Dr. Bernhard Düttmann, executive consultant, Meerbusch, Germany, was appointed as a member of the Supervisory Board on January 3, 2016.

#### 4.7 MANAGEMENT BOARD

The members of the Company's management board during the reporting year were:

Mr. Olivier Elamine Chief Executive Officer (CEO)

Mr. Alexander Dexne Chief Financial Officer (CFO)

The remuneration report (see attachment to the management report) outlines the principles for the determination of the Management Board and Supervisory Board's compensation and provides details about the remuneration amounts.

#### 4.8 EMPLOYEES

During the period from January 1, 2016, to December 31, 2016, the Company employed 95 employees on average (2015: 66 employees on average). The average was calculated based on the number of employed people at the end of each quarter. On December 31, 2015, alstria office REIT-AG employed 106 employees (December 31, 2015: 69 employees), excluding the Management Board.

	Average 2016	Employees December 31, 2016
Real estate management and development	55	64
Finance and legal	27	28
Other occupations	13	14
<b>Total</b>	<b>95</b>	<b>106</b>

#### 4.9 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. With a resolution, the Supervisory Board fixed the details of the convertible profit participation rights program in accordance with an authorization 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 authorization granted by the general meeting of shareholders on April 24, 2012.

The main terms of the program can be summarized 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 (2012-2017) created by the Annual General Meeting in 2012. By the end of the reporting period, certificates were granted corresponding to EUR 426,050 of conditional capital. In 2016, the Annual General Meeting approved the establishment of additional conditional capital III (2015-2020) with an aggregate nominal value of up to EUR 500 k for the conversion of 500,000 certificates. At the end of the reporting period, certificates in relation to this conditional capital (2015-2020) had been granted for EUR 144.750.

The certificates are issued as nontransferable 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 nonsubsequent trading days (market condition). For the 111,000 certificates issued on May 7, 2015, and the 144,750 certificates issued on May 18, 2016, this market condition was fulfilled until the end of the 2016 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.

#### **4.10 GROUP RELATIONSHIP**

alstria office REIT-AG prepares the consolidated financial statements. These statements are published in the Bundesanzeiger (web-based version of "German Federal Gazette"). All of alstria's shares are in free float. No entity or person has a controlling influence over the Company. alstria office REIT-AG is the ultimate parent company of the Group.

## 5 DISCLOSURES ACCORDING TO WERTPAPIERHANDELSGESETZ

### 5.1 AD-HOC ANNOUNCEMENTS

The following table summarizes the announcements pursuant to Section 15, para. 1, of the German Securities Trading Act (WpHG) as the Company published during the reporting period:

Date	Topic
Apr. 5, 2016	alstria office REIT-AG issues additional corporate bond
May 3, 2016	alstria office REIT-AG acquires additional approximately 1.4% of DO Deutsche Office AG
July 8, 2016	alstria office REIT-AG: DO Deutsche Office AG sells 'An den Treptowers 3' building in Berlin

### 5.2 DIRECTORS' DEALINGS

The following table summarizes the transaction reported to the Company pursuant to Section 15a, para. 1, of WpHG during the reporting period:

Name of person subject to the disclosure requirement	Olivier Elamine
Function	CEO
Classification of the financial instrument	Share
ISIN	DE000A0LD2U1
Transaction	Buy
Place	Direct trade
Transaction date	May 13, 2016
Price per share in EUR	11.722615
Number of shares	6,500
Deal volume in EUR	76,197.00

### 5.3 VOTING RIGHT NOTIFICATIONS

This information is according to Section 160, para. 1, No. 8, of the German Stock Corporation Act (Aktengesetz, AktG). The following table shows shareholdings in the Company that were in place on the 2016 balance sheet date and that were communicated to the Company pursuant to Section 21, para. 1, of WpHG and published pursuant to Section 26, para. 1, of WpHG. Moreover, shareholdings were considered if they were in place until the date of the preparation of the financial statements if they were communicated to us pursuant to Section 21, para. 1, of WpHG and if they were published pursuant to Section 26, para. 1, of WpHG. The Company did not receive any notifications pursuant to Section 20, paras. 1 and 4, of AktG or pursuant to Section 21, para. 1a, of WpHG 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	BNP Paribas Asset Management S.A.S., Paris, France	3.08	Mar. 18, 2016	Yes	-
2	Prédica, Paris, France	3.0265	Apr. 5, 2016	No	-
3	SAS Rue la Boétie, Paris, France	5.7691	Apr. 12, 2016	Yes	Prédica
4	Government of Singapore, acting by and through the Ministry of Finance, Singapore, Singapore	12.61	Apr. 22, 2016	Yes	GIC Private Limited (4.71%)  Euro Periwinkle Private Limited (7.90%)
5	GIC Private Limited, Singapore, Singapore	12.61	Apr. 22, 2016	Yes	Euro Periwinkle Private Limited
6	GIC (Realty) Private Limited, Singapore, Singapore	7.90	Apr. 22, 2016	Yes	Euro Periwinkle Private Limited
7	Europe Realty Holdings Pte Ltd, Singapore, Singapore	7.90	Apr. 22, 2016	Yes	Euro Periwinkle Private Limited
8	Euro Periwinkle Private Limited, Singapore, Singapore	7.90	Apr. 22, 2016	No	-
9	Oaktree Capital Group Holdings GP, LLC, Wilmington, Delaware, USA	1.08	Sep. 9, 2016	Yes	-
10	Cohen & Steers, Inc., New York, USA	3.32	Oct. 10, 2016	Yes	-
11	Brookfield Investment Management Inc., New York, USA	3.01	Jan. 9, 2017	Yes	-

**6 DECLARATION OF COMPLIANCE ACCORDING TO SECTION 161 AKTG (AKTIENGESETZ-GERMAN STOCK CORPORATION ACT)**

The Management Board and the Supervisory Board have submitted the declaration of compliance as required by Section 161 AktG regarding the recommendations of the German Corporate Governance Code developed by the government commission. It is furthermore permanently available to the shareholders on alstria office REIT-AG's website ([www.alstria.com](http://www.alstria.com)).

Hamburg, February 21, 2017

Olivier Elamine  
(CEO)

Alexander Dexne  
(CFO)

alstria office REIT AG

**Movements on non-current assets 2016**  
**Appendix to the Notes**

	Acquisition and manufacturing costs				Accumulated amortization and depreciation					Book values		
	1.1.2016 EUR	Additions EUR	Disposals EUR	Transfers EUR	31.12.2016 EUR	1.1.2016 EUR	Additions EUR	Disposals EUR	Appreciations EUR	31.12.2016 EUR	31.12.2016 EUR	31.12.2015 EUR
<b>I. Intangible assets</b>												
Concessions, commercial intellectual property rights and similar rights and assets as well as licences	1,962,962	80,050	0	0	2,043,013	1,729,573	209,230	0	0	1,938,803	104,210	233,389
<b>II. Property, plant and equipment</b>												
1. Land, property rights and buildings	1,308,720,332	12,243,116	79,869,206	58,626,233	1,299,720,476	262,830,594	26,649,980	15,340,954	15,035,506	259,104,113	1,040,616,363	1,045,889,738
2. Technical plant and machinery	2,139,789	0	0	0	2,139,789	1,537,543	135,325	0	0	1,672,868	466,921	602,247
3. Other plant, operating and office equipment	1,013,902	334,805	0	0	1,348,707	609,821	107,086	0	0	716,907	631,800	404,081
4. Prepayments and construction in progress	58,986,966	17,211,237	0	-58,626,233	17,571,970	0	0	0	0	0	17,571,970	58,986,966
	1,370,860,990	29,789,158	79,869,206	0	1,320,780,942	264,977,958	26,892,390	15,340,954	15,035,506	261,493,888	1,059,287,054	1,105,883,032
<b>III. Financial assets</b>												
1. Shares in affiliated companies	1,016,289,946	13,274,415	49,035,832	0	980,528,529	169,309,343	0	9,127,671	38,994,072	121,187,600	859,340,929	846,980,603
2. Loans to affiliated companies	159,400,814	515,554,998	0	0	674,955,812	0	0	0	0	0	674,955,812	159,400,814
3. Participating interests	2,027,094	0.00	0	0	2,027,094	0	0	0	0	0	2,027,094	2,027,094
4. Other loans	0	34,802,505	0	0	34,802,505	0	0	0	0	0	34,802,505	0
	1,177,717,854	563,631,919	49,035,832	0	1,692,313,941	169,309,343	0	9,127,671	38,994,072	121,187,600	1,571,126,341	1,008,408,511
	2,550,541,807	593,501,127	128,905,038	0	3,015,137,896	436,016,875	27,101,620	24,468,626	54,029,578	384,620,291	2,630,517,605	2,114,524,932

## 2. AUDITORS' REPORT

We have audited the financial statements comprising the income statement, the balance sheet and the notes to the financial statements together with the bookkeeping system and the management report of alstria office REIT-AG, Hamburg, for the year ended December 31, 2016. The maintenance of the books and records and the preparation of the financial statements and the management report in accordance with German commercial law are the responsibility of the entity's Management Board. Our responsibility is to express an opinion on the financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the entity and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the financial statements and the management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements of alstria office REIT-AG, Hamburg, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the entity in accordance with German principles of proper accounting. The management report is consistent with the financial statements and as a whole provides a suitable view of the entity's position and suitably presents the opportunities and risks of future development.

Hamburg February 21, 2017

**Deloitte & Touche GmbH**

Wirtschaftsprüfungsgesellschaft

Signed: (Reiher)

Wirtschaftsprüfer

[German Public Auditor]

Signed: (Deutsch)

Wirtschaftsprüferin

[German Public Auditor]

## Responsibility Statement

### **Responsibility Statement**

To the best of our knowledge we confirm that, in accordance with the applicable reporting principles, the financial statements 2016 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Hamburg, February 21, 2017

**alstria office REIT-AG**

The Management Board

**Olivier Elamine**  
CEO

**Alexander Dexne**  
CFO

BUILDING YOUR FUTURE



**alstria office REIT-AG**

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