

# **ANNUAL REPORT 2016**

**PROF  
ITABI  
LITY**

**SOL  
VENCY**

**TRANS  
PAREN  
CY**

**DIA  
LOGUE**

**CONTI  
NUITY**

**SUS  
TAIN  
ABIL  
ITY**

## Five-year overview

### KEY FIGURES

#### FIVE-YEAR OVERVIEW ACCORDING TO IFRS

EUR k	2016	2015	2014	2013	2012
<b>Revenues and Earnings</b>					
Revenues	202,663	115,337	101,782	104,224	101,286
Net rental income	179,014	102,140	90,020	93,249	90,110
Consolidated profit <sup>1)</sup>	176,872	-110,970	36,953	38,945	39,911
FFO <sup>1)</sup>	116,410	59,397	47,626	45,328	43,571
Earnings per share (EUR) <sup>1)</sup>	1.16	-1.15	0.47	0.49	0.51
FFO per share (EUR) <sup>1)</sup>	0.76	0.61	0.60	0.57	0.55

<sup>1)</sup> Without minority shares.

EUR k	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
<b>Balance sheet</b>					
Investment property	2,999,099	3,260,467	1,645,840	1,632,362	1,622,988
Total assets	3,382,633	3,850,580	1,769,304	1,785,679	1,786,893
Equity <sup>1)</sup>	1,728,438	1,619,377	846,593	844,114	829,287
Liabilities	1,654,195	2,192,916	922,711	941,565	957,606
NAV per share (EUR) <sup>1)</sup>	11.28	10.64	10.71	10.69	10.51
Diluted NAV per share (EUR) <sup>1),2)</sup>	11.28	10.68	10.67	10.60	n/a
Net LTV (%)	40.9	49.3	50.4	50.7	47.8

<sup>1)</sup> Without minority shares.

<sup>2)</sup> Dilution based on potential conversion of convertible bond.

G-REIT figures	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
G-REIT equity ratio (%)	56.7	49.4	50.2	50.9	50.0
Revenues including other income from investment properties (%)	100	100	100	100	100

EPRA <sup>1)</sup> key figures	2016	2015	2014	2013	2012
EPRA earnings per share (EUR)	0.57	0.42	0.59	0.57	0.55
EPRA cost ratio A (%) <sup>2)</sup>	20.6	26.1	22.9	21.7	21.6
EPRA cost ratio B (%) <sup>3)</sup>	16.6	22.1	19.8	18.6	18.5

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
EPRA NAV per share (EUR)	11.31	10.91	11.22	10.97	10.98
EPRA NNNNAV per share (EUR)	10.81	10.66	10.58	10.55	10.50
EPRA net initial yield (%)	5.0	5.0	4.8	5.6	5.7
EPRA "topped-up" net initial yield (%)	5.4	5.3	5.0	5.8	5.7
EPRA vacancy rate (%)	9.2	11.2	11.0	6.8	8.0

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

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

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

# CONTENT

<b>DETAIL INDEX GROUP MANAGEMENT REPORT .....</b>	<b>2</b>
<b>GROUP MANAGEMENT REPORT .....</b>	<b>3</b>
ECONOMICS AND STRATEGY.....	3
FINANCIAL ANALYSIS .....	11
RISK AND OPPORTUNITY REPORT .....	23
SUSTAINABILITY REPORT .....	40
DISCLOSURES REQUIRED BY TAKEOVER LAW .....	41
ADDITIONAL GROUP DISCLOSURE .....	44
EXPECTED DEVELOPMENTS .....	45
<b>DETAIL INDEX CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>47</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>48</b>
CONSOLIDATED INCOME STATEMENT .....	48
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	49
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	50
CONSOLIDATED STATEMENT OF CASH FLOWS.....	52
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	54
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	56
RESPONSIBILITY STATEMENT.....	123
INDEPENDENT AUDITOR'S REPORT.....	124
<b>CORPORATE GOVERNANCE .....</b>	<b>126</b>
REPORT OF THE SUPERVISORY BOARD .....	126
CORPORATE GOVERNANCE STATEMENT.....	133
REMUNERATION REPORT .....	143
<b>REIT DISCLOSURES .....</b>	<b>150</b>
REIT DECLARATION .....	150
REIT MEMORANDUM .....	152
<b>OTHER INFORMATION .....</b>	<b>154</b>
FINANCIAL CALENDAR.....	154
CONTACT/IMPRINT .....	154

## DETAIL INDEX GROUP MANAGEMENT REPORT

ECONOMICS AND STRATEGY .....	3
ECONOMIC CONDITIONS .....	3
STRATEGY AND STRUCTURE .....	5
PORTFOLIO OVERVIEW.....	6
FINANCIAL ANALYSIS .....	11
EARNINGS POSITION.....	11
FINANCIAL AND ASSET POSITION.....	16
CORPORATE MANAGEMENT .....	22
RISK AND OPPORTUNITY REPORT .....	23
RISK REPORT .....	23
REPORT ON OPPORTUNITIES.....	38
SUSTAINABILITY REPORT .....	40
DISCLOSURES REQUIRED BY TAKEOVER LAW .....	41
ADDITIONAL GROUP DISCLOSURE .....	44
EMPLOYEES .....	44
REMUNERATION REPORT .....	44
CORPORATE GOVERNANCE DECLARATION PURSUANT TO SECTION 289A HGB ("HANDELS-GESETZBUCH": GERMAN COMMERCIAL CODE) .....	45
DIVIDEND.....	45
EXPECTED DEVELOPMENTS .....	45

## GROUP MANAGEMENT REPORT

### 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.

###### *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%).

---

\* 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.

### ***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's. 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 4.9 years). Approx. 60% of its rental income is derived from a small number of high-quality tenants. Around 30% of its rental income is generated from public authorities or institutions, which are not immediately affected by economic developments.

## Group Management Report

- alstria pursues a nontrading-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.

### PORTFOLIO OVERVIEW

#### Key metrics of the portfolio

Key metrics	Dec. 31, 2016	Dec. 31, 2015
Number of properties	108	120
Number of joint-venture properties	1	1
Market value (EUR b) <sup>1)</sup>	3.0	3.3
Annual contractual rent (EUR m)	188.4	208.3
Valuation yield (contractual rent/market value)	6.2	6.3
Lettable area (sqm)	1,524,300	1,724,100
Vacancy (% of lettable area) <sup>2)</sup>	11.3	11.8
WAULT (years)	4.9	5.2
Average rent/sqm (EUR/month)	11.6	11.5

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

<sup>2)</sup> The contractual vacancy rate includes vacancies in assets of the Company's development pipeline.

### Real Estate Operations

Letting metrics	2016	2015 <sup>1)</sup>	Change
New leases (in sqm) <sup>2)</sup>	76,600	35,700	40,900
Renewals of leases (in sqm)	118,153	38,800	79,353

<sup>1)</sup> This includes the letting metrics from the alstria office Prime portfolio for November and December 2015.

<sup>2)</sup> New leases refer to letting of vacant space. This category does not include lease renewals, prolongations, or exercised renewal options.

Vacancy metrics	Dec. 31, 2016	Dec. 31, 2015	Change
Vacancy rate (%) <sup>1)</sup>	11.3	11.8	-0.5 pp
EPRA vacancy rate (%)	9.2	11.2	-2 pp
Vacancy (sqm)	171,700	198,300	-26,600
<i>thereof vacancy in development projects (sqm)</i>	<i>35,200</i>	<i>27,700</i>	<i>7,500</i>

<sup>1)</sup> Without assets held for sale.

In fiscal year 2016, letting activities (as measured by new leases and lease extensions) were at a good level.



A new lease with the City of Berlin at Darwinstraße 14-18 had a substantial impact on the positive development of new leases in the year 2016. The lease at Darwinstraße 14-18 for around 17,600 sqm of office and ancillary space is expected to start on March 1, 2017, and has a lease term of ten years. With the signature of this lease, the building is now fully let.

Furthermore, alstria signed three new leases in Frankfurt at Platz der Einheit 1 (KASTOR TOWER). The first lease, for approx. 5,600 sqm of office and ancillary space, started on June 15, 2016. The second lease, totalling approx. 3,500 sqm of office and ancillary space, will commence by the end of the first quarter of 2017. The third lease, signed in December, is for approx. 4,300 sqm of office and ancillary space; it will start on April 1, 2017. These new leases have reduced the vacancy in the 30,600 sqm building from 71% to 26%.

Moreover, alstria signed a new lease in Hamburg-Bergedorf, at Ludwig-Rosenberg-Ring 41, for approx. 3,800 sqm of office and ancillary space. This lease will start on June 1, 2017 and has a term of 10 years.

For financial year 2017, reducing vacancy remains the operational focus.

### Portfolio Valuation and Regions

As of December 31, 2016, external appraisers (Colliers International for alstria's assets and CBRE GmbH for the alstria office Prime subgroup's assets) valued alstria's portfolio pursuant to IFRS 13. The valuation resulted in a total market value for the investment properties of EUR 3,022 m.\* Of this total market value, approx. EUR 2,747 m, or over 91%, was located in the Rhine-Ruhr, Hamburg, Rhine-Main, and Stuttgart regions. In the table below, the investment focus on the selected locations becomes obvious:

Total portfolio by region % of market value	Dec. 31, 2016	Dec. 31, 2015	Change (pp)
Rhine-Ruhr	29	25	4
Hamburg	27	23	4
Rhine-Main	21	20	1
Stuttgart	14	14	0
Berlin	3	7	-4
Hanover	1	1	0
Saxony	1	1	0
Munich	0	3	-3
Others	4	6	-2

\* Inclusive assets held for sale

## Tenants

Another main characteristic of alstria's portfolio is its focus on a small number of major tenants.

alstria's main tenants % of annual rent	Dec. 31, 2016	Dec. 31, 2015	Change (pp)
Stadt Hamburg	13	14	-1
Daimler AG	12	11	1
GMG Generalmietgesellschaft	10	9	1
Zürich Versicherung AG	5	4	1
HOCHTIEF Aktiengesellschaft	4	4	0
Bilfinger SE	3	3	0
Residenz am Dom gemeinn. Betriebsgesellschaft mbH	2	2	0
Württembergische Lebensversicherung AG	1	1	0
Stadt Berlin	1	0	1
Allianz Deutschland AG	0	7	-7
Others	49	45	4

Furthermore, the focus is clearly on one asset class. Of the total lettable area, approx. 88% is office space.\*

Lease expiry profile % of annual rent	Dec. 31, 2016	Dec. 31, 2015	Change (pp)
2017	11.8	17.3	-5.5
2018	18.0	12.0	6.0
2019	18.1	22.3	-4.2

## Transactions

alstria's investment decisions are based on both the analyses of local markets and individual inspections of each asset. The latter focuses on the attributes of location, size, and quality (relative to those of direct competitors' assets) and the long-term potential for value growth. alstria's strategy is aimed at both increasing its portfolio to a critical size at every location and retracting from the markets that do not adhere to alstria's core investment focus. Following this strategy, alstria sold the Frankenportfolio (two assets in Nuremberg, one in Erlangen, and one in Weiterstadt), two assets in Ismaning and individual assets in Munich, Hamburg, Berlin, Leipzig, and Heilbronn. While the asset in Hamburg was legally transferred in the second quarter, the assets in Munich, Berlin, and Leipzig were transferred in the third quarter of the reporting period. The transfer of benefits and burdens of the Frankenportfolio and the assets in Ismaning and Heilbronn took place in the last quarter of fiscal year 2016.

Furthermore, alstria sold one asset in Dortmund and one in Dresden. The transfer of benefits and burdens for the Dresden asset took place on February 1, 2017. The transfer of the Dortmund asset is

---

\* Office and storage.

## Group Management Report

expected during the first quarter of 2017. In financial year 2016, alstria signed a purchase agreement for the acquisition of an asset in Berlin, which was transferred on November 1, 2016.

In summary, alstria was involved in the following transactions in 2016:

Asset	City	Sales price (EUR k) <sup>1)</sup>	Annual rent (EUR k) <sup>2)</sup>	Avg. lease length (years) <sup>2)</sup>	Signing SPA	Transfer of benefits and burdens
<b>Disposals</b>						
Landshuter Allee 174	Munich	14,000	55	0.2	June 11, 2015	June 30, 2016
Dieselstraße 18	Ditzingen	13,395	888	19.8	Aug. 31, 2015	June 25, 2016
Hofmannstraße 51	Munich	44,387	1,222	2.0	Nov. 5, 2015	June 30, 2016
Wandsbeker Chaussee 220	Hamburg	5,920	78	2.7	May 19, 2016	June 30, 2016
Taunusstraße 34–36	Munich	26,830	1,774	5.4	June 27, 2016	Aug. 31, 2016
An den Treptowers 3 <sup>3)</sup>	Berlin	228,431	13,996	2.7	July 8, 2016	Sep. 30, 2016
Ludwig-Erhard-Straße 49	Leipzig	9,450	832	1.5	Aug. 3, 2016	Sep. 30, 2016
Gutenbergstraße 1	Ismaning	14,100	1,050	6.7	Sep. 13, 2016	Dec. 31, 2016
Oskar-Messter-Straße 22–24	Ismaning	18,400	1,304	3.7	Sep. 13, 2016	Dec. 31, 2016
Bahnhofstraße 1–5	Heilbronn	33,650	2,161	5.1	Sep. 28, 2016	Nov. 30, 2016
Feldstraße 16	Weiterstadt	7,350	442	2.1	Sep. 30, 2016	Dec. 31, 2016
Nägelsbachstraße 26 / Nürnberger Straße 41	Erlangen	11,200	1,377	2.3	Oct. 11, 2016	Dec. 31, 2016
Lina-Ammon-Straße 19	Nuremberg	15,100	1,075	4.0	Oct. 11, 2016	Dec. 31, 2016
Richard-Wagner-Platz 1	Nuremberg	17,000	998	3.6	Oct. 11, 2016	Dec. 31, 2016
Max-Eyth-Straße 2 <sup>4)</sup>	Dortmund	4,200	4	1.0	Oct. 14, 2016	Feb. 28, 2017 <sup>5)</sup>
Zellescher Weg 21–25a <sup>4)</sup>	Dresden	10,500	695	1.9	Dec. 15, 2016	Feb. 1, 2017
<b>Total</b>		<b>473,913</b>	<b>27,951</b>			
<b>Acquisitions</b>						
Gasstraße 18	Hamburg	38,000	2,336	3.2	Nov. 26, 2015	Jan. 1, 2016
Tempelhofer Damm 146	Berlin	8,350	526	7.8	Aug. 25, 2016	Nov. 1, 2016
<b>Total</b>		<b>46,350</b>	<b>2,862</b>			

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

<sup>2)</sup> At the time of the transfer of benefits and burdens.

<sup>3)</sup> Share deal.

<sup>4)</sup> Balance sheet as reported under assets held for sale.

<sup>5)</sup> Expected.

### Refurbishment projects

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

#### › Momentum (Wehrhahn Center), Düsseldorf

The Momentum complex, which was built in 1985, is situated in the well-established city submarket. alstria acquired the complex, which consists of five interconnected parts, as part of a portfolio transaction. While the basements of the buildings host retail areas, the other six stories contain office space. The two underground car parks, which are situated in two of the basements, provide space for more than 500 vehicles. Since the office spaces no longer meet the current demands regarding building services and flexibility, alstria decided to fundamentally revitalize the building. This

comprises, among other improvements, the total gutting of the building down to the shell construction and the application of a new façade with a modern axis grid. These changes allow for a highly flexible and complete restructuring of the office floor plans. The new building technology corresponds to the highly flexible new design. Apart from the office areas, the new two-story entrances will be high-lighted. Partial heightening of particular building parts, more efficient building equipment, and roof terraces will heighten the lettable area.

The refurbishment, which started in March 2016, is expected to be completed by the end of 2017.

### › Bieberhaus, Hamburg

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

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

The refurbishment, which started in October 2016, is expected to be completed by mid-2018.

In 2016, alstria invested around EUR 31 m in ongoing refurbishment projects.\* Around EUR 9 m of this amount was for development projects, and the remainder was invested in value-increasing tenant-improvement measures. The main part of the 2016 capital expenditure investment was linked to the Berlin asset at Darwinstraße, the Momentum in Düsseldorf, the KASTOR TOWER in Frankfurt, and the asset at Harburger Ring in Hamburg. Within the next two years, alstria is planning to invest around EUR 100 m into its portfolio. The major single projects are the developments of the Momentum (Wehrhahn Center) in Düsseldorf and the Bieberhaus in Hamburg. This investment plan is part of alstria's ongoing asset-value-enhancement program. The volume of these investments, however, also depends on ongoing lease negotiations with existing and potential tenants.

---

\* Without Joint Venture Kaisergalerie.

## FINANCIAL ANALYSIS

Due to the takeover of alstria office Prime on October 27, 2015, the earnings position and the financial and asset position shown on the consolidated financial statement as of December 31, 2016, and December 31, 2015, are not directly comparable.

Financial year 2016 developed as expected for alstria. Its 2016 revenues of approx. EUR 203 m were slightly higher than the revenues of EUR 200 m that were forecasted in 2015. The funds from operations (FFO) amounted to EUR 116 m in the reporting period, which is in line with the forecasted level of EUR 115 m for the alstria Group.

### EARNINGS POSITION

#### Revenues

In the reporting period, revenues totalled EUR 202,663 k (2015: EUR 115,337 k), which corresponds an increase of EUR 87,326 k (or 75.7%) compared to the revenues in the previous year. This includes revenues of EUR 103,483 k from alstria office Prime. The revenues of the alstria subgroup increased by around 2.0%. The main reasons for this increase were the acquisition of new assets and the letting of vacant areas. As a result, net rental income for the overall Group amounted to EUR 179,014 k (2015: EUR 102,140 k).

#### Real estate operating expenses

Real estate operating expenses amounted to EUR 23,445 k (2015: EUR 12,774 k). Of this amount, EUR 12,329 k is attributable to the alstria office Prime subgroup. The cost ratio slightly increased from 11.1% in 2015 to 11.6% in 2016. This is mainly caused by fire-protection measures for two assets in the alstria office Prime portfolio.

#### Administrative and personnel expenses

Administrative expenses were EUR 8,464 k, an increase of EUR 2,081 k compared to financial year 2015 (EUR 6,383 k). The growth was caused by the generally higher administrative expenses due to the takeover of alstria office Prime. Personnel expenses were EUR 12,683 k for the reporting period in comparison to EUR 12,068 k for the previous year. In 2015 a one-time settlement payment of EUR 1,200 k was included in the personnel expenses. In 2016 the increase is mostly a result of taking over the employees of alstria office Prime and integrating the property management of the subgroup. The sum of the administrative and personnel expenditures corresponds to roughly 10.4% of total revenues (2015: 16.0%).

#### Other operating result

alstria's other operating result amounted to EUR -9,028 k during the reporting period (2015: EUR -154,611 k). The other operating result in 2015 was mainly influenced by the amortization of the goodwill in the amount of EUR 144,795 k; this was caused by the initial consolidation after the takeover of alstria office Prime.

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

In financial year 2016, the net result from fair value adjustments to investment properties was EUR 72,806 k, an increase of EUR 76,998 k compared to the value for financial year 2015. The growth was mainly influenced by the new, positive valuations of Darwinstraße in Berlin (EUR 24,333 k), Momentum in Düsseldorf (EUR 19,540 k), and KASTOR TOWER (EUR 17,856 k).

### Net result on disposals of investment property

In 2016, alstria was able to achieve a positive result of EUR 25,464 k from the disposal of properties. The realized disposal gains mainly resulted from the sale of the Treptowers asset in Berlin.

### Net operating result

alstria closed its financial year 2016 with a net operating result (before financing costs and taxes) of EUR 247,109 k, which compares to EUR -62,459 k for the previous year. As compared to the previous year, alstria had a higher net rental income, a higher other operating result, and a higher valuation result.

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

EUR k	2016	2015
Revenues	202,663	115,337
Net rental income	179,014	102,140
Administrative and personnel expenses	-21,147	-18,451
Other operating result	-9,028	-154,611
<b>Operating income</b>	<b>148,839</b>	<b>-70,922</b>
Net result from fair value adjustments to investment properties	72,806	-4,192
Net result from disposals of investment properties	25,464	12,655
<b>Net operating result</b>	<b>247,109</b>	<b>-62,459</b>

## Net financial result

EUR k	2016	2015	Change (%)
Interest expenses, corporate bonds	-20,496	-1,241	n/a
Interest expenses, Deutsche Office portfolio loans	-6,728	-3,969	-69.5
Interest expenses, syndicated loans	-6,723	-8,531	+21.2
Interest expenses, convertible bonds	-5,116	-4,623	-10.7
Interest expenses, other loans	-4,074	-9,013	+54.8
Interest result Schuldschein	-2,036	0	n/a
Interest result derivatives	-207	-6,650	96.9
Other interest expenses	0	-3	n/a
<b>Financial expenses</b>	<b>-45,380</b>	<b>-34,030</b>	<b>-33.4</b>
Financial income/interest income	535	128	n/a
Other financial expenses	-5,949	-9,431	+36.9
<b>Net financial result</b>	<b>-50,794</b>	<b>-43,333</b>	<b>-17.2</b>

The negative net financial result increased by EUR 7,461 k to EUR 50,794 k. Despite the fact that alstria office Prime was consolidated for the entire reporting period, financial expenses only increased by EUR 11.350 k (or 33%) to EUR 45.380 k. The reasons for this disproportionately low growth are, first, an improved debt ratio, and second, the refinancing of bonds and Schuldschein under more favourable conditions.

The “Other financial expenses” include prepayment penalties for the premature repayment of loans. For details on the new loans, also refer to the “Financial and asset position” section on page 16.

### Share of the result of joint venture companies

In 2016, alstria’s share of earnings from joint venture companies was EUR 5,480 k (2015: EUR 1,988 k), which is mainly attributable to the higher valuation of the Kaisergalerie asset in Hamburg.

### Valuation result of financial derivatives

To minimize the impact of interest-rate volatility on profit and loss, alstria uses financial derivatives in the form of caps or swaps to hedge on floating-interest-rate loans. On the balance sheet date, all the Group’s floating-interest-rate loans were hedged using such derivative financial instruments. Due to refinancing with fixed-interest bonds and the reduction of floating-interest-rate loans, the nominal value of the interest-hedging instruments decreased from EUR 1,558,499 k to EUR 504,266 k.

The net result from fair value adjustments on these financial derivatives amounted to EUR -8,101 k in 2016 (2015: EUR -6,763 k).

Due to the still-low yield curve in financial year 2016, the interest-rate derivatives were devalued by an amount of EUR 10,558 k. An opposing effect increased the valuation of the embedded derivate in relation to the convertible bond by EUR 2,727 k. The value of the embedded derivate is essentially determined by alstria’s share-price development because this influences the market value of potential

repayment obligations in case of a conversion of the convertible bond.

Further details and a tabular reconciliation can be found in section 6.6 of the consolidated financial statements.

### Consolidated net result

The consolidated net result amounted to EUR 182,376 k (2015: EUR -111,379 k) in the reporting period; hence, it increased by EUR 293,755 k.

The growth of the net result was mainly influenced by the positive result from the disposal of assets and the positive valuation of investment properties. Furthermore, the full-year consolidation of alstria office Prime has conducted to a higher operating result. A significant main driver of the previous year's negative result was the amortization of the goodwill that resulted from the first-time consolidation of alstria office Prime. As of December 31, 2015, this goodwill has been amortized in the full amount of EUR 144,795 k. Undiluted earnings per share amounted to EUR 1.16 for the reporting period (2015: EUR -1.15).

REIT-AGs are fully exempt from the German corporate income tax and trade tax. However, tax obligations can arise to a minor extent for REIT subsidiaries. Because of the takeover of alstria office Prime, companies that are not yet subject to the REIT tax exemption have been consolidated into the Group. With the transformation of alstria office Prime, its subsidiaries are now included in the tax-free REIT structure. Any hidden reserves with a significant taxable amount had to be disclosed. Hence, the Group had higher tax-payment obligations in financial year 2016 than in the previous year.



## Funds from operations

FFO amounted to EUR 121,558 k (including minority shareholders) or EUR 116,410 k (excluding minority shareholders) in 2016, compared to EUR 59,998 k (including) or EUR 59,397 k (excluding) in 2015. The FFO ratio increased to 60.0% (i.e., by 8.0 percentage points; including minority shareholders). As a result, FFO per share\* was EUR 0.79 (including minority shareholders) or EUR 0.76 (excluding minority shareholders) in financial year 2016 (2015: EUR 0.62 including minority shareholders; EUR 0.61 excluding minority shareholders). The reasons for this increase are the integration of alstria office Prime, more favourable refinancing, and synergy effects in administrative and personnel expenses.

EUR k	2016	2015
<b>Pretax income (EBT)</b>	<b>193,694</b>	<b>-110,567</b>
Net profit/loss from fair value adjustments on investment properties	-72,806	4,192
Net profit/loss from fair value adjustments on financial derivatives	8,101	6,763
Profit/loss from the disposal of investment properties	-25,464	-12,655
Fair value and other adjustments in joint venture	-3,852	-1,301
Other adjustments <sup>1)</sup>	21,885	173,566
<b>Funds from operations (FFO)<sup>2)</sup></b>	<b>121,558</b>	<b>59,998</b>
Attributable to minority shareholders	-5,148	-601
<b>Attributable to alstria office REIT-AG shareholders</b>	<b>116,410</b>	<b>59,397</b>
Maintenance and re-letting	-22,226	-16,162
<b>Adjusted funds from operations - (A)FFO<sup>3)</sup></b>	<b>94,184</b>	<b>43,235</b>
Number of shares (k) <sup>4)</sup>	153,231	96,718
FFO per share (EUR k)	0.76	0.61

<sup>1)</sup> This is noncash income or expenses plus nonrecurring effects. The main effects in financial year 2015 were the amortization of the goodwill (EUR 144,795 k), the higher legal and advisory costs that were incurred in connection with the takeover of alstria office Prime (EUR 9,765 k), and the nonrecurring effects from repayment fees for the premature termination of loans (EUR 9,162 k). The main effects in financial year 2016 were cost related to the takeover of alstria office Prime (EUR 6,686 k), the cost of sales (EUR 4,771 k) and the noncash effect from the dissolution of effective interests due to the premature repayment of loans (EUR 3,392 k).

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

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

<sup>4)</sup> The number of shares as of December 31, 2016 was 153,231,217; in 2015, the average number of shares was 96,718,329 due to the takeover of alstria office Prime.

\* This is calculated using the number of shares as of December 31, 2016, which was 153,231,217; the average number of shares in 2015 was 96,718,329.

## FINANCIAL AND ASSET POSITION

### Investment properties

The total value of investment properties at year end was EUR 2,999,099 k, compared to EUR 3,260,467 k at the beginning of the year. This decrease in investment property value is mainly the result of the disposal of 13 assets. The valuation result amounted to EUR 72,806 k, compared to EUR -4,192 k in 2015.

EUR k	
<b>Investment properties as of Dec. 31, 2015</b>	<b>3,260,467</b>
Investments	31,277
Acquisitions	9,146
Disposals	-360,500
Reclassifications	-14,097
Net loss/gain from fair value adjustments on investment properties	72,806
<b>Property portfolio as of Dec. 31, 2016</b>	<b>2,999,099</b>
Prepayment	5,967
<b>Investment properties as of Dec. 31, 2016</b>	<b>14,700</b>
Carrying amount of owner occupied properties	30,381
<b>Fair value of properties held for sale</b>	<b>3,050,147</b>
Interests in joint ventures	2,575
<b>Carrying amount of immovable assets</b>	<b>3,052,722</b>

### 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.

On February 22, 2016, the loan to finance the Herkules portfolio, with a nominal value of EUR 332 m, was repaid prematurely. The refinancing was made using proceeds from a bond that had been issued in November 2015.

On April 12, 2016, alstria issued a second unsecured, fixed-rate bond with a nominal value of EUR 500 m. This corporate bond, which matures in April 2023, bears a fixed coupon of 2.125%. The proceeds from the bond serve to refinance bank liabilities.

With the proceeds from the second bond, the Company was able to refinance further bank liabilities. On May 31, 2016, the loan agreement for the financing of the Homer portfolio (with a nominal value of EUR 333 m), which had been terminated prematurely, was repaid in total. Furthermore, as of June 30, 2016, another three loans from the alstria office Prime portfolio (with a total nominal value of EUR 129 m) were terminated prior to maturity.

In addition to the placement of the bond on May 6, 2016, the Company issued a Schuldschein (senior

## Group Management Report

unsecured debt) with a nominal value of EUR 150 m. The Schuldschein, with an average coupon of 2.07%, has an average maturity of 7.1 years. The proceeds have been used to refinance existing bank debt.

Furthermore, during the reporting period, alstria extended two loans. One loan, for a nominal amount of EUR 67 m, was extended for another eight years. The second prolongation concerns a loan with a nominal amount of EUR 56 m and a maturity of ten years. In the process of the prolongation, the margin on these two loans reduced from 1.29% to 0.84% on average.

The syndicated loan, which has existed since September 30, 2013 and which had an initial amount of EUR 544 m, was repaid prematurely on December 30, 2016. The loan had validated EUR 471 m as of December 31, 2015. In financial year 2016, alstria made further repayments of EUR 159 m.

The loan facilities in place as of December 31, 2016, are as follows:

Liabilities	Maturity	Principal amount drawn as of Dec. 31, 2016 EUR k	LTV as of Dec. 31, 2016 %	LTV cove- nant %	Principal amount drawn as of Dec. 31, 2015 EUR k
Syndicated loan #1 <sup>1)</sup>	Sep. 30, 2020	0	-	-	470,556
Syndicated loan #2 <sup>2)</sup>	Feb. 22, 2016	0	-	-	331,910
Syndicated loan #3 <sup>3)</sup>	Sep. 30, 2018	0	-	-	336,320
Loan #1 <sup>4)</sup>	June 30, 2017	0	-	-	58,868
Loan #2 <sup>4)</sup>	Dec. 31, 2018	0	-	-	53,432
Loan #3 <sup>5)</sup>	Dec. 30, 2017	0	-	-	18,507
Loan #4 <sup>6)</sup>	June 28, 2024	67,000	39.1	65.0	67,000
Loan #5	Apr. 30, 2021	58,896	49.0	65.0	60,048
Loan #6	Mar. 28, 2024	56,500	47.8	75.0	56,500
Loan #7 <sup>6)</sup>	June 30, 2026	56,000	44.0	65.0	56,000
Loan #8	July 31, 2021	15,268	50.6	60.0	15,423
<b>Total loans</b>		<b>253,664</b>	<b>44.7</b>	-	<b>1,524,564</b>
Bond (1 <sup>st</sup> tranche)	Mar. 24, 2021	500,000	-	-	500,000
Bond (2 <sup>nd</sup> tranche)	Apr. 12, 2023	500,000	-	-	-
Convertible bond	June 14, 2018	79,200	-	-	79,200
Schuldschein 10y/fixed	May 6, 2026	40,000	-	-	-
Schuldschein 4y/fixed	May 8, 2023	37,000	-	-	-
Schuldschein 7y/fixed	May 6, 2020	38,000	-	-	-
Schuldschein 7y/variable	May 8, 2023	17,500	-	-	-
Schuldschein 4y/variable	May 6, 2020	17,500	-	-	-
<b>Total</b>		<b>1,482,864</b>	<b>49.1</b>	-	<b>2,103,764</b>
<b>Net LTV</b>			<b>40.9</b>		

<sup>1)</sup> Loan agreement terminated; withdrawal occurred on December 30, 2016.

<sup>2)</sup> Loan agreement terminated; withdrawal occurred on February 22, 2016.

<sup>3)</sup> Loan agreement terminated; withdrawal occurred on May 31, 2016.

<sup>4)</sup> Loan agreement terminated; withdrawal occurred on June 30, 2016.

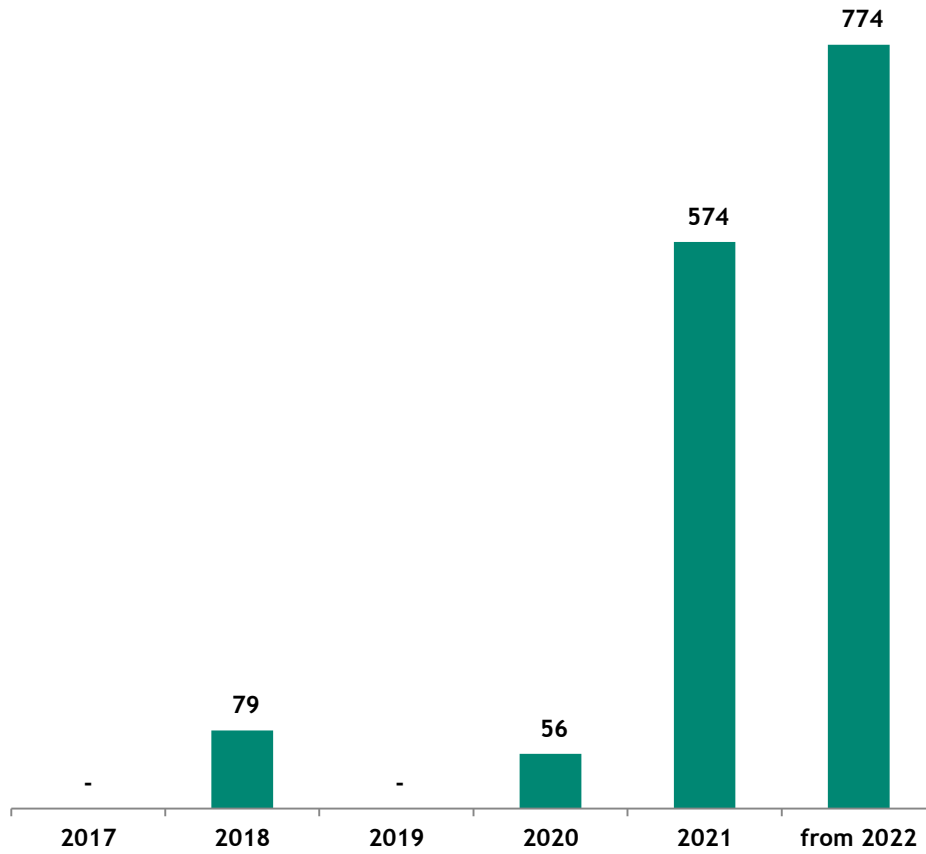
<sup>5)</sup> Loan agreement terminated; withdrawal occurred on June 30, 2016 / July 4, 2016.

<sup>6)</sup> Refinanced in the second quarter of 2016.

## Group Management Report

	Dec. 31, 2016	Dec. 31, 2015
Average term to maturity for loans/bonds/convertible bonds (years)	5.4	3.6

### Maturity profile of financial debt as of December 31, 2016<sup>1)</sup> in EUR m



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

	2016	2015
Average cost of debt (% p.a.)	2.2	2.8

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

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

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

From the issuance date of the first bond (November 24, 2015) up to the reporting date, alstria incurred two further Financial Indebtednesses to refinance existing Secured Financial Indebtedness. Additionally, in the second quarter of 2016, alstria prolonged two existing loans prior to maturity.

Furthermore, alstria needs to maintain a ratio of the Consolidated Adjusted EBITDA over Net Cash Interest of not less than 1.80 to 1.00. The initial calculation and publication of the ratio should be done after the fifth reporting date following the issuance of the bond and thus together with this 2016 annual report.

EUR k	Cumulative 2016
<b>Earnings Before Interest and Taxes (EBIT)</b>	<b>244,488</b>
Net profit/loss from fair value adjustments to investment properties	-72,806
Net profit/loss from fair value adjustments to financial derivatives	8,101
Profit/loss from the disposal of investment properties	-25,464
Other adjustments <sup>1)</sup>	11,843
Fair value and other adjustments in joint venture	-3,852
<b>Consolidated Adjusted EBITDA</b>	<b>162,310</b>
Cash interest and other financing charges	-26,631
One-off financing charges	1,617
<b>Net Cash Interest</b>	<b>-25,014</b>
<b>Consolidated Coverage Ratio (min. 1.80 to 1.00)</b>	<b>6.49</b>

<sup>1)</sup> Depreciation and amortization and nonrecurring or exceptional items. The main effects in financial year 2016 were cost related to the takeover of alstria office Prime (EUR 4,337 k) and the cost of sales (EUR 4,771 k).

As of December 31, 2016, no covenants have been breached under the loan agreements, the bond's terms and conditions, and/or the conditions of the Schuldschein.

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

## Cash position

Cash and cash equivalents decreased from EUR 460,253 k to EUR 247,489 k during the reporting period. This reduction is essentially due to refinancing measures. In financial year 2016, alstria raised new debt equal to EUR 650,000 k in the form of a bond (EUR 500,000 k) and a Schuldschein (EUR 150,000 k). In return, the repayment of loans led to a cash outflow of EUR 1,273,926 k, and the payment of dividends led to a cash outflow of EUR 76,564 k. Net cash inflow from property transactions increased to EUR 341,951 k, and a positive cash flow of EUR 120,495 k was generated from operating activities.

## Equity Metrics

Equity metrics	Dec. 31, 2016	Dec. 31, 2015	Change
Equity (EUR k)	1,728,438	1,657,664	4.3%
<i>Thereof non-controlling interests</i>	-	38,287	n/a
NAV per share (EUR)	11.28	10.64	6.0%
Equity ratio (%)	51.1	43.0	8.1 pp
G-REIT equity ratio (%) <sup>1)</sup>	56.7	49.4	7.3 pp

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

Total equity increased by EUR 70,774 k in 2016, reaching 1,728,438 k as of December 31, 2016. The net consolidated result for financial year 2016 contributed to a higher equity of EUR 182,376 k. On the other hand, dividend payments decreased the equity by EUR 76,564 k. The Non-controlling interests refer to the equity of the minority shareholders of alstria office Prime. Following the conversion of the legal form, the shares are no longer shown as equity. The capital of minority shareholders is now shown as liabilities.\*

## Capital of noncontrolling shareholders

Liabilities due to minority interests are the limited-partner capital of noncontrolling shareholders in alstria office Prime. The limited-partner capital of the minority shareholders, according to IFRS, is treated as a liability in the consolidated statements (as applicable).

## Long-term loans

Long-term loans decreased by 14.5%, from EUR 1,715,590 k as of December 31, 2015 to EUR 1,466,521 k as of December 31, 2016. The decrease resulted essentially from the repayment of the syndicated loan on December 30, 2016, as this loan had amounted to EUR 470,556 k as of December 31, 2015. Moreover, in the first half of financial year 2016, alstria completely repaid its loans for the financing of the Herkules Portfolio and the Homer Portfolio, which had amounted to EUR 668,230 k as of December 31, 2015 (EUR 343,272 k of this amount was reported under short-term loans in 2015).

\* See also the consolidated statement of changes in equity at page 54.

Three additional loans from the alstria office Prime portfolio were repaid prior to maturity; these had amounted to EUR 130,808 k as of December 31, 2015.

By contrast, in the second quarter of the reporting year, alstria issued a bond with a total nominal amount of EUR 500,000 k and placed a Schuldschein in the amount of EUR 150,000 k.

### Short-term loans

Short-term loan obligations amounted to EUR 19,330 k on the reporting date (previous year: EUR 376,402 k) and hence were EUR 357,072 k lower than in the previous year. A main reason for the high amount in 2015 was the premature repayment of a loan for the financing of the Herkules Portfolio, which was already reported under short-term loans in 2015. As of December 31, 2016, short-term loans were mainly influenced by the interest for the bonds (2016: EUR 16,408 k; 2015: EUR 1,168 k) and the Schuldschein (2016: EUR 1,738 k; 2015: EUR 0 k).

### Current liabilities

Current liabilities amounted to EUR 104,996 k (2015: EUR 448,911 k) and mainly consisted of the above-mentioned short-term loan obligations of EUR 19,330 k (2015: EUR 376,402 k) and of the current liabilities to minority shareholders of EUR 12,966 k (2015: EUR 0 k). Another EUR 20,104 k of this total was attributable to tax obligations (2015: EUR 8,687 k), which arose nearly exclusively at the level of the consolidated alstria office Prime companies. Moreover, current liabilities include trade payables (2016: EUR 4,584 k; 2015: EUR 9,415 k) and other current liabilities (2016: EUR 45,334 k; 2015: EUR 52,251 k). The other current liabilities include liabilities from the real estate transfer tax (EUR 11,869 k; 2015: EUR 13,199 k), which were incurred at the alstria office Prime level, provisions for outstanding invoices (2016: EUR 16,223 k; 2015: EUR 19,744 k), prepayment of rents (2016: EUR 2,758 k; 2015: EUR 3,960 k), and received deposits (2016: EUR 4,944 k; 2015: EUR 5,094 k).

Trade payables of the previous year's balance sheet have been adjusted in line with the presentation in the previous year's consolidated financial statement. As of December 31, 2015, an amount of EUR 20,477 k was shown. This included outstanding invoices in the amount of EUR 11,062 k, which have been reclassified under other current liabilities.

## CORPORATE MANAGEMENT

alstria proactively focuses on the following key financial performance indicators: revenues and FFO. Revenues mainly comprise rental income derived from the Company's leasing activities. FFO is the 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 Company forecasted revenues of EUR 200 m and an FFO of EUR 115 m. Due to the Company'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 Company 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 Company 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%.

---

\* For further details, please refer to page 15.



## 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:

## Group Management Report

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

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

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

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

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

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

#### Classification according to degree of impact

Expected impact in EUR m	Degree of impact
Between 0.0 and 0.6	minor
Between 0.6 and 1.5	low
Between 1.5 and 6.0	moderate
Between 6.0 and 15	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.

## Group Management Report

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

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

In 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

## Group Management Report

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, several 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 and filed the necessary application for the initiation of such 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 (see an overview of loan facilities on page 17). 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 (see the maturity profile of the loans on page 18). 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%; see the overview of loan facilities on page 17), 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. 17.3 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 GROUP DISCLOSURE**

### **EMPLOYEES**

As of December 31, 2016, alstria had 114 employees (compared to 93 on December 31, 2015). The annual average number of employees was 105 (compared to 72 in the previous year). These figures exclude Management Board members.

### **REMUNERATION REPORT**

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

Members of the Supervisory Board receive fixed remuneration.

The remuneration report (see pages 143 to 149), which contains details of the principles for the remuneration of the Management Board and Supervisory Board, forms an integral part of the audited Group Management Report.

### **CORPORATE GOVERNANCE 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)).

### **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.

### **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.

---

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

### **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 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



## DETAIL INDEX CONSOLIDATED FINANCIAL STATEMENTS

<b>CONSOLIDATED FINANCIAL STATEMENTS</b> .....	<b>48</b>
CONSOLIDATED INCOME STATEMENT .....	48
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	49
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	50
CONSOLIDATED STATEMENT OF CASH FLOWS.....	52
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	54
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	56
1. BASIS OF PRESENTATION .....	56
2. BASIS OF PREPARATION .....	56
3. SEASONAL OR ECONOMIC EFFECTS ON BUSINESS .....	75
4. SEGMENT REPORTING .....	75
5. NOTES TO THE CONSOLIDATED INCOME STATEMENT .....	75
6. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION -ASSETS.....	83
7. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION -EQUITY AND LIABILITIES .....	93
8. OTHER NOTES.....	101
9. RELATED PARTY RELATIONSHIPS .....	102
10. EARNINGS PER SHARE.....	103
11. DIVIDENDS PAID.....	104
12. EMPLOYEES .....	104
13. SHARE-BASED REMUNERATION .....	104
14. FINANCIAL RISK MANAGEMENT .....	109
15. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD .....	117
16. UTILISATION OF EXEMPTING PROVISIONS .....	118
17. DISCLOSURES PURSUANT TO THE WERTPAPIERHANDELSGESETZ [GERMAN SECURITIES TRADING ACT] AND EUROPEAN MARKET ABUSE REGULATION [MAR] .....	118
18. DECLARATION OF COMPLIANCE PURSUANT TO AKTG SECTION 161.....	120
19. AUDITORS' FEES .....	120
20. MANAGEMENT BOARD.....	120
21. SUPERVISORY BOARD .....	121
RESPONSIBILITY STATEMENT.....	123
INDEPENDENT AUDITOR'S REPORT.....	124

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

For the period from January 1 to December 31, 2016

EUR k	Notes	2016	2015
Revenues	5.1	202,663	115,337
Income less expenses from passed-on operating expenses	5.2	-204	-423
Real estate operating expenses	5.3	-23,445	-12,774
<b>Net rental income</b>		<b>179,014</b>	<b>102,140</b>
Administrative expenses	5.4	-8,464	-6,383
Personnel expenses	5.5	-12,683	-12,068
Other operating income	5.6	5,417	4,043
Other operating expenses	5.7	-14,445	-13,859
Goodwill impairment	5.7	0	-144,795
Net result from fair value adjustments to investment property	6.1	72,806	-4,192
Gain on disposal of investment property	5.8	25,464	12,655
<b>Net operating result</b>		<b>247,109</b>	<b>-62,459</b>
Net financial result	5.9	-50,794	-43,333
Share of the result of companies accounted for at equity	2.2.3	5,480	1,988
Net loss from fair value adjustments to financial derivatives	5.9;6.6	-8,101	-6,763
<b>Pretax result</b>		<b>193,694</b>	<b>-110,567</b>
Income tax expenses	5.10	-11,318	-812
<b>Consolidated profit/loss</b>		<b>182,376</b>	<b>-111,379</b>
Attributable to:			
Shareholders of alstria office REIT-AG		176,872	-110,970
Noncontrolling interests		5,504	-409
<b>Earnings per share in EUR</b>			
Basic earnings per share	10	1.16	-1.15
Diluted earnings per share	10	1.11	-1.04

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from January 1 to December 31, 2016

EUR k	Notes	2016	2015
<b>Consolidated profit for the period</b>		<b>182,376</b>	<b>-111,379</b>
Items that might be classified on the income statement in a future period:			
Valuation cash flow hedges	6.6	0	-444
Reclassification from cash flow hedging reserve	6.6	270	3,269
<b>Other comprehensive income for the period</b>		<b>270</b>	<b>2,825</b>
<b>Total comprehensive income for the period</b>		<b>182,646</b>	<b>-108,554</b>
<b>Total comprehensive income attributable to:</b>			
Shareholders		177,142	-108,145
Noncontrolling interest		5,504	-409

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016

ASSETS				
EUR k	Notes	2016	2015	
<b>Noncurrent assets</b>				
Investment property	6.1	2,999,099	3,260,467	
Equity-accounted investments	6.2	30,381	23,900	
Property, plant, and equipment	6.3	6,858	5,161	
Intangible assets	6.4	329	607	
Financial assets	6.5	34,803	0	
Derivatives	6.6	109	8,462	
<b>Total noncurrent assets</b>		<b>3,071,579</b>	<b>3,298,597</b>	
<b>Current assets</b>				
Trade receivables	6.7	7,257	12,578	
Accounts receivable from joint ventures		5	0	
Income tax receivables		25	226	
Other receivables	6.7	41,578	9,783	
Cash and cash equivalents	6.8	247,489	460,253	
<i>thereof restricted</i>		0	32,036	
Assets held for sale	6.9	14,700	69,143	
<b>Total current assets</b>		<b>311,054</b>	<b>551,983</b>	
<b>Total assets</b>		<b>3,382,633</b>	<b>3,850,580</b>	

## Consolidated Financial Statements

EUR k	Notes	EQUITY AND LIABILITIES	
		2016	2015
<b>Equity</b>	7.1		
Share capital		153,231	152,164
Capital surplus		1,434,812	1,499,477
Hedging reserve		0	-270
Retained earnings		140,395	-31,994
<b>Equity attributable to owners of the parent company</b>		<b>1,728,438</b>	<b>1,619,377</b>
Noncontrolling interests	7.2	0	38,287
<b>Total equity</b>		<b>1,728,438</b>	<b>1,657,664</b>
<b>Noncurrent liabilities</b>			
Limited partnership capital noncontrolling interests	7.2	58,458	0
Long-term loans and bonds, net of current portion	7.3	1,466,521	1,715,590
Derivatives	6.6	20,099	23,208
Other provisions	7.4	1,313	3,221
Other liabilities	7.5	2,808	1,854
Deferred tax liabilities	5.10; 7.6	0	132
<b>Total noncurrent liabilities</b>		<b>1,549,199</b>	<b>1,744,005</b>
<b>Current liabilities</b>			
Limited partnership capital noncontrolling interests	7.2	12,966	0
Short-term loans	7.3	19,330	376,402
Trade payables	7.5	4,584	9,415
Profit participation rights	5.5; 13.2	421	362
Income tax liabilities	7.6	20,104	8,687
Other provisions	7.4	2,257	1,794
Other current liabilities	7.5	45,334	52,251
<b>Total current liabilities</b>		<b>104,996</b>	<b>448,911</b>
<b>Total liabilities</b>		<b>1,654,195</b>	<b>2,192,916</b>
<b>Total equity and liabilities</b>		<b>3,382,633</b>	<b>3,850,580</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ending December 31, 2016

EUR k	Notes	2016	2015
<b>1. Cash flows from operating activities</b>			
Consolidated profit or loss for the period		182,376	-111,379
Interest income	5.9	-535	-128
Interest expense	5.9	51,329	43,461
Result from income taxes	5.10	11,318	812
Unrealized valuation movements		-69,947	8,952
Impairment of goodwill	6.4	0	144,795
Other noncash income (-)/expenses (+)	8.3	494	2,329
Gain (-)/loss (+) on disposal of investment properties	5.8	-25,464	-12,654
Depreciation and impairment of fixed assets (+)	6.3;6.4	678	426
Increase (-)/decrease (+) in trade receivables and other assets not attributed to investing or financing activities		4,202	2,642
Increase (+)/decrease (-) in trade payables and other liabilities not attributed to investing or financing activities		-7,293	1,916
<b>Cash generated from operations</b>		<b>147,158</b>	<b>81,172</b>
Interest received		64	128
Interest paid		-26,695	-35,559
Income taxes paid		-32	-110
<b>Net cash generated from operating activities</b>		<b>120,495</b>	<b>45,631</b>
<b>2. Cash flows from investing activities</b>			
Acquisition of investment properties		-43,740	-78,531
Proceeds from the sale of investment properties		426,764	80,698
Payment of transaction cost in relation to the sale of investment properties		-4,771	-1,980
Acquisition of other property, plants, and equipment		-499	-142
Proceeds from the equity release of interests in joint ventures		0	12,636
Payments for capital contribution in affiliates		-1,000	0
Payments for investment in financial assets		-34,803	0
Net cash due to business combination		0	116,029
<b>Net cash generated from investing activities</b>		<b>341,951</b>	<b>128,710</b>

## Consolidated Financial Statements

EUR k	Notes	2016	2015
<b>3. Cash flows from financing activities</b>			
Cash received from cash equity contributions	7.1	34,803	102,725
Payments of transaction costs for capital contributions in cash and in kind	7.1	0	-2,336
Payments for the acquisition of minority interests	7.1	-113	0
Proceeds from the issuing of a 'Schuldschein'	7.3	150,000	0
Proceeds from the issuing of a corporate bond	7.3	500,000	500,000
Payments of dividends	11	-76,564	-43,470
Payments due to the redemption of bonds and borrowings		-1,273,926	-292,512
Payments of transaction costs for taking out loans		-6,817	-5,899
Payments for the termination/change of financial derivatives		-2,593	-35,741
<b>Net cash used in/generated from financing activities</b>		<b>-675,210</b>	<b>222,767</b>
<b>4. Cash and cash equivalents at the end of the period</b>			
Change in cash and cash equivalents (subtotal of 1 to 3)		-212,764	397,108
Cash and cash equivalents at the beginning of the period		460,253	63,145
<b>Cash and cash equivalents at the end of the period</b> <i>thereof restricted: EUR 0 k;</i> <i>previous year: EUR 32,036 k</i>	6.8	<b>247,489</b>	<b>460,253</b>

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from January 1 to December 31, 2016

EUR k	Notes	Share capital	Capital surplus	Hedging reserve	Retained earnings	Equity attributable to the alstria shareholders	Noncontrolling interests	Total equity
As of Jan. 1, 2016		152,164	1,499,477	-270	-31,994	1,619,377	38,287	1,657,664
<b>Changes in the financial year 2016</b>								
Consolidated profit		0	0	0	176,872	176,872	5,504	182,376
Other comprehensive income		0	0	270	0	270	0	270
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>270</b>	<b>176,872</b>	<b>177,142</b>	<b>5,504</b>	<b>182,646</b>
Payments of dividends	11	0	-76,564	0	0	-76,564	0	-76,564
Proceeds from shares issued against contribution in kind	7.1	964	10,847	0	0	11,811	-11,811	0
Change of minority interest share within equity due to the sale of minority shares	7.1	0	0	0	0	0	34,803	34,803
Change of minority interest share within equity due to the purchase of minority shares	7.1	0	0	0	0	0	-113	-113
Share-based remuneration (convertible participation rights)	5.5; 13.2	0	949	0	0	949	0	949
Conversion of convertible participation rights	13.2	103	103	0	0	206	0	206
Conversion of legal form of minority interests to a limited partnership	7.2	0	0	0	-4,483	-4,483	-66,670	-71,154
<b>As of Dec. 31, 2016</b>	<b>7.1</b>	<b>153,231</b>	<b>1,434,812</b>	<b>0</b>	<b>140,395</b>	<b>1,728,438</b>	<b>0</b>	<b>1,728,438</b>



## Consolidated Financial Statements

For the period from January 1 to December 31, 2015

EUR k	Notes	Share capital	Capital surplus	Hedging reserve	Retained earnings	Equity attributable to the alstria shareholders	Noncontrolling interests	Total equity
As of Jan. 1, 2015		79,018	691,693	-3,095	78,977	846,593	0	846,593
<b>Changes in the financial year 2015</b>								
Consolidated profit		0	0	0	-110,970	-110,970	-409	-111,379
Other comprehensive income		0	0	2,825	0	2,825	0	2,825
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>2,825</b>	<b>-110,970</b>	<b>-108,145</b>	<b>-409</b>	<b>-108,554</b>
Noncontrolling interest from Deutsche Office takeover		0	0	0	0	0	38,696	38,696
Payments of dividends	11	0	-43,470	0	0	-43,470	0	-43,470
Proceeds from shares issued against contribution in cash	7.1	7,903	94,822	0	0	102,725	0	102,725
Proceeds from shares issued against contribution in kind	7.1	65,067	757,616	0	0	822,683	0	822,683
Transaction costs of issuing shares	7.1	0	-2,336	0	0	-2,336	0	-2,336
Share-based remuneration (convertible participation rights)	5.5; 3.2	0	752	0	0	752	0	752
Conversion of convertible participation rights	13.2	156	156	0	0	312	0	312
Conversion of convertible bonds	7.1	20	243	0	0	263	0	263
<b>As of Dec. 31, 2015</b>	<b>7.1</b>	<b>152,164</b>	<b>1,499,477</b>	<b>-270</b>	<b>-31,994</b>	<b>1,619,377</b>	<b>38,287</b>	<b>1,657,664</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

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

The accompanying consolidated financial statements present the operations of alstria office REIT-AG and its subsidiaries (the Group or alstria). They have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and with the additional requirements set forth in Section 315a (1) of the German Commercial Code (HGB). The financial statements are also in accordance with IFRS, as issued by the International Accounting Standards Board (IASB). The consolidated financial statements were authorized for issue by the managing board on February 21, 2017.

In the previous business 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 in 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 the Deutsche Office AG, resulting in the first-time consolidation of Deutsche Office AG on October 27, 2015. With an 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 KG" or "alstria office Prime," if the subgroup of alstria office Prime KG is designated).

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

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

The financial year ends on December 31 of each calendar year. The consolidated financial statements presented in this report were prepared for the period from January 1 to December 31, 2016.

### 2. BASIS OF PREPARATION

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

## Consolidated Financial Statements

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

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

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

Due to the merger with alstria office Prime KG, which was at that time still under the company name Deutsche Office AG, implemented on October 27, 2015, Group data for 2016 are only comparable to a limited extent with figures posted for 2015.

### 2.1 Changes in accounting policies and mandatory disclosures

#### Effects resulting from new and amended IFRSs

The Company adopted the following new standards and amendments to standards for the first time for the financial year beginning January 1, 2016:

EU Endorsement	Standard/interpretation	Content	Applicable for f/y beginning on/after	Effects
Nov. 24, 2015	Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations	Jan. 1, 2016	None
Sept. 22, 2016	Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception	Jan. 1, 2016	None
Dec. 18, 2015	Amendments to IAS 1	Disclosure initiative	Jan. 1, 2016	Notes disclosure
Dec. 02, 2015	Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation	Jan. 1, 2016	None
Nov. 23, 2015	Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	Jan. 1, 2016	None
Dec. 17, 2014	Amendments to IAS 19	Defined benefit plans: employee contributions (Amendments to IAS 19, 'Employee Benefits')	Feb. 1, 2015	None
Dec. 18, 2015	Amendments to IAS 27	Equity method in separate financial statements	Jan. 1, 2016	None
Dec. 17, 2014	Annual Improvements to IFRSs	Improvements to IFRSs 2010-2012	Feb. 1, 2015	None
Dec. 15, 2015	Annual Improvements to IFRSs	Improvements to IFRSs 2012-2014	Jan. 1, 2016	None

The amendments to IAS 1 aim to clarify perceived impediments to preparers exercising their judgement in presenting financial reports. In doing so, assessments of the materiality, presentation, and disclosures are to be performed in such a way that the relevance of the information for the final addressee is retained and not obscured by a sprawling generic repetition by standard quotes and redundancies by the presentation of the same facts at different points in the annual report. The Group has implemented these requirements.

## Consolidated Financial Statements

Furthermore, there are no significant impacts on financial reporting from the listed amendments and annual improvement projects.

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

EU Endorsement	Standard/interpretation	Content	Applicable for f/y beginning on/after	Effects
Nov. 22, 2016	IFRS 9	New standard "Financial instruments: classification and measurement"	Jan. 1, 2018	No material effects
Standard shall not be endorsed	IFRS 14	New standard "Regulatory deferral accounts"	Jan. 1, 2016	n/a
Sep. 22, 2016	IFRS 15	New standard "Revenue from contracts with customers"	Jan. 1, 2018	Notes disclosure
Not yet endorsed	IFRS 16	New standard "Leases"	Jan. 1, 2019	No material effects
Not yet endorsed	Amendments to IFRS 2	Classification and measurement of share-based payment transactions	Jan. 1, 2018	No material effects
Not yet endorsed	Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	Jan. 1, 2018	No material effects
Not yet endorsed	Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	postponed	Under review
Not yet endorsed	Amendments to IAS 7	Disclosure initiative	Jan. 1, 2017	Notes disclosure
Not yet endorsed	Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	Jan. 1, 2017	Under review
Not yet endorsed	Amendments to IAS 40	Transfers of investment property	Jan. 1, 2018	Under review
Not yet endorsed	Annual Improvements to IFRSs	Improvements to IFRSs 2014-2016	Jan. 1, 2017/ Jan. 1, 2018	None
Not yet endorsed	IFRIC 22	Foreign currency transactions and advance consideration	Jan. 1, 2018	None
clarifications	IFRS 15	Clarifications issued for IFRS 15, "Revenue from Contracts with Customers"	Jan. 1, 2018	None

The Group has not yet assessed the full impact of IFRS 9 on its reported figures. The classification and measurement of the currently used financial instruments is not expected to be affected by IFRS 9. The provisions on the revenues from contracts with customers, which were recast in accordance with IFRS 15, in all likelihood do not have any significant impact on the presentation of the Group's revenues. The same applies to the first-time adoption of IFRS 16. The standard will not have any material effects on the Company's consolidated financial statements because the Company primarily has commercial property lease agreements for its investment property portfolio and thus mainly acts as a lessor. The scope of transactions in which the Company is engaged as a lessee is immaterial.

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

The Group did not adopt any new or amended standards or interpretations early in 2016.

## 2.2 Basis of consolidation

### 2.2.1 Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

## Consolidated Financial Statements

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

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

### **b) Business combinations**

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

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

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

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

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

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

## Consolidated Financial Statements

ventures), are accounted for using the equity method.

### 2.2.2 Fully consolidated subsidiaries

The Group of consolidated companies, including alstria office REIT-AG, comprised 69 companies in the financial year (2015: 93). As of the balance-sheet date, 63 companies (prior year balance-sheet date: 67 companies) existed. In addition, two joint ventures and a noncontrolling interest acquired in December 2016 have been accounted for using the equity method.

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

No.	Company	Head- quarters	Equity interest in %	Held by No.	Business activity
1	alstria office REIT-AG	Hamburg	Parent company		Asset-management; holding
2	alstria Bamlerstraße GP GmbH	Hamburg	100.0	1	General partner
3	alstria Gänsemarkt Drehbahn GP GmbH	Hamburg	100.0	1	General partner
4	alstria Englische Planke GP GmbH	Hamburg	100.0	1	General partner
5	alstria Halberstädter Straße GP GmbH	Hamburg	100.0	1	General partner
6	alstria Hamburger Straße 43 GP GmbH	Hamburg	100.0	1	General partner
7	alstria Ludwig-Erhard-Straße GP GmbH	Hamburg	100.0	1	General partner
8	alstria Mannheim/Wiesbaden GP GmbH	Hamburg	100.0	1	General partner
9	alstria Portfolio 1 GP GmbH	Hamburg	100.0	1	General partner
10	alstria Steinstraße 5 GP GmbH	Hamburg	100.0	1	General partner
11	alstria solutions GmbH	Hamburg	100.0	1	Service company
12	alstria office Bamlerstraße GmbH & Co. KG	Hamburg	100.0	1	Own property
13	alstria office Gänsemarkt Drehbahn GmbH & Co. KG	Hamburg	100.0	1	Own property
14	alstria office Englische Planke GmbH & Co. KG	Hamburg	100.0	1	Own property
15	alstria office Halberstädter Straße GmbH & Co. KG	Hamburg	100.0	1	No activity
16	alstria office Hamburger Straße 43 GmbH & Co. KG	Hamburg	100.0	1	Own property
17	alstria office Insterburger Straße GmbH & Co. KG	Hamburg	100.0	1	Own property
18	alstria office Ludwig-Erhard-Straße GmbH & Co. KG	1) Hamburg	100.0	1	Own property
19	alstria office Mannheim/Wiesbaden GmbH & Co. KG	Hamburg	100.0	1	Own property
20	alstria Prime Portfolio GP GmbH	2) Hamburg	100.0	1	General partner
21	alstria Prime Portfolio 2 GP GmbH	2) Hamburg	100.0	1	General partner
22	alstria office Steinstraße 5 GmbH & Co. KG	Hamburg	100.0	1	Own property
23	beehive GmbH & Co. KG	Hamburg	100.0	1	Service company
24	alstria office Prime Portfolio GmbH & Co. KG (former DO Deutsche Office AG)	Hamburg	90.9	1	Intermediate holding
25	German Acorn PortfolioCo I GmbH	Cologne	90.9	24	Intermediate holding
26	GA Regionen PortfolioCo I GmbH	3) Cologne	90.9	25	Own property
27	GA Objekt 2001 Beteiligungs GmbH	Cologne	90.9	25	Own property
28	GA Objekt 2003 Beteiligungs GmbH	Cologne	90.9	25	Own property
29	GA Objekt 2005 Beteiligungs GmbH	Cologne	90.9	25	Own property

## Consolidated Financial Statements

No.	Company		Head- quarters	Equity interest in %	Held by No.	Business activity
30	GA Objekt 2007 Beteiligungs GmbH		Cologne	90.9	25	Own property
31	GA Objekt 2008 Beteiligungs GmbH		Cologne	90.9	25	Own property
32	GA Objekt 2009 Beteiligungs GmbH	3)	Cologne	90.9	25	Own property
33	GA Objekt 2010 Beteiligungs GmbH	3)	Cologne	90.9	25	Own property
34	GA Objekt 2011 Beteiligungs GmbH		Cologne	90.9	25	Own property
35	GA Objekt 2012 Beteiligungs GmbH	4)	Cologne	90.9	25	Own property
36	GA Fixtures and Facility Management PortfolioCo I GmbH		Cologne	90.9	25	Own property
37	German Acorn PortfolioCo II GmbH		Cologne	90.9	24	Intermediate holding
38	GA 5. Objekt 1004 Beteiligungs GmbH		Cologne	90.9	37	Own property
39	GA 6. Objekt 1007 Beteiligungs GmbH		Cologne	90.9	37	Own property
40	GA 7. Objekt 1008 Beteiligungs GmbH		Cologne	90.9	37	Own property
41	GA 8. Objekt 1011 Beteiligungs GmbH	3)	Cologne	90.9	37	Own property
42	GA 10. Objekt 1014 Beteiligungs GmbH		Cologne	90.9	37	Own property
43	GA 11. Objekt 1015 Beteiligungs GmbH		Cologne	90.9	37	Own property
44	GA 12. Objekt 1016 Beteiligungs GmbH		Cologne	90.9	37	Own property
45	GA 13. Objekt 1019 Beteiligungs GmbH		Cologne	90.9	37	Own property
46	GA 14. Objekt 1020 Beteiligungs GmbH		Cologne	90.9	37	Own property
47	GA 15. Objekt 1021 Beteiligungs GmbH		Cologne	90.9	37	Own property
48	GA 17. Objekt 1024 Beteiligungs GmbH		Cologne	90.9	37	Own property
49	GA 18. Objekt 1027 Beteiligungs GmbH		Cologne	90.9	37	Own property
50	GA 19. Objekt 1028 Beteiligungs GmbH		Cologne	90.9	37	Own property
51	GA 20. Objekt 1030 Beteiligungs GmbH		Cologne	90.9	37	Own property
52	GA 21. Objekt 1034 Beteiligungs GmbH		Cologne	90.9	37	Own property
53	GA 23. Objekt 1036 Beteiligungs GmbH		Cologne	90.9	37	Own property
54	GA 24. Objekt 1037 Beteiligungs GmbH		Cologne	90.9	37	Own property
55	GA 25. Objekt 1038 Beteiligungs GmbH		Cologne	90.9	37	Own property
56	GA 26. Objekt 1039 Beteiligungs GmbH		Cologne	90.9	37	Own property
57	GA 27. Objekt 1040 Beteiligungs GmbH		Cologne	90.9	37	Own property
58	GA 28. Objekt 1042 Beteiligungs GmbH		Cologne	90.9	37	Own property
59	GA 29. Objekt 1043 Beteiligungs GmbH		Cologne	90.9	37	Own property
60	GA 32. Objekt 1046 Beteiligungs GmbH		Cologne	90.9	37	Own property
61	GA 34. Objekt 1048 Beteiligungs GmbH		Cologne	90.9	37	Own property
62	GA 35. Objekt 1049 Beteiligungs GmbH		Cologne	90.9	37	Own property
63	GA Region Nord GmbH		Cologne	90.9	37	Own property
64	GA Region Süd GmbH		Cologne	90.9	37	Own property
65	GA Region Mitte GmbH		Cologne	90.9	37	Own property
66	GA Fixtures and Facility Management PortfolioCo II GmbH		Cologne	90.9	37	Own property
67	DO PortfolioCo III GmbH		Cologne	90.9	24	Intermediate holding
68	DO Objekt 3001 Stuttgart GmbH		Cologne	90.9	67	Own property
69	DO Fixtures and Facility Management PortfolioCo III GmbH		Cologne	90.9	67	Own property

1) Terminated as a result of a step-up merger to limited partner in 2016.

2) Established in December 2016.

3) Terminated as a result of a step-up merger in 2016.

4) Disposal in 2016.



## Consolidated Financial Statements

Alongside alstria office REIT-AG, the consolidation embraced companies in which the Company directly or indirectly held the majority of voting rights. The consolidated group at balance-sheet date consisted of the Company, 22 domestic subsidiaries, and 40 domestic second-tier subsidiaries. Two subsidiaries (limited partner companies) were established in the 2016 business year. Five subsidiaries were terminated as a result of a step-up merger, and one subsidiary was sold.

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

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

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

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

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

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

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

## Consolidated Financial Statements

There have been no further changes to the consolidated Group in the 2016 financial year in comparison to the consolidated financial statements as of December 31, 2015. All Group companies are property-management, holding, or general partner companies.

### 2.2.3 Interests in joint ventures and noncontrolling interests

The Group holds interests in two joint ventures that had a carrying amount of EUR 29,401 k at the end of the reporting period.

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

Name of joint venture	Principal activity	Place of incorporation and business	Proportion of ownership, interest and voting rights held by the Group	
			Dec. 31, 2016 (%)	Dec. 31, 2015 (%)
Alstria IV. Hamburgische Grundbesitz GmbH & Co. KG	Hold and manage of real estate	Hamburg, Germany	49.0	49.0
Alte Post General Partner GmbH i.L. n/a		Oststeinbek, Germany	49.0	49.0

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

The following table provides the aggregated information of joint ventures that are not individual material:

EUR k	2016	2015
The Group's share of profit (loss) from continuing operations	5,500	1,988
<b>The Group's share of total comprehensive income</b>	<b>5,500</b>	<b>1,988</b>

EUR k	Dec. 31, 2016	Dec. 31, 2015
Aggregate carrying amount of the Group's interests in these joint ventures	29,401	23,900

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

Furthermore, alstria holds a noncontrolling interest in an affiliate in an amount of EUR 980 k. The company was acquired in the 2016 business year and is considered immaterial. Its business is the investment in innovative real estate technology concepts. The company recorded a loss of EUR 20 k in the reporting period.

### 2.3 Key judgments and estimates

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

#### 2.3.1 Judgements

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

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

#### 2.3.2 Estimates and assumptions

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

- determine the fair value of investment property (see section 6.1),
- determine the fair value of derivative financial instruments, including the embedded derivative (see section 6.6),
- determine the fair value of virtual shares granted to management (see section 13.1),
- determine the fair value of limited partnership capital of noncontrolling interests (see section 7.2),
- determine the fair value of other provisions (see section 7.4), and
- determine the fair value of convertible profit participation certificates (see section 13.2).

## Consolidated Financial Statements

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

EUR k	Dec. 31, 2016	Dec. 31, 2015
Investment property and properties held for sale excluding prepayments made	3,013,799	3,289,705
Positive fair values of derivatives	114	8,462
Negative fair values of derivatives	20,099	23,208
Limited partnership capital of noncontrolling interests	71,424	0
Other provisions	3,570	5,014
Valuation of convertible profit participation rights and virtual shares	-2,069	-3,428

### 2.4 Summary of significant accounting policies

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

#### Fair value measurement

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

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

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

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

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

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

Fair value is not always available as a market price. It often must be determined based on various valuation parameters. In addition, for financial-reporting purposes, fair value measurements are

categorized as Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

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

### **Investment property**

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

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

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

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

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

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

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

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

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

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

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

External real estate experts conducted the valuation of investment property at fair value on December 31, 2016 – as of last year – according to internationally accepted valuation methods in accordance with IFRS using the “hardcore-and-top-slice” method. The fair value measurement was performed by accredited, external, and independent experts (CBRE GmbH, Frankfurt am Main, Germany, and Colliers International UK Plc., London). The fair value of the investment properties held by alstria office Prime were determined using a different valuation method in the previous year. A DCF-based evaluation method was used. The change in the valuation method did not have any impact on the consolidated financial statements because both methods lead to the same valuation result.

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

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

## Consolidated Financial Statements

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

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

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

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

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

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

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

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

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its

disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

### **Assets held for sale**

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

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

### **Leases**

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

### ***Operating leases***

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

### **Revenue and expense recognition**

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

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

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



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

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

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

#### **Income taxes**

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

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

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

#### **Earnings per share**

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

#### **Impairments of assets**

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

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

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

Property, plants, and equipment are stated at cost less the accumulated depreciation and accumulated impairment losses. Such costs include replacement costs as part of the plant and equipment when that cost is incurred if the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss as incurred.

The depreciation of plant and equipment is calculated on a straight-line basis over the useful life of the asset (three to 22 years). The useful life of owner-occupied property is estimated at 33 to 50 years. While the building is depreciated on a scheduled basis, the land is not subject to depreciation.

### **Intangible assets**

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

### **Financial instruments**

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

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

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

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

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

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

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

Cash and cash equivalents are measured at cost.

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

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

***Loans and receivables***

Financial assets classified as loans and receivables are measured at amortized cost using the effective-interest method less any impairment losses. The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts. Allowances on a portfolio basis are not made.

***Financial liabilities***

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

***Derivative financial instruments***

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

***Cash flow hedges***

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

***Other Hedges***

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

### Provisions

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

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

### Share-based payments

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

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

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

Cash-settled liability awards relate to virtual shares granted to the management board. The virtual shares are measured at each balance-sheet date and are accounted for as provisions. The proportional expense incurred in the period comprises the addition to and reversal of the provision between two reporting dates and the dividend paid during the respective period. This valuation requires the Company to make estimates about certain parameters, and hence, they are subject to uncertainty. The fair value of the virtual shares granted is allocated to the vesting period subject to the terms of the underlying share-based incentive plan. The resulting personnel expenses incurred an addition to provisions of EUR 1,001 k (December 31, 2015: EUR 2,616 k) and a provision of EUR 2,890 k, as reported in the consolidated financial statements as of December 31, 2016 (December 31, 2015: EUR 3,470 k).

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

### 3. SEASONAL OR ECONOMIC EFFECTS ON BUSINESS

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

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

### 4. SEGMENT REPORTING

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

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

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

A larger number of tenants generate revenues. Total revenues amount to EUR 202,663 k (2015: EUR 115,337 k), of which EUR 26,192 k (2015: EUR 28,387 k) and EUR 23,098 k (2015: EUR 15,656 k) relate to leases to the Group's two largest customers. No other single customer has either in the 2015 or 2016 financial year contributed 10% or more to the consolidated revenues.

## 5. NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 5.1 Revenues

EUR k	2016	2015
Revenues from investment properties	202,663	115,337

Revenues from investment properties are mainly comprised of rental income from investment properties. The rental income includes effects totaling EUR 1,175 k (2015: EUR 423 k) are attributable to rent-free periods.

If the business combination had taken place by January 1, 2015, the rental income from investment properties would have amounted to EUR 203,863 k.

Rental income from property leases contains variable rental income amounting to EUR 5,014 k (2015: 844 k). These are rental agreements in which the rental payments are linked to the operating results of the tenants.

## Consolidated Financial Statements

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

EUR k	2016	2015
Income from passed-on operating expenses	36,349	18,652
Income from passed-on operating expenses related to the prior years	1,799	564
	<b>38,148</b>	<b>19,216</b>
Expenses from passed-on operating expenses	-36,349	-18,710
Expenses from passed-on operating expenses related to the prior years	-2,003	-929
	<b>-38,352</b>	<b>-19,639</b>
<b>Income less expenses from passed-on operating expenses</b>	<b>-204</b>	<b>-423</b>

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

### 5.3 Real estate operating expenses

EUR k	2016	2015
Maintenance and refurbishment	8,056	4,796
Vacancy costs	7,950	4,689
Ongoing repairs	4,357	1,605
Rent expenses	549	0
Facility management costs	419	0
Legal and advisory fees	385	450
Insurance expenses	308	168
Electricity costs	224	0
Property management	151	543
Taxes on land and buildings	127	101
Nondeductable VAT	97	0
Other expenses	822	422
	<b>23,445</b>	<b>12,774</b>

## Consolidated Financial Statements

### 5.4 Administrative expenses

EUR k	2016	2015
Legal and consulting fees	2,425	2,514
Communication and marketing	734	465
Depreciation	678	426
Audit fee (audit and audit-related services)	634	568
Travel expenses	487	446
IT maintenance	375	195
Supervisory Board compensation	347	353
Recruitment	300	161
Leasing costs	264	214
Insurances	259	160
Office area costs	232	170
Contributions	126	87
Training & workshops	122	76
Donations	76	78
Other	1,405	470
	<b>8.464</b>	<b>6,383</b>

### 5.5 Personnel expenses

EUR k	2016	2015
Salaries and wages	6,717	4,826
Social insurance contribution	1,088	730
Bonuses	2,346	1,679
Severance expenses	0	1,200
Expenses for share-based compensation	2,069	3,428
<i>thereof relating to virtual shares</i>	<i>1,001</i>	<i>2,616</i>
<i>thereof relating to the convertible profit participation certificates</i>	<i>1,068</i>	<i>812</i>
Amounts for retirement provisions and disability Management Board	144	203
Other	319	2
	<b>12,683</b>	<b>12,068</b>

The increase in salaries and wages, social insurance contribution, and bonuses is the result of the full-year inclusion of alstria office Prime in the consolidated financial statements. Share-based payments and severance costs were lower than in the previous year. Regarding balance, this resulted in a slight increase in personnel expenses.

The severance expenses in the 2015 business year resulted from the socially acceptable termination of employment relationships in the course of the integration of alstria office Prime.

Convertible profit participation rights granted to employees do not only grant the right to a conversion when the conditions apply but to an annual payment equivalent to the dividend amount paid out per

## Consolidated Financial Statements

share. Therefore, expenses for share-based compensation resulting from the convertible profit participation rights must be accounted for in equity (for the conversion right) and in liabilities (for the dividend entitlement). Of the total expenses related to the profit participation rights – which amounted to EUR 1,068 k – EUR 949 k were recognized in equity (2015: EUR 752 k), while EUR 119 k were recorded as an item in liabilities (2015: EUR 60 k).

The employer's contribution to statutory pension insurance, included in wages and salaries, amount to EUR 559 k for the 2016 financial year.

On average, the Group employed 105 employees in 2016 (2015: 72).

### 5.6 Other operating income

EUR k	2016	2015
Compensation payments and other recharges	2,001	1,026
Income from the reversal of accrued liabilities	1,432	1,107
Income from the reversal of provisions in relation to rental guarantees	931	882
Refunded property tax from previous years	345	0
Property management services	165	144
Payments on provisions on doubtful debts	43	0
Compensation for damages	0	120
Other	500	764
	<b>5,417</b>	<b>4,043</b>

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

An explanation for the reversal of provisions for rental guarantees can be found in Note 7.4.

### 5.7 Other operating expenses and goodwill impairment

#### Other operating expenses

EUR k	2016	2015
Property disposal costs	4,771	0
Transaction costs alstria office Prime takeover	4,337	9,765
Impairment of operating costs receivables	2,214	1,253
Impairment on trade receivables	176	363
Rating expenses	0	975
Legal and advisory fees	0	300
Land tax	0	292
Remaining other operating expenses	2,947	911
	<b>14,445</b>	<b>13,859</b>



## Consolidated Financial Statements

Other operating expenses are at the previous year's level. Though the consequential costs resulting from the takeover of the Prime Portfolio declined significantly, there was a considerable amount of additional costs resulting from the high volume of property disposals. In the previous year, property disposal costs of EUR 689 k were shown under other administrative expenses. Because the costs of disposal are not allocated to the Group's general organizational expenses, they were reclassified from other administrative expenses to other operating expenses starting in the 2016 financial year.

The transaction costs of the takeover in the reporting period are essentially expenses for legal advice and confirmation services for the conversion implementation of the acquired companies' legal form.

Impairment on operating costs receivables relate to property operating costs for the years 2014 and 2015, which were chargeable to the tenant and, finally, could not be collected.

Under rating expenses in 2015, the onetime costs of obtaining a credit classification (issuer rating) of the Company were recorded.

The remaining other operating expenses include EUR 2.5 m donations made in the year under review for the promotion of charitable purposes.

Impairment on trade mainly relates to tenants subject to insolvency or eviction proceedings. The item also includes valuation allowances related to disputed invoicing of ancillary costs.

### Goodwill impairment

The amortization of goodwill in the previous year amounting to EUR 144,795 k relates to goodwill from the business combination with alstria office Prime (formerly Deutsche Office) in 2015.

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

EUR k	2016	2015
Proceeds from the disposal of investment property	459,213	159,350
Carrying amount of investment property disposed	-433,749	-146,695
	25,464	12,655

The total loss from the disposal of objects and portfolios sold below their carrying value amounted to EUR 7,952 k in 2016 and EUR 846 k in 2015.

## Consolidated Financial Statements

### 5.9 Financial and valuation result

The financial result breaks down as follows:

EUR k	2016	2015
<b>Income from financial instruments</b>	<b>535</b>	<b>128</b>
Interest expenses, corporate bond	-20,496	-1,241
Interest expenses, loan Deutsche Office Portfolio	-6,728	-3,969
Interest expenses, syndicated loan alstria	-6,723	-8,531
Interest expenses, convertible bond	-5,116	-4,623
Interest expenses, other loans	-4,074	-9,013
Interest result "Schuldschein"	-2,036	0
Interest result derivatives	-207	-6,650
Other interest expenses	0	-3
<b>Financial expenses</b>	<b>-45,380</b>	<b>-34,030</b>
Fees and effective interest costs for repayment of loans before maturity	-5,111	-9,162
Bank charges	-161	0
Agency fees	-134	-268
Other	-543	-1
<b>Other financial expenses</b>	<b>-5,949</b>	<b>-9,431</b>
<b>Net financial result</b>	<b>-50,794</b>	<b>-43,333</b>

The total interest income and expenses for financial assets and liabilities other than financial derivatives amounted to an interest income of EUR 535 k (2015: EUR 128 k) and EUR 44,154 k of interest expenses (2015: EUR 27,380 k), respectively.

The total interest expenses calculated by applying the effective interest method for financial liabilities (i.e., not recognized at fair value through profit or loss) amounted to EUR 4,210 k (interest expenses, 2015: EUR 3,113 k).

The prepayment penalty is due to the termination of loans before the normal end of the term.

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

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

EUR k	2016	2015
Transfer of cumulated loss from cash-flow hedge reserve to income statement	-270	-3,269
Ineffective change of the fair value of cash-flow hedges	-4,971	-66
Change in fair value of financial derivatives not qualifying as a cash-flow hedge	-2,860	-3,428
<b>Net loss from fair value adjustments on financial derivatives</b>	<b>-8,101</b>	<b>-6,763</b>

## Consolidated Financial Statements

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

Further details and explanations on derivatives are presented in Note 6.6.

### 5.10 Income tax expenses

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

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

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

EUR k	2016	2015
Current tax expenses	-11,450	-804
Deferred tax result		
From temporary differences	132	-8
<b>Tax result</b>	<b>-11,318</b>	<b>-812</b>

At the beginning of the financial year, alstria office Prime and its group companies had the legal form of a corporation. The determination of the tax expense is based on the assumption that the legal form of the companies were converted from corporations to partnerships with a tax effect within the 2016 financial year. As a result, the alstria office Prime Group has been included in a tax-exempt REIT structure with the effect that all hidden reserves and liabilities contained in the assets and liabilities have to be realized. Taxation of hidden reserves and liabilities resulted in current tax expenses of EUR 7,193 k.

## Consolidated Financial Statements

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

EUR k	2016	2015
Loss before income taxes	193,694	-110,567
Not considered due to REIT regime	153,752	-103,808
<b>Relevant loss before taxes</b>	<b>39,942</b>	<b>-6,759</b>
Average tax rate	15.825%	15.825%
Theoretical tax income (+)	-6,321	1,070
Effect of unrecognized deferred tax assets on losses carried forward in prior years	-4,881	-1,301
Loss of losses carried forward due to majority shareholder	0	-1,215
Tax effects, prior periods	-32	571
Other	-84	63
<b>Income tax income</b>	<b>-11,318</b>	<b>-812</b>

Due to the inclusion of alstria office Prime in the tax-exempt REIT structure, temporary differences may not result in any future tax assets or tax liabilities. As a result, there are no deferred tax deferrals to be formed as of December 31, 2016.

As of December 31, 2016, the alstria office Prime Subgroup has no corporate income tax losses carried forward and business tax losses carried forward of EUR 13,717 k, for which no deferred tax assets have been recognized.

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

### 6.1 Investment property

This item, comprised of all investment properties held by the Company, breaks down as follows:

Fair values in EUR k	2016	2015
As of January 1	3,260,467	1,645,840
Additions due to business combination Deutsche Office	0	1,645,210
Property acquisition	9,146	12,710
Capital expenditure	31,277	27,813
Disposals	-360,500	-53,575
Transfers <u>to</u> held for sale	-12,499	-53,245
Transfers <u>to</u> property, plant, & equipment (own used property)	-1,920	0
Transfers <u>from</u> property, plant, & equipment (own used property)	322	0
Net result from the adjustment of the fair value of investment property	72,806	-4,192
<b>Subtotal</b>	<b>2,999,099</b>	<b>3,220,561</b>
Prepayments made	-	39,906
<b>As of December 31</b>	<b>2,999,099</b>	<b>3,260,467</b>

In the 2016 financial year, thirteen properties were reclassified to assets held for sale. Two of the properties are still included in the items held for sale at the end of the financial year. The transaction volume of assets held for sale amounted to EUR 14,700 k.

Property disposals	Number of properties	Transaction amount in EUR k
Contract signed in 2015, transferred in 2016	3	71,782
Contract signed and transferred in 2016	11	387,431
Contract signed in 2016, transfer expected for 2016	2	14,700
	<b>16</b>	<b>473,913</b>

Capital expenditure (EUR 31,277 k) is comprised of subsequent acquisition and production costs relating to property acquisitions and refurbishment projects.

Furthermore, the Group acquired one investment property for which the transfer of benefits and burdens was completed in the reporting period. The transaction volume for the properties amounted to EUR 9,146 k, including incidental acquisition costs.

For more information on changes to the immovable property, please refer to the "Transactions" section in the Group management report for the 2016 business year (see page 8).

Borrowing costs that would have had to be capitalized as construction costs were not incurred during the reporting period (2015: EUR 0).

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

The item on the income statement “net result from fair value adjustments on investment property” of an amount of EUR 42,530 k is attributable to a change in unrealized losses.

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

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

The Deutsche Office acquired in the context of the business combination as of end October 2015 uses a DCF valuation method for property valuation, while alstria Subgroup makes use of the so-called hardcore-and-top-slice method for real estate valuation. Both valuation techniques are generally accepted methods for fair value determination. Both use unobservable input parameters. However, the unobservable input parameters differ in part.

The representation of the range of the respective unobservable input parameter must therefore be distinguished.

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

The following factors help determine the appropriate classes.

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

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

Germany - Office - Level 3 - short WAULT (0-5 years),

Germany - Office - Level 3 - medium WAULT (> 5-10 years), and

Germany - Office - Level 3 - long WAULT (> 10 years).

## Consolidated Financial Statements

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

EUR k, unless stated otherwise						
Portfolio	Fair Value at Dec. 31, 2016	Valuation technique	Unobservable inputs	Range Min.	Range Max.	Weighted average
German offices	2,999,099	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	3.9	19.6	11.1
Number of properties:			Adjusted yield	3.7%	8.7%	5.9%
106			Void period of office leases expiring within the next 5 years months]	3.0	30.0	9.4
<b>0 ≤ WAULT ≤ 5 Years</b>						
German offices	1,880,109	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	4.5	19.6	11.2
Number of properties:			Adjusted yield	4.0%	8.7%	6.2%
72			Void period of office leases expiring within the next 5 years months]	3.0	30.0	12.4
<b>5 &lt; WAULT ≤ 10 Years</b>						
German offices	802,759	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	3.9	17.8	10.7
Number of properties:			Adjusted yield	4.0%	7.0%	5.4%
26			Void period of office leases expiring within the next 5 years months]	3.0	18.0	3.3
<b>WAULT &gt; 10 Years</b>						
German offices	316,231	hardcore and top slice	Estimated rental value (EUR/m <sup>2</sup> /mo.)	9.5	17.2	12.2
Number of properties:			Adjusted yield	3.7%	6.9%	4.5%
8			Void period of office leases expiring within the next 5 years [months]	3.0	18.0	1.3

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

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

An increase in the vacancy periods decreases the fair value.

An increase in the adjusted yield decreases the fair value.

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

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

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

## Consolidated Financial Statements

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

Capitalization rates	Dec. 31, 2016	Dec. 31, 2015
-0.25 %	3,144	3,374
0.00 %	2,999	3,221
0.25 %	2,861	3,078

### Operating lease commitments - Group as lessor

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

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

EUR k	Dec. 31, 2016	Dec. 31, 2015
Within 1 year	187,897	210,785
After 1 year but not longer than 5 years	449,649	519,953
Longer than 5 years	333,474	393,134
	<b>971,020</b>	<b>1,123,872</b>

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

- > EUR 202,663 k (2015: EUR 115,337 k) rental income from investment properties;
- > EUR 15,495 k (2015: EUR 8,086 k) operating expenses (including repairs and maintenance) directly allocable to investment properties from which rental income was generated during the period under review; and
- > EUR 7,950 k (2015: EUR 4,689 k) operating expenses (including repairs and maintenance) arising from investment properties that did not generate rental income during the period under review.

Investment properties, held-for-sale properties, and own used properties of an amount of EUR 567,315 k (December 31, 2015: EUR 3,036,702 k) served as collateral for bank loans.

### 6.2 Equity-accounted investment

At the end of the reporting period, two companies in which alstria office REIT-AG holds a share of 49.0% were treated as joint ventures and accounted for using the equity method. The carrying amount of the joint ventures at the end of the reporting period was EUR 29,401 k (December 31, 2015: EUR 23,900 k). In addition, alstria holds interests in an entity with a carrying amount of EUR 980 k. For further information, please refer to Note 2.2.3.



## Consolidated Financial Statements

### 6.3 Property, plant and equipment

EUR k	Plant	Furniture and fixtures	Owner-occupied property	Total 2016
<b>Acquisition and production cost</b>				
As of January 1, 2016	853	1,107	5,003	6,963
Transfer from investment property	0	0	1,920	1,920
Transfer to investment property	0	0	-322	-322
Additions	30	333	56	419
Disposals	0	-150	0	-150
<b>As of December 31, 2016</b>	<b>883</b>	<b>1,290</b>	<b>6,657</b>	<b>8,830</b>
<b>Accumulated amortization, depreciation, and write-downs</b>				
As of January 1, 2016	613	632	557	1,802
Additions	21	145	153	319
Transfer to investment property	0	0	-19	-19
Disposals	-2	-128	0	-130
<b>As of December 31, 2016</b>	<b>632</b>	<b>649</b>	<b>691</b>	<b>1,972</b>
<b>Net book values as of December 31, 2016</b>	<b>251</b>	<b>641</b>	<b>5,966</b>	<b>6,858</b>
<b>Acquisition and production cost</b>				
As of January 1, 2015	1,048	975	5,002	7,025
Additions due to business combinations	150	73	0	223
Additions	0	59	1	60
Disposals	-345	0	0	-345
<b>As of December 31, 2015</b>	<b>853</b>	<b>1,107</b>	<b>5,003</b>	<b>6,963</b>
<b>Accumulated amortization, depreciation, and write-downs</b>				
As of January 1, 2015	933	540	467	1,940
Additions	25	92	90	207
Disposals	-345	0	0	-345
<b>As of December 31, 2015</b>	<b>613</b>	<b>632</b>	<b>557</b>	<b>1,802</b>
<b>Net book values as of December 31, 2015</b>	<b>240</b>	<b>475</b>	<b>4,446</b>	<b>5,161</b>

The useful life of the assets is estimated to be from 2 to 22 years for plant, furniture, and fixtures and from 33.33 to 50 years for owner-occupied properties.

A plant is comprised of miscellaneous items, such as fire extinguishers and operational devices. The furniture and fixtures include the devices used in the administrative offices.

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

## Consolidated Financial Statements

To secure Group liabilities, one of the properties is pledged via land charges. During the previous year, two own used properties served as pledge for mortgage loans.

### 6.4 Intangible assets

EUR k	2016	2015		
	Licenses	Licenses	Goodwill	Total 2015
<b>Acquisition and production cost</b>				
As of Jan. 1	2,363	1,883	0	1,883
Additions due to business combinations	0	400	144,795	145,195
Additions	80	80	0	80
<b>As of Dec. 31</b>	<b>2,443</b>	<b>2,363</b>	<b>144,795</b>	<b>147,158</b>
<b>Accumulated amortization, depreciation, and write-downs</b>				
As of Jan. 1	1,757	1,539	0	1,539
Additions	357	218	144,795	145,013
<b>As of Dec. 31</b>	<b>2,114</b>	<b>1,756</b>	<b>144,795</b>	<b>146,552</b>
<b>Net book values as of Dec. 31</b>	<b>329</b>	<b>607</b>	<b>0</b>	<b>607</b>

The useful life of the intangible assets is estimated to be between three to five years.

The intangible assets consist of software licenses and licenses to other rights of an amount of EUR 266 k and EUR 63 k, respectively.

The goodwill of EUR 144,795 k resulting from the alstria office Prime takeover was to be amortized in the full amount in the 2015 business year.

### 6.5 Assets held for sale

The financial assets of EUR 34,803 k relate to long-term bank deposits with a maturity until the 2021 financial year.

## 6.6 Derivative financial instruments

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

Product	Strike p.a. (%)	Maturity date	Dec. 31, 2016		Dec. 31, 2015	
			Notional (EUR k)	Fair value (EUR k)	Notional (EUR k)	Fair value (EUR k)
Cap	3.0000	Sep. 30, 2019	50,250	10	50,250	43
Cap	0.2500	Dec. 31, 2017	340,000	5	340,000	213
Cap	0.0000	Sep. 30, 2020	-	-	380,870	7,113
Swap	0.1100	Dec. 18, 2020	-	-	172,156	651
Swap	0.0000	Dec. 30, 2019	-	-	53,155	133
Cap	1,2500	Sep. 30, 2018	-	-	174,370	70
Swap	0.0000	Dec. 18, 2018	-	-	155,944	-180
Swap	0.0000	Sep. 30, 2018	-	-	117,000	-202
<b>Financial derivatives - held for trading</b>			<b>390,250</b>	<b>15</b>	<b>1,443,745</b>	<b>7,841</b>
Cap	3.0000	Mar. 29, 2024	10,900	50	10,900	116
Cap	3.0000	Apr. 30, 2021	47,116	46	47,854	100
Cap	3.0000	Dec. 17, 2018	56,000	3	56,000	23
<b>Financial derivatives - cash flow hedges</b>			<b>114,016</b>	<b>99</b>	<b>114,754</b>	<b>239</b>
<b>Total interest rate derivatives</b>			<b>504,266</b>	<b>114</b>	<b>1,558,499</b>	<b>8,080</b>
Embedded derivative	n/a	June 14, 2018	8,408 <sup>1)</sup>	-20,099	8,241 <sup>1)</sup>	-22,826
<b>Total</b>				<b>-19,985</b>		<b>-14,746</b>

<sup>1)</sup> Underlying number of shares subject to conversion in thousands.

The notional amount of the financial derivatives effective at the end of the reporting period is EUR 504,266 k (December 31, 2015: EUR 1,558,499 k). This includes cash flow hedges and derivatives not qualifying for cash flow hedging.

Derivatives of a notional amount of EUR 390,250 k (December 31, 2015: EUR 1,443,745 k) are not designated as a cash flow hedge.

On June 7, 2013, alstria issued a convertible bond for a total amount of EUR 79,400 k. After the conversion of two units, the bond has a notional value of EUR 79,200 k as of December 31, 2016. Due to the terms and conditions of the convertible bond, the conversion right has to be separately accounted as an embedded derivative.

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

## Consolidated Financial Statements

The following table shows the change in financial derivatives since December 31, 2015:

EUR k	Cash flow hedge reserve	Financial assets		Financial liabilities	
		Noncurrent	Current	Noncurrent	Total
Hedging instruments as of January 1, 2016	-270	8,462	0	-23,208	-14,746
Ineffective change in fair values cash flow hedges	0	-4,971	0	0	-4,971
Net result from fair value changes in financial derivatives not qualifying for cash flow hedging	0	-1,293	0	-1,567	-2,860
Reclassification of cumulated loss from equity to income statement	270	-	-	-	-
Termination	0	-2,084	0	4,676	2,592
Reclassification due to change of maturity	0	-5	5	0	0
Hedging instruments as of December 31, 2016	0	109	5	-20,099	-19,985

A decrease in the fair values of derivatives effective in a cash flow hedge was not recognized in the equity's hedging reserve anymore in the 2016 business year. During the 2015 business year, a decrease of EUR 444 k was still recorded.

The ineffective portion that arises from cash flow hedges amounted to a fair value loss of EUR 4,971 k (2015: loss of EUR 65 k) and is recognized in profit or loss.

Further losses totaling EUR 2,860 k (2015: loss of EUR 3,428 k), which were due to the market value of the derivatives not included in hedge accounting, were recorded in the 2016 income statement.

A loss of EUR 270 k (2015: loss of EUR 3,269 k) shown in the income statement relates to cumulative losses reclassified from cash flow hedges for which the forecast transaction is no longer expected to occur, as the respective loans were repaid prematurely.

Overall, this results in a total loss of EUR 8,101 k (2015: loss of EUR 6,763 k), which is presented as the "net loss from fair value adjustments on financial derivatives."

## Consolidated Financial Statements

### 6.7 Receivables and other assets

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

EUR k	Dec. 31, 2016	Dec. 31, 2015
<b>Trade receivables</b>	<b>7,257</b>	<b>12,578</b>
<b>Other receivables</b>		
Pending purchase prices from real estate sales	29,005	0
Accrued receivables for "Rent free periods"	8,318	7,143
Security deposits and other deposits granted	1,673	20
Creditors with debit balance	688	100
Prepayments made	492	266
Deposit account	313	629
VAT receivables	38	506
Receivables and other assets	1,051	1,119
<b>Other receivables</b>	<b>41,578</b>	<b>9,783</b>

A total of EUR 8,318 k of other receivables is made up of accruals resulting from the recognition of total rental revenues on a straight-line basis over the entire term of the lease agreements (rental smoothing).

The payment of the outstanding purchase price for sold properties in the amount of EUR 29,005 k was made at the beginning of January 2017.

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

Trade receivables were written down by EUR 196 k (December 31, 2015: EUR 753 k), due to rent payments in arrears. Apart from trade receivables, no other receivables were impaired.

As of December 31, 2016, trade receivables of an amount of EUR 5,859 k (December 31, 2015: EUR 3,719 k) were past due but not yet impaired. These relate to a number of independent tenants for whom there is no recent history of default.

The aging analysis of these trade receivables is as follows:

EUR k	Dec. 31, 2016	Dec. 31, 2015
<b>Trade receivables</b>		
Up to 3 months	4,375	2,471
From 3 to 6 months	970	403
More than 6 months	514	845
	<b>5,859</b>	<b>3,719</b>

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

## Consolidated Financial Statements

### 6.8 Cash and cash equivalents

EUR k	Dec. 31, 2016	Dec. 31, 2015
Bank balances	247,489	460,253

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

As of the balance sheet date, EUR 18,254 k accrued for interest payment liabilities exists, which will be payable in the course of the next twelve months (December 31, 2015: EUR 7,242 k).

In addition, cash and cash equivalents include EUR 4,821 k in rent deposits received from tenants and held in trust by the Group (December 31, 2015: EUR 4,154 k). These tenant deposits, recognized under cash and cash equivalents, are offset by an item included under Other Liabilities.

### 6.9 Assets held for sale

The assets held for sale comprise two properties. The transfer of benefits and burdens is still pending until the completion date of these consolidated financial statements. The sale of properties resulted in disposal revenues of EUR 14,700 k.

The properties reported are not the properties shown in the previous year, which were sold as planned in 2016.

EUR 2,200 k out of the income statement item “gain on disposal of investment property” relate to the assets held for sale shown at the balance sheet date.

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

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

### 7.1 Equity

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

#### Share Capital

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

Thousand	Dec. 31, 2016	Dec. 31, 2015
Ordinary shares of EUR 1 each	153,231	152,164

The conversion of profit participation rights (Note 13.2) in the second quarter of 2016 resulted in the issuance of 102,750 new shares by making use of the conditionally increased capital provided for such purposes. The share capital increased by EUR 102,750.

In the course of the previous year's acquisition of Deutsche Office, the former majority shareholder of Deutsche Office was granted an option for later conversion of shares. In exercising this option, alstria office REIT-AG acquired additional shares of Deutsche Office. In return for each share of Deutsche Office, 0.381 new shares of alstria office REIT-AG were granted. The exchange ratio is equal to the exchange ratio of the 2015 tender offer.

To create the new shares of alstria office REIT-AG, the Company made a capital increase in the amount of EUR 964,182 by partially making use of authorized capital and by excluding the shareholders' subscription rights.

In total, due to the capital measures stated above, alstria office REIT-AG's share capital increased to EUR 153,231,217 (EUR 1,066,932 higher than on December 31, 2015). As of June 30, 2016, it is represented by 153,231,217 no-par value bearer shares.

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

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

Number of shares	2016	2015
Shares outstanding on Jan. 1	152,164,285	79,018,487
Issue of new shares against contribution in cash	0	7,901,847
Conversion of convertible bond	0	20,382
Conversion of convertible participation rights	102,750	156,000
Issue of new shares against contribution in kind for takeover of alstria office Prime KG (former Deutsche Office AG)	964,182	65,067,569
As of Dec. 31	153,231,217	152,164,285

## Consolidated Financial Statements

### Capital reserve

The capital reserve changed as follows during the financial year:

EUR k	2016	2015
<b>As of Jan. 1</b>	<b>1,499,477</b>	<b>691,693</b>
Issue of new shares against cash	0	94,822
Transaction costs of issue of shares against cash	0	-1,338
Payment of dividends	-76,564	-43,470
Conversion of convertible bond	0	243
Share-based remuneration	949	752
Conversion of convertible participation rights	103	156
Issue of new shares against contribution in kind for takeover of alstria office Prime KG (former Deutsche Office AG)	10,847	757,616
Transaction costs of issue of shares against contribution in kind	0	-997
<b>As of Dec. 31</b>	<b>1,434,812</b>	<b>1,499,477</b>

The exchange in shares described above was made based on alstria's stock exchange share price of EUR 12.25 per share. Consequently, the 964,182 newly created alstria shares led to proceeds of EUR 11,811 k. These proceeds exceeded the nominal share capital by EUR 10,847 k and were recognized in the capital reserves.

The share premium resulting from the conversion of 102,750 profit participation rights resulted in an increase in capital reserves of EUR 103 k.

### Hedging reserve

EUR k	Dec. 31, 2016	Dec. 31, 2015
<b>Hedging reserve</b>	<b>0</b>	<b>-270</b>

This reserve relates to the accumulated portion of the gain or loss on hedging instruments within the cash flow hedge (which has been determined to be an effective hedge). The net change of EUR 270 k relates to reclassifications of the cumulated devaluations for the cash flow hedges; the forecasted and hedged transactions are no longer expected to occur due to the redemption of loans prior to their maturity. At the balance sheet date, the Group has no further derivative financial instruments (that are designated in an effective hedging relationship and that have an effective change in value), and the amount of the reserve at the end of the reporting period is EUR 0.

### Treasury shares

As of December 31, 2016, the Company held no treasury shares.

By resolution of the Annual General Meeting held on May 12, 2016, the Company's authorization to acquire treasury shares was renewed. The resolution authorized alstria office REIT-AG to acquire up to 10% of the capital stock until May 11, 2021. There is no intention to make use of this authorization at present.



### **Retained earnings**

Retained earnings as of December 31, 2016, totaled an amount of EUR 140,395 k (December 31, 2016: loss carried forward of EUR 31,994 k). alstria office REIT-AG's standalone positive retained earnings could not generate the payment of the dividend, according to German GAAP [HGB] at the dividend's due date. This is why the amount of the dividend payouts was released from the capital reserve in 2016.

### **Authorized capital**

On the occasion of the alstria office Prime KG acquisition in the fourth quarter of the 2015 business year (at that time named 'Deutsche Office AG'), authorized capital in the amount of EUR 2,750 k was used of the authorized capital of EUR 39,509 k approved by the Annual General Meeting in May 2015 (2015 authorized capital). In the 2016 business year, another EUR 964 k of the 2015 authorized capital was used for the takeover of shares in Deutsche Office AG. Thus, an amount of EUR 35,759 k remains per December 31, 2016. The approval of 2016 authorized capital enables a capital increase of EUR 76,082 k. The authorization expires on May 11, 2018.

### **Conditional capital**

The share capital is conditionally increased to grant option and conversion rights, as well as to redeem option and conversion obligations. 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 2012 (EUR 318 k), and conditional capital III 2015 (500 k), respectively. In the reporting period, conditional capital III 2012 was used in an amount of EUR 103 k. As of December 31, 2016, the Company's conditional capital amounted to a total of EUR 38,695 k.

## **7.2 Noncontrolling interests of limited partners**

The change in legal form of the alstria office Prime from a stock corporation [AG] into a private limited partnership [KG] with effect from December 9, 2016, meant the share capital changed into limited partnership capital. Limited shareholders became limited partners. Whereas equity capital of minority shareholders in the consolidated balance sheet is shown under "noncontrolling interest" as a component of equity, this, according to IFRS, does not apply to the contributions of limited partners. Though they are equity under German commercial law, they are to be reported as liabilities in the consolidated financial statements according to IFRS. As a result, the noncontrolling interests were to be reclassified into long-term or short-term liabilities, depending on the term.

The value of the first-time recognition under liabilities was at the fair value at the time the resolution was adopted by the Annual General Meeting of Deutsche Office AG. The resulting difference in the value of the noncontrolling interests was recorded in retained earnings without effect on income statements. A reconciliation is shown in the consolidated statement of changes in equity on page 54.

## Consolidated Financial Statements

At the end of the reporting period, there was an increase in the value of the noncontrolling interests of EUR 271 k. From the Group's point of view, this means an increase in liabilities amounting to EUR 239 k as other operating expenses and in the amount of TEUR 32 k as other interest expenses. As of the balance sheet date, the fair value of this financial liability approximates its carrying amount.

### 7.3 Financial liabilities

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

EUR k	Noncurrent	Current			Total Dec. 31, 2015
		Loan	Accrued interest	Total current	
<b>Loans</b>					
Syndicated loan alstria	440,217	27,401	20	27,421	<b>467,638</b>
Loan Prime Office portfolio	127,574	2,937	0	2,937	<b>130,511</b>
Loan Herkules portfolio	0	330,472	5,154	335,626	<b>335,626</b>
Loan Homer portfolio	328,330	7,052	595	7,647	<b>335,977</b>
Other loans	252,451	1,298	208	1,507	<b>253,957</b>
Corporate bond	495,378	0	1,168	1,168	<b>496,546</b>
Convertible bond	71,640	0	97	97	<b>71,737</b>
<b>Total</b>	<b>1,715,590</b>	<b>369,160</b>	<b>7,242</b>	<b>376,402</b>	<b>2,091,992</b>

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

As of December 31, 2016, the total repayable amount of the corporate bonds, the bank loans, the Schuldscheindarlehen, and the convertible bond drawn by alstria was EUR 1,482,864 k (December 31, 2015: EUR 2,103,764 k). The carrying amount of EUR 1,485,851 k (EUR 1,466,521 k, noncurrent, and EUR 19,330 k, current) takes interest liabilities and transaction costs to be allocated under the effective interest method, taking liabilities into account. Financial liabilities with a maturity of up to one year are recognized as current loans.

#### Corporate bond I

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

with its carrying amount of EUR 496,225 k; additionally, interest liabilities in the amount of EUR 8,723 k were recognized per the balance sheet date. The fair value amounted at balance sheet date to EUR 528,300 k.

### **Corporate bond II**

In the second quarter of the reporting period, a second bond loan in a total amount of EUR 500,000 k and a coupon of 2.125% p.a. was issued. The bond has a maturity until April 12, 2023, and was recognized with its carrying amount of EUR 494,467 k; additionally, interest liabilities in the amount of EUR 7,685 k were recognized per the balance sheet date. The fair value amounted at balance sheet date to EUR 523,650 k.

### **Mortgage loans**

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

### **Schuldschein**

As of May 6, 2016, alstria issued a Schuldschein [debenture bond] with a nominal value of EUR 150,000 k. The Schuldschein has an average coupon of 2.07% p.a. payable according to end-of-year convention and a staggered term of between four to ten years (see table on page 110). The fair value amounted to EUR 169,624 k at the balance sheet date.

### **Convertible bond**

In the second quarter of the 2013 financial year, alstria office REIT-AG issued a convertible bond, generating proceeds of EUR 79,400 k. The convertible bond has a maturity term of five years. It will be redeemed at 100% of its principal amount. It has a coupon of 2.75% p.a., payable in quarterly instalments in arrears, and an initial conversion price of EUR 10.0710. In line with the terms and conditions of the convertible bond, the conversion price was adjusted to EUR 9.4192 during the 2016 financial year.

The issuing volume resulting from the convertible bond loan amounted to EUR 79,400 k. After having exercised conversion rights for a notional value of EUR 200 k, EUR 79,200 k of the convertible bond remains included in the financial liabilities. It is divided into a loan portion and a financial liability in the form of an embedded derivative. The carrying amount of the convertible bond liability therefore lies below its nominal amount. The initial recognition of these two components was at fair value, which corresponds to the emission volume. As part of the allocation of the issue proceeds, the fair value of the embedded derivative was determined and the residual value less transaction costs was assigned to the loan component. Subsequently, the loan component is valued at amortized cost. The derivative component is, however, valued at fair value at the end of subsequent reporting periods. Upon conversion into shares, both components—which are discontinued upon conversion of the bond—are reclassified as equity. The alstria office REIT-AG issued this bond based on the authorization

received from the Annual General Meeting in 2013. The convertible loan has a carrying amount without accrued interests of EUR 74,578 k and a market value of EUR 100,941 k. Under consideration of the embedded derivative amounting to EUR -20,099 k contained in the convertible bond, which is accounted for under the noncurrent derivative liabilities and reflects part of the difference between carrying amount and market value, the fair value of the convertible bond liability amounts to EUR 80,842 k.

### **Syndicated loan alstria**

The syndicated loan facility existing from September 30, 2013, and totaling EUR 544,100 k was completely repaid on December 30, 2016. As of the previous year's balance sheet date, the outstanding loan amount was EUR 470,556 k.

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

### **Further details regarding the loan liabilities**

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

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

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

A total of EUR 37,100 k (December 31, 2015: EUR 37,100 k) in financial liabilities from mortgage loans relates to a fixed interest rate loan. At the end of the reporting period, the loan had a fair value of EUR 42,089 k (December 31, 2015: EUR 41,338 k). The fair value estimation is based on the discounted cash flows using quoted prices for loans with equivalent risk and maturity as a discount rate (level 2 in fair value hierarchy).

As of December 31, 2016, the loans and the convertible bond were reduced by accrued transaction costs of EUR 11,186 k (December 31, 2015: EUR 12,352 k).

The average debt maturity increased from 3.6 years as of December 31, 2015, to 5.7 years as of December 31, 2016. The Group's average interest rate decreased from 2.8% to 2.2% from balance sheet date to balance sheet date.

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

## Consolidated Financial Statements

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

EUR k	Dec. 31, 2016	Dec. 31, 2015
Up to 1 year	1,076	371,069
More than 1 year	251,564	1,115,704
<b>Total</b>	<b>252,640</b>	<b>1,486,773</b>

The following loans are secured by land charges:

EUR k	Dec. 31, 2016	Dec. 31, 2015
Financial liabilities secured by land charges	256,930	1,523,710
<i>thereof on investment property</i>	256,158	1,462,806
<i>thereof on held for sale property</i>	0	56,458
<i>thereof on own used property</i>	772	4,446

### 7.4 Other Provisions

EUR k	Due		Total Dec. 31, 2016	Due		Total Dec. 31, 2015
	up to 1 year	in more than 1 year		up to 1 year	in more than 1 year	
<b>Other provisions</b>						
Rental guarantee	0	0	0	0	1,244	1,244
Provision virtual share liabilities	1,577	1,313	2,890	1,494	1,976	3,470
Other	680	0	680	300	0	300
<b>Total</b>	<b>2,257</b>	<b>1,313</b>	<b>3,570</b>	<b>1,794</b>	<b>3,220</b>	<b>5,014</b>

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

EUR k	Dec. 31, 2015	Consumption	Resolution	Additions	Dec. 31, 2016
<b>development of other provisions</b>					
Rental guarantee	1,244	-385	-859	0	0
Provision virtual share liabilities	3,470	-1,581	0	1,001	2,890
Other	300	0	0	380	680
<b>Total</b>	<b>5,014</b>	<b>-1,966</b>	<b>-859</b>	<b>1,381</b>	<b>3,570</b>

In connection with property sales, the Group had committed itself to compensating buyers for possible shortfalls in rental income for rental agreements in place with certain tenants and not extended at the disposal date. In the 2016 financial year, it was agreed all claims and obligations arising from the original rental guarantee agreement would be extinguished in return for a final payment of EUR 385 k. In addition, EUR 2,890 k (December 31, 2015: EUR 3,470 k) were recognized as a provision for awarding the Long- and Short-Term Incentive Plan (Note 13.1).

## Consolidated Financial Statements

Other provisions were made for potential litigation costs. At the balance sheet date, there were no significant legal proceedings in which it was assumed alstria office REIT-AG or its affiliates could be subject to claims for payments. The main part of the provision was therefore made for the litigation costs for lawyers and court fees for cases in which alstria office REIT-AG or its subsidiaries act as plaintiff.

### 7.5 Trade payables and other liabilities

EUR k	Due		Total Dec. 31, 2016	Due		Total Dec. 31, 2015
	up to 1 year	in more than 1 year		up to 1 year	in more than 1 year	
<b>Trade payables</b>	<b>4,584</b>	<b>0</b>	<b>4,584</b>	<b>9,415</b>	<b>0</b>	<b>9,415</b>
<b>Other current liabilities</b>						
Accruals for outstanding invoices	16,223	0	16,223	19,744	0	19,744
Real estate transfer tax	11,869	0	11,869	14,909	0	14,909
Rent and security deposits received	4,944	2,808	7,752	5,094	1,854	6,948
Value added tax liabilities	2,798	0	2,798	1,381	0	1,381
Advance rent payments received	2,758	0	2,758	3,960	0	3,960
Customers with credit balances	2,288	0	2,288	439	0	439
Salary obligations	2,177	0	2,177	4,528	0	4,528
Auditing costs	495	0	495	743	0	743
Supervisory Board compensation	271	0	271	353	0	353
Miscellaneous liabilities	1,511	0	1,511	1,100	0	1,100
<b>Total</b>	<b>45,334</b>	<b>2,808</b>	<b>48,142</b>	<b>52,251</b>	<b>1,854</b>	<b>54,105</b>

The disclosed carrying amounts approximate their fair values.

Trade payables of the previous year's balance sheet date have been adjusted in line with the presentation in the previous year's consolidated financial statements. As of December 31, 2015, EUR 20,477 k had been reported. EUR 11,062 k were related to outstanding invoices and were reclassified accordingly. They are included in other liabilities in the amount of EUR 19,744 k.

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

The decrease in salary obligations is mainly due to the restructuring charges payable for the previous year as a result of the takeover of alstria office Prime.

## 7.6 Deferred tax liabilities and income tax liabilities

The recognition of deferred tax liabilities and income tax liabilities as of December 31, 2016, is described in Note 5.10 regarding income tax expenses. Obligations from income taxes arise almost exclusively at the level of the Alstria office Prime companies acquired through the business combination on October 27, 2015.

The tax liabilities mainly resulted from taxes arising out of the realization of hidden reserves as a result of the inclusion of the companies in the tax-exempt REIT structure. As of December 31, 2016, deferred tax liabilities were no longer to be formed.

## 7.7 Trust assets and liabilities

At the end of the reporting period, alstria office REIT-AG held trust assets worth EUR 313 k (December 31, 2015: EUR 629 k) and liabilities worth EUR 4,944 k from rent deposits and EUR 2,808 k from security deposits. As of December 31, 2015, EUR 4,154 k rent deposits and EUR 2,794 k security deposits existed.

## 8. OTHER NOTES

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

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

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

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

As of December 31, 2016, 332.684 virtual shares had been granted to the members of the Management Board (compared to 356,256 on December 31, 2015; see also Note 13.1).

**Supervisory Board** Pursuant to the Articles of Association, Supervisory Board members' fixed annual payments amounted to EUR 347 k (2015: EUR 353 k). For services as member of the Supervisory Board of a subsidiary, four members of the Supervisory Board of alstria office REIT-AG received remunerations of EUR 56 k in addition.

Further information on disclosures from HGB Section 314, para. 1, no. 6a (German Commercial Code) and IAS 24.17 is provided in the remuneration report (see pages 143-149), which is an integral part of these Notes. This information is also presented in the corporate governance chapter.

### 8.2 Other financial commitments and contingencies

Other financial obligations from refurbishment projects and ongoing maintenance amounted to EUR 30.381 k (2015: EUR 17,250 k).

As of December 31, 2016, no rental agreements for the administrative premises were subject to a minimum lease term. Future financial obligations of EUR 243 k arose from other leasing agreements. Of these, obligations totaling EUR 134 k have a residual maturity of up to one year; the remainder – EUR 109 k – has a remaining maturity of one to five years.

### 8.3 Consolidated cash flow statement

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

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

The net cash generated from operating activities for the 2016 financial year amounted to EUR 120,495 k, which was considerably higher than the amount in the 2015 comparison period (EUR 45,631 k). This is due to the inclusion of alstria office Prime in the consolidated financial statements for the whole year and the shift in the interest payment date in the next business year for most of the interest expense.

The cash flow from investing activities is affected by the inflow of cash and cash equivalents from property disposals in the amount of EUR 426,764 k, while investments in the investment property portfolio resulted in cash outflows of EUR 43,740 k and EUR 34,803 k in other financial instruments.

The cash flows from financing activities mainly reflect refinancing activities, with EUR 1.273,926 k in payments for the redemption of borrowings, EUR 500,000 k in cash proceeds from the issuance of a corporate bond, and EUR 150.000 k proceeds from the issuance of a Schuldschein. Dividend payments resulted in cash outflows of EUR 76,564 k.

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

## 9. RELATED PARTY RELATIONSHIPS

### 9.1 Preliminary remarks

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



## Consolidated Financial Statements

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

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

In the view of alstria office REIT-AG's management, all transactions with related parties entered into in financial year 2016 have been undertaken in terms of arm's-length transactions or under conditions in alstria office REIT-AG's favor.

### 9.2 Remuneration of key management personnel

For a detailed description of the remuneration of key management personnel, please refer to Note 9.1 and the remuneration report (see pages 143-149 of the Corporate Governance Section).

### 9.3 Related party transactions

At the end of the reporting period, the Group recorded no further receivables from or liabilities to joint ventures. Furthermore, alstria office REIT-AG received EUR 129 k (2015: EUR 87 k) from the joint venture as compensation for services connected to real estate.

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

## 10. EARNINGS PER SHARE

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

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

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

Earnings per share	2016	2015
Profit attributable to the shareholders (EUR k)	176,872	-110,970
Average number of shares outstanding (thousands)	152,866	96,718
Basic earnings per share (EUR per share)	1.16	-1.15

## Consolidated Financial Statements

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

Diluted earnings per share	2016	2015
Diluted profit attributable to the shareholders (EUR k)	179,039	-108,792
Average diluted number of shares (thousands)	161,282	104,959
Diluted earnings per share (EUR)	1.11	-1.04

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

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

alstria office REIT-AG is authorized to issue up to EUR 38,695 k in shares as conditional capital. These contingently issuable shares could dilute basic earnings per share in the future, but they were not included in the calculation of diluted earnings per share because they are nondilutive for the period presented.

### 11. DIVIDENDS PAID

EUR k	2016	2015
Dividends on ordinary shares <sup>1)</sup> not recognized as a liability as of Dec. 31	76,564	43,470
Dividend per share	0.50	0.50

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

At the Annual General Meeting held on May 12, 2016, alstria office REIT-AG resolved to distribute dividends totaling EUR 76,564 k (EUR 0.50 per outstanding share). The dividends were distributed on May 13, 2016. By comparison, the dividends paid out in 2015 totaled EUR 43,470 k (EUR 0.50 per outstanding share).

### 12. EMPLOYEES

During the period from January 1 to December 31, 2016, the Company had 105 employees on average (January 1 to December 31, 2015: 72 employees on average). The average was calculated based on the total number of employees at the end of each quarter. On December 31, 2016, 114 people were employed at alstria, excluding the Management Board members (December 31, 2015: 93 people).

### 13. SHARE-BASED REMUNERATION

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

On March 2, 2010, the Company's supervisory board established a new share-based remuneration system as a means of providing success-based remuneration for members of the Management Board. The share-based remuneration is made up of a long-term component, the **Long-Term Incentive Plan**

## Consolidated Financial Statements

(**LTIP**), and a short-term component, the **Short-Term Incentive Plan (STIP)**. These plans offer cash-settled and share-based payment transactions, respectively.

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

The amount of the conversion payment is based on the number of virtual shares multiplied by the average stock market price of alstria's shares on the Frankfurt Stock Exchange during the 60 trading days prior to the relevant maturity date, plus an amount equal to the sum of the dividend per share the Company paid to its shareholders between the grant date and the maturity date; in no event can the payment be higher than 250% of the average stock market price of alstria's shares on the Frankfurt Stock Exchange in the 60 trading days prior to the relevant grant date multiplied by a specified discretionary factor.

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

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

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

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

The table below summarizes the number of virtual shares granted under the existing STIP and LTIP that remained 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

## Consolidated Financial Statements

The development of the virtual shares through December 31, 2016, is shown in the following table:

Number of virtual shares	2016		2015	
	LTI	STI	LTI	STI
January 1	335,740	20,516	339,516	23,831
Granted in the reporting period	68,318	10,817	72,926	9,763
Converted into cash in the reporting period	-91,954	-10,753	-76,702	-13,078
December 31	312,104	20,580	335,740	20,516

The 10,753 virtual shares converted into cash under the STIP resulted in payments to the Management Board in an amount of EUR 136 k within the 2016 business year. The conversion amount was the weighted average price of the first 20 trading days in the 2016 calendar year plus the dividend paid during the vesting period. It amounted to EUR 12.64, of which EUR 11.64 related to the share price and EUR 1.00 related to the dividend paid. Under the LTIP, 91,954 virtual shares were converted, resulting in a payout of EUR 1,446 k.

In 2016, the LTIP and the STIP generated remuneration expenses amounting to EUR 1,001 k (2015: EUR 2,616 k) and provisions amounting to EUR 2,890 k (2015: EUR 3,470 k). The Group recognizes the liabilities arising from the vested virtual shares under other provisions.

### 13.2 Convertible profit participation rights program

On September 5, 2007, the Supervisory Board of the Company resolved the issuance of convertible profit participation certificates (“certificates”) to employees of the Company and of companies in which alstria office REIT-AG directly or indirectly holds a majority interest. Members of alstria office REIT-AG’s Management Board are not considered employees of the Company in terms of this convertible profit participation rights program. 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.

## Consolidated Financial Statements

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.

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

Number of certificates				
Granting date of tranche	May 22, 2014	May 7, 2015	May 18, 2016	Total
January 1, 2016	102.750	121.000	0	223.750
Expired due to termination of employment	0	-10.000	0	-10.000
Converted	-102.750	0	0	-102.750
Granted	0	0	144.750	144.750
<b>December 31, 2016</b>	<b>0</b>	<b>111.000</b>	<b>144.750</b>	<b>255.750</b>

The relevant amount for the conversion of 102,750 of the 2014 convertible profit participation rights certificates was the XETRA closing price on the conversion date: EUR 11.46 per share. Total expenses relating to convertible profit participation rights amounted to EUR 1,068 k in 2016 (see Note 5.5).

## Consolidated Financial Statements

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

Granting date of tranche	May 22, 2014	May 7, 2015	May 18, 2016
Dividend yield (%)	5.18	4.15	4.28
Risk-free interest rate (%)	0.06	-0.18	-0.54
Expected volatility (%)	21.50	19.30	21.20
Expected life of option (years)	2.00	2.00	2.00
Exercise share price (EUR)	2.00	2.00	2.00
Labor turnover rate (%)	10.00	9.10	8.10
Stock price as of valuation date (EUR)	9.65	12.05	11.67
Estimated fair value of one option for conversion on the granting date	6.77	8.77	8.57

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

## 14. FINANCIAL RISK MANAGEMENT

### 14.1 Managing financial risk factors

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

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

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

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

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

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

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

## Consolidated Financial Statements

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

### Existing loan agreements as per December 31, 2016

Liabilities	Maturity	Interest rate p.a.	Principal amount drawn as of Dec. 31, 2016 EUR k	LTV as of Dec. 31, 2016 %	LTV covenant %	Principal amount drawn as of Dec. 31, 2015 EUR k
Syndicated loan #1 <sup>1)</sup>	Sep. 30, 2020		0	-	-	470,556
Syndicated loan #2 <sup>2)</sup>	Feb. 22, 2016		0	-	-	331,910
Syndicated loan #3 <sup>3)</sup>	Sep. 30, 2018		0	-	-	336,320
Loan #1 <sup>4)</sup>	June 30, 2017		0	-	-	58,868
Loan #2 <sup>4)</sup>	Dec. 31, 2018		0	-	-	53,432
Loan #3 <sup>5)</sup>	Dec. 30, 2017		0	-	-	18,507
Loan #4 <sup>6)</sup>	June 28, 2024	3M-EURIBOR + 1.150%	67,000	39.1	65.0	67,000
Loan #5	Apr. 30, 2021	3M-EURIBOR + 1.300%	58,896	49.0	65.0	60,048
Loan #6	Mar. 28, 2024	3M-EURIBOR + 1.280%	56,500	47.8	75.0	56,500
Loan #7 <sup>6)</sup>	June 30, 2026	3M-EURIBOR + 1.142%	56,000	44.0	65.0	56,000
Loan #8	July 31, 2021	3M-EURIBOR + 1.150%	15,268	50.6	60.0	15,423
<b>Total loans</b>			<b>253,664</b>	<b>44.7</b>	<b>-</b>	<b>1,524,564</b>
Bond (1 <sup>st</sup> tranche)	Mar. 24, 2021	2.250%	500,000	-	-	500,000
Bond (2 <sup>nd</sup> tranche)	Apr. 12, 2023	2.125%	500,000	-	-	-
Convertible bond	June 14, 2018	2.750%	79,200	-	-	79,200
Schuldschein 10J./fixed	May 6, 2026	2.750%	40,000	-	-	-
Schuldschein 4J./fixed	May 8, 2023	2.270%	37,000	-	-	-
Schuldschein 7J./fixed	May 6, 2020	1.547%	38,000	-	-	-
Schuldschein 7J./variable	May 8, 2023	6M-EURIBOR + 2.000%	17,500	-	-	-
Schuldschein 4J./variable	May 6, 2020	6M-EURIBOR + 1.600%	17,500	-	-	-
<b>Total</b>			<b>1,482,864</b>	<b>49.1</b>	<b>-</b>	<b>2,103,764</b>
<b>Net LTV</b>				<b>40.9</b>		

<sup>1)</sup> Loan agreement terminated, withdrawal occurred on December 30, 2016.

<sup>2)</sup> Loan agreement terminated, withdrawal occurred on February 22, 2016.

<sup>3)</sup> Loan agreement terminated, withdrawal occurred on May 31, 2016.

<sup>4)</sup> Loan agreement terminated, withdrawal occurred on June 30, 2016.

<sup>5)</sup> Loan agreement terminated, withdrawal occurred on June 30, 2016 / July 4, 2016.

<sup>6)</sup> Refinanced in the second quarter of 2016.

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



## Consolidated Financial Statements

### a) Interest rate risk

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

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

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
<b>Financial year ending Dec. 31, 2015</b>						
<i>Variable interest</i>						
Syndicated loans alstria	27,401	0	0	0	443,155	470,556
Deutsche Office portfolio loans	342,516	84,094	372,892	155	14,803	814,460
Other loans	1,152	921	56,921	67,921	74,841	201,757
<b>Total</b>	<b>371,069</b>	<b>85,015</b>	<b>429,813</b>	<b>68,076</b>	<b>532,799</b>	<b>1,486,773</b>

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

The derivative financial instruments of alstria office REIT-AG as of December 31, 2016, are presented on page 89.

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

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

#### Interest expenses per annum

EUR k	2016	2015
+ 100 bps	2,516	7,382
- 50 bps	-753	-484

## Consolidated Financial Statements

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

### aa) Impact on equity

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

EUR k	2016	2015
+ 100 bps	321	13,771
- 50 bps	-65	-3,574

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

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

Impact from 3-month EURIBOR interest rate changes:

EUR k	2016	2015
+ 100 bps	1,247	19,361
- 50 bps	-13	-8,926

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

EUR k	2016	2015
Share price compared to the 2016 year-end price (EUR 11.91)		
+ 10 percent	-8,850	-8,512
- 10 percent	7,802	7,587

### b) Credit risk

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

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

## Consolidated Financial Statements

### c) Liquidity risk

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

At the end of the reporting period, the nominal financial liabilities had the following maturities in line with their contractual maturity (based on the three-month EURIBOR) as of December 31, 2016.

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

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

EUR k	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Financial year ending Dec. 31, 2015</b>							
Interest	32,669	33,369	31,407	23,961	21,868	16,767	160,041
Loans	370,838	85,015	429,813	68,076	444,232	126,359	1,524,333
Corporate bond	0	0	0	0	0	500,000	500,000
Convertible bond	0	0	79,200	0	0	0	79,200
Financial derivatives	374	290	-385	-1,613	-2,059	0	-3,393
Trade payables	9,415	0	0	0	0	0	9,415
Other liabilities	59,032	309	309	309	309	309	60,577
	<b>472,328</b>	<b>118,983</b>	<b>540,344</b>	<b>90,733</b>	<b>464,350</b>	<b>643,435</b>	<b>2,330,173</b>

Details on the loans, borrowings, and bonds can be found in Note 7.3. The maturity profile of the loans is shown on page 18 in the Group Management Report. To secure the bank loans, receivables from rental and property purchase agreements and from insurance and derivative financial instruments were assigned to the lenders; liens were granted on bank accounts, and charges were registered on the land. Obligations arising from floating-interest bank loans were fully secured. Land charges for real estate properties with a carrying amount of EUR 567,315 k (December 31, 2015: EUR 3,036,702 k) were provided as collateral. The decline compared to the previous year's balance

sheet date is based on the repayment of mortgage bank loans in favor of corporate bonds and promissory notes.

## 14.2 Capital management

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

The Group actively manages its capital structure and makes adjustments in response to changes in economic conditions. To maintain or adjust the capital structure, the Group can make a capital repayment to its shareholders or issue new shares. No changes had been made to the aims, guidelines, and processes as of December 31, 2016, or as of December 31, 2015.

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

The following ratios are also used to manage capital:

### Ratios according to G-REIT law

%	2016	2015	G-REIT covenant
Equity ratio according to G-REIT law	56.67	49.37	> 45
Immovable assets	90.17	87.21	> 75
Revenues gained from immovable assets	100.00	100.00	> 75
Income gained from disposal of immovable assets	32.75	14.64	< 50 <sup>1)</sup>

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

## Consolidated Financial Statements

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

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

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

## Consolidated Financial Statements

Assets as per balance sheet (EUR k) as of Dec. 31, 2015	Carrying amount	Nonfinancial assets	Financial assets				Fair value
			Loans and receivables at amortized costs	Fair value through p/l <sup>1)</sup>	Fair value - other income	Total	
Derivatives	8,462	0	0	1,110	7,352	8,462	8,462
<b>Total long-term</b>	<b>8,462</b>	<b>0</b>	<b>0</b>	<b>1,110</b>	<b>7,352</b>	<b>8,462</b>	<b>8,462</b>
Trade receivables	12,578		12,578	0	0	12,578	12,578
Derivatives	0	0	0	0	0	0	0
Tax receivables	226	0	226	0	0	226	226
Receivables and other assets	9,783	7,305	2,478	0	0	2,478	2,478
Cash and cash equivalents	460,253	0	460,253	0	0	460,253	460,253
<b>Total short-term</b>	<b>482,840</b>	<b>7,305</b>	<b>475,535</b>	<b>0</b>	<b>0</b>	<b>475,535</b>	<b>475,535</b>
<b>Total</b>	<b>491,302</b>	<b>7,305</b>	<b>475,535</b>	<b>1,110</b>	<b>7,352</b>	<b>483,997</b>	<b>483,997</b>

Liabilities as per balance sheet (EUR k) as of Dec. 31, 2015	Carrying amount	Nonfinancial liabilities	Financial liabilities				Fair value
			Fair value through p/l <sup>1)</sup>	Loans and receivables at amortized costs	Total	Fair value	
Long-term loans	1,715,590	0	0	1,715,590	1,715,590	1,718,212	
Derivatives	23,208	0	23,208	0	23,208	23,208	
Other liabilities	1,854	0	1,854	0	1,854	1,854	
<b>Total long-term</b>	<b>1,740,652</b>	<b>0</b>	<b>25,062</b>	<b>1,715,590</b>	<b>1,740,652</b>	<b>1,743,274</b>	
Short-term loans	376,402	0	0	376,402	376,402	376,402	
Trade payables	9,415	0	9,415	0	9,415	9,415	
Tax liabilities	8,687	0	8,687	0	8,687	8,687	
Other liabilities	52,251	3,960	0	48,291	48,291	49,923	
<b>Total short-term</b>	<b>446,755</b>	<b>3,960</b>	<b>18,102</b>	<b>424,693</b>	<b>442,795</b>	<b>444,427</b>	
<b>Total</b>	<b>2,187,407</b>	<b>3,960</b>	<b>43,164</b>	<b>2,140,283</b>	<b>2,183,447</b>	<b>2,187,701</b>	

## Consolidated Financial Statements

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

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

EUR k	2016	2015
Fair value - hedging instruments	-10,558	-2,890
Fair value - financial liabilities	-1,484	-3,233
Loans and receivables	-467	-625
<b>Total</b>	<b>-12,509</b>	<b>-6,748</b>

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

### 14.3 Determination of fair value

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

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

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

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

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.

## 16. UTILISATION OF EXEMPTING PROVISIONS

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

- alstria office Bamlerstrasse GmbH & Co. KG, Hamburg
- alstria office Englische Planke GmbH & Co. KG, Hamburg
- alstria office Gänsemarkt Drehbahn GmbH & Co. KG, Hamburg
- alstria office Halberstädter Str. GmbH & Co. KG, Hamburg
- alstria office Hamburger Str. 43 GmbH & Co. KG, Hamburg
- alstria office Insterburger Strasse GmbH & Co. KG, Hamburg
- alstria office Mannheim/Wiesbaden GmbH & Co. KG, Hamburg
- alstria office Prime Portfolio GmbH & Co. KG, Hamburg
- alstria office Steinstrasse 5 GmbH & Co. KG, Hamburg
- beehive GmbH & Co. KG, Hamburg

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

### 17.1 Ad hoc announcements

The following table summarizes the announcements pursuant to Section 15 para. 1 German Securities Trading Act (WpHG) or Art. 17 MAR published by the Company 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



## 17.2 Directors' dealings

The following transaction has been reported to the Company pursuant to Section 15a para. 1 WpHG during the reporting period:

	Transaction
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

## 17.3 Voting right notifications

Information according to Section 160 para. 1 No. 8 German Stock Corporation Act (Aktiengesetz, AktG). The following table shows shareholdings in the Company that were in place on the 2016 balance sheet date and that were communicated to us pursuant to Section 21 para. 1 WpHG and have been published pursuant to Section 26 para. 1 WpHG. Moreover, shareholdings were considered that were in place until the date of the preparation of the financial statements, that were communicated to us pursuant to Section 21 para. 1 WpHG and have been published pursuant to Section 26 para. 1 WpHG. The Company did not receive any notifications pursuant to Section 20 paras. 1 and 4 AktG or pursuant to Section 21 para. 1a 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	-

#### **18. DECLARATION OF COMPLIANCE PURSUANT TO AKTG SECTION 161**

The Management Board and the Supervisory Board have submitted the declaration of compliance that is required by AktG Section 161 with respect to the recommendations of the German Corporate Governance Code as developed by a government commission. It is permanently available to the public on alstria office REIT-AG's website ([www.alstria.com](http://www.alstria.com)) and is included in the declaration of corporate management according to HGB Section 289a.

#### **19. AUDITORS' FEES**

On May 12, 2016, the general meeting elected Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft (Dammtorstrasse 12, Hamburg) as auditors of the separate and consolidated financial statements for the 2016 financial year. The fees totaled EUR 704 k in 2016. Of this, EUR 517 k was attributable to audit services and EUR 187 k to other audit services.

#### **20. MANAGEMENT BOARD**

During the financial year, the Company's members of the Management Board were:

**Olivier Elamine**, Chief Executive Officer (CEO)

**Alexander Dexne**, Chief Financial Officer (CFO)

The attached remuneration report contains details of the principles used to define the Management Board's and Supervisory Board's remuneration.

## 21. SUPERVISORY BOARD

Pursuant to the Company's Articles of Association (Section 9), the Supervisory Board consists of six members, who are elected at the general meeting of the shareholders.

During the 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 Manage- ment 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 Manage- ment 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-Brandenbur- gischer Wohnungsunternehmen e.V.</p>	<p><b>Managing Director, HOWOGE Wohnungsbaugesellschaft mbH</b></p> <p>Chairman of the audit committee</p>
<p><b>Benoît Héroult</b></p>	<p><b>Uzès, France</b></p> <p>Belvédère SA</p> <p>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</p> <p>Board member, Chairman of the remuneration committee</p> <p>Senior advisor for France</p>
<p><b>Marianne Voigt</b></p> <p>since December 8, 2016</p> <p>until December 9, 2016</p>	<p><b>Berlin, Germany</b></p> <p>BDO AG Wirtschafts- prüfungsgesellschaft</p> <p>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>

## Consolidated Financial Statements

<b>Alexander Stuhlmann</b>	<b>Hamburg, Germany</b>	<b>Management Consultant</b>
Chairman office ended May 12, 2016	Bauhaus Wohnkonzept GmbH Capital Stage AG	Chairman of the Advisory Board Vice-Chairman of the Supervisory Board
since July 1, 2016 until December 9, 2016	C.E. Danger GmbH & 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 & Co. KG	Member of the Advisory Board Member of the Supervisory Board Chairman of the Supervisory Board Chairman of the Supervisory Board  Chairman of the Advisory Board  Chairman of the Supervisory Board Member of the Board of Trustees Chairman of the Advisory Board

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, 2017.

Hamburg, February 21, 2017

**alstria office REIT-AG**

The Management Board

**Olivier Elamine**

CEO

**Alexander Dexne**

CFO

## Responsibility Statement

### RESPONSIBILITY STATEMENT

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

Hamburg, February 21, 2017

**alstria office REIT-AG**

The Management Board

**Olivier Elamine**

CEO

**Alexander Dexne**

CFO

**INDEPENDENT AUDITOR'S REPORT**

We have audited the consolidated financial statements prepared by alstria office REIT-AG, Hamburg/Germany, - comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, as well as the group management report for the financial year from January 1 until December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Sec. 315a (1) German Commercial Code (HGB) are the responsibility of the parent company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

## Independent Auditor's Report

In our opinion, based on the findings of our audit, the consolidated financial statements of alstria office REIT-AG, Hamburg/Germany, comply with IFRS, as adopted by the EU, as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg/Germany, February 21, 2017

**Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

[seal]

**Signed: Reiher**

Wirtschaftsprüfer

[German Public Auditor]

**Signed: Deutsch**

Wirtschaftsprüferin

[German Public Auditor]

## CORPORATE GOVERNANCE

### REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In this report, we present an overview on the supervision and advising activities of the Supervisory Board in order to monitor the Company's management. Furthermore, the main topics discussed by the plenary Supervisory Board and the work of its committees are presented, in addition to the audit of the annual and consolidated financial statements, the Company's corporate governance during the reporting period and the report on changes to the supervisory board.

#### MAIN POINTS OF DISCUSSION

The main points of discussion for the Supervisory Board and its committees during financial year 2016 were the financial reports, asset transactions and leases, the issuance of a bond by alstria office REIT-AG with a total nominal amount of EUR 500 million, the placement of alstria's first promissory note (*Schuldscheindarlehen*) with a nominal value of EUR 150 million, the preparation for the reappointment of the members of the Management Board for another term of office, the refinement of the Management Board remuneration system and the succession planning for the supervisory board due to two vacancies.

#### SUPERVISION AND ADVISING OF THE COMPANY'S MANAGEMENT BOARD

During the 2016 reporting period, we performed the duties required by the statutory provisions and the Company's Articles of Association. We advised and supervised the Management Board of the Company and its conducting of business and were intensively involved in matters of material importance to the Company.

During the meetings of the Supervisory Board and its committees, the Management Board provided us with regular, prompt and detailed reports on the development of the business and the financial situation of the Company. Furthermore, we were informed about issues concerning the Company's planning, important business events and current risks, risk management and the Company's compliance. The Management Board and Supervisory Board cooperated to set the strategic direction of the Company. Between meetings, the Management Board further informed the Supervisory Board of important events orally and in writing. The Chairman of the Supervisory Board regularly met with the Management Board to exchange information and advice on matters concerning the Company's business strategy, its planning, business development, current risks, risk management and compliance.



We have intensively consulted with the Management Board on all transactions requiring our approval. After careful examination and consultation, the Supervisory Board voted on all matters brought to its attention as dictated by law, the Articles of Association or rules of procedure. This also included the Company's budget planning.

### MEETINGS OF THE SUPERVISORY BOARD

In financial year 2016, the Supervisory Board held four ordinary and three extraordinary meetings. All members of the Supervisory Board attended a minimum of at least half of the meetings. The presence of the members in the meetings of the Supervisory Board averaged approximately 92%. Additionally, we passed written resolutions on five issues based on detailed documents. In 2017, the Supervisory Board met for two additional meetings and passed one written resolution prior to the finalization of this report.

In all ordinary meetings, the Supervisory Board and the Management Board discussed the situation and development of the Company, its business performance, its market situation and its financial results (quarterly interim statements and half-year financial reports, financial statements and consolidated financial statements).

In its extraordinary meeting in January 2016, the Supervisory Board deliberated with the Management Board on the strategy for the Company, a lease project, a potential portfolio acquisition and corporate governance issues. The Supervisory Board further dealt with succession planning for the Supervisory Board. In February 2016, the Supervisory Board decided by way of written circular resolution on the annual compliance statement regarding the recommendations by the German Corporate Governance Code.

During its financial meeting in March 2016, the Supervisory Board dealt with the consolidated financial statements, the financial statements as of December 31, 2015 and the management reports, and discussed them with the auditors. The Supervisory Board approved the financial statements of alstria office REIT-AG as well as the consolidated financial statements as of December 31, 2015, and confirmed the Management Board's proposal regarding the appropriation of the profits for financial year 2015. The Supervisory Board passed a resolution on its report to the Annual General Meeting for financial year 2015 and on the corporate governance statement. The Management Board and Supervisory Board also discussed the agenda and proposals for resolution for the Annual General Meeting of the Company and the sale of shares in a subsidiary, and the Supervisory Board gave its consent on a capital expenditure and a lease of an asset in Berlin. Furthermore, the Supervisory Board gave its consent to the placement of a promissory note (*Schuldscheindarlehen*). Finally, the Supervisory Board discussed and decided on the amount of the long-term variable remuneration for the members of the Management Board for financial year 2012 and of the short-term variable remuneration for financial year 2015, based on the nomination and remuneration committee's recommendation, and after carrying out a vertical remuneration comparison. It thereby considered

the board members' individual performances and also discussed the parameters for the variable remuneration for the members of the Management Board for financial year 2016.

In April 2016, the Supervisory Board passed three written circular resolutions on the sale of shares in a subsidiary, the appointment of the Management Board members as managing directors of a newly established subsidiary and the entering into a put option agreement.

In its extraordinary meeting, held as telephone conference in May 2016, the Supervisory Board joined the Management Board's amendment of the proposal for a resolution, presented to the Annual General Meeting, on the appropriation of the annual net profit for financial year 2015. The proposal was amended because, due to the takeover of former DO Deutsche Office AG and resulting capital increase from authorized capital executed in May 2016, new shares were issued. In turn, this increase resulted in an increase in the number of shares entitled to the dividend for financial year 2015, making the amendment necessary.

In its regular meeting in May 2016, the Supervisory Board elected a new chairman after the term of office for its former chairman had come to an end. Further topics have included the composition of the permanent committees of the Supervisory Board, the risk profile of the Company and a disposal of an asset in Berlin. In June 2016, the Supervisory Board approved, by way of written resolution, two amendment agreements regarding two financing agreements. In its extraordinary meeting in July 2016, which was held as telephone conference, the supervisory board deliberated with the Management Board on the disposal of an asset in Berlin and gave its approval.

The Management Board and the Supervisory Board discussed potential acquisitions, lease projects and capital expenditures on single assets in the regular Supervisory Board Meeting in September 2016. After having deliberated in detail the day before with an external lawyer, in this meeting, the Supervisory Board resolved on updates for the rules of procedures for the Supervisory Board and its permanent committees as well as for the Management Board. The Supervisory Board further resolved on editorial amendments to the Company's Articles of Association due to conditional capital increases of EUR 102,750.00, executed in May 2016 for the purposes of the Company's employee participation program. The Supervisory Board finally deliberated and resolved on the composition of its permanent committees.

After intensive discussion with the Management Board, the Supervisory Board passed resolutions regarding business and budget planning for financial year 2017 in its ordinary meeting in November 2016. The Supervisory Board discussed the succession planning for the Supervisory Board and the personnel planning for the Management Board in the light of the terms of office of the Management Board members, which will come to an end at the end of financial year 2017. The Supervisory Board deliberated in detail, with an external independent remuneration expert, on a proposal made by its nomination and remuneration committee regarding the further development of the remuneration system in place, and the further terms and conditions of the Management Board service contracts for a new term of office. The Supervisory Board discussed a review made by the external independent

remuneration expert on the appropriateness of the Supervisory Board remuneration in place. The Supervisory Board discussed and resolved the detailed objectives regarding the composition of the Supervisory Board (Diversity Statement), and reviewed the positive result of the efficiency check of its work, which the Supervisory Board members had performed by means of questionnaires.

In its extraordinary meeting in January 2017, the Supervisory Board and the Management Board discussed the strategy for the Company in detail, and discussed and resolved on the further appointment of the members of the Management Board for another term of office and the amendments to the Management Board remuneration system. In February 2017, the Supervisory Board resolved by way of written circular resolution on the annual compliance statement regarding the recommendations by the German Corporate Governance Code. In its financials meeting in March 2017, the Supervisory Board particularly dealt with the consolidated financial statements and financial statements for the year ending on December 31, 2016. It further reviewed the Management Board's recommendation for profit appropriation. The Supervisory Board passed a resolution on its report for the Annual General Meeting for financial year 2016 as well as the Corporate Governance Report. Management Board and Supervisory Board discussed the agenda and proposals for resolution for the annual General Meeting of the Company for financial year 2016. The Supervisory Board also dealt with variable remuneration for the members of the Management Board.

### COMMITTEES OF THE SUPERVISORY BOARD

According to the Company's Articles of Association, the Supervisory Board has six members. It has formed three permanent committees to support it in its work, each of which are composed of at least three members. The composition of the committees is described in the Company's Corporate Governance Statement on pages 133 to 142 of the annual report.

The committees have been given decision-making powers in some cases, to the extent permitted by law. In all other cases, they prepare the resolutions that the Supervisory Board will pass by making proposals. During the Supervisory Board's meetings, the committee's chairmen report on their committees' work. In financial year 2016, the Supervisory Board's committees focused on the following topics:

The audit committee held four meetings in financial year 2016. All of them were attended by the Chief Financial Officer. The Company's current risk position was discussed in all meetings. In the course of auditing the accounts of the Company, the audit committee dealt with the consolidated financial statements and financial statements as of December 31, 2015, as well as the management reports. It discussed the documents with the independent auditors and carried out a respective preliminary examination of the annual and consolidated financial statements and the Management Board's recommendation for the appropriation of profit. As a result, the committee submitted corresponding proposals for resolution to the Supervisory Board. Further topics included the recommendation to the Supervisory Board regarding the proposed resolution for the Annual General Meeting for the choice of the auditors, the auditors' independence and any additional services to be

performed by them. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg branch, was appointed as auditor. The audit committee decided on the engagement agreement and set the key audit areas. In addition, the Company's accounting process, its risk management system and key risks were discussed. Moreover, the effectiveness of the Company's internal controlling, audit system and compliance system were discussed. Finally, the audit committee dealt with the results of the Company's internal audit.

The nomination and remuneration committee, which also carries out the tasks of a nomination committee, met seven times during financial year 2016. The committee discussed the amount of variable remuneration for the members of the Management Board. In light of this discussion, each Management Board member's individual performance was discussed. The committee furthermore discussed the objectives regarding the composition of the Supervisory Board, providing the Supervisory Board with corresponding resolution proposals. The nomination and remuneration committee dealt in detail with the personnel planning for the Management Board in the light of the office terms of both Management Board members coming to an end in financial year 2017. The committee discussed with an external independent remuneration expert possibilities to further develop the Management Board remuneration system as well as the appropriateness of the Supervisory Board remuneration system in place. Finally, the committee dealt twice with the succession planning for the Supervisory Board, each time appointing an external advisor, and in two cases prepared proposals for resolution to the Annual General Meeting for the Supervisory Board with regard to the election of Supervisory Board members.

In financial year 2016, the finance and investment committee deliberated with the Management Board on a real-estate transaction in three meetings and approved three disposals executed in financial year 2016. The committee resolved by way of written circular resolution on advisory services from the law firm Freshfields Bruckhaus Deringer LLP, of which the Chairman of the Supervisory Board is a partner.

During financial year 2016, two special committees held meetings:

In May 2015, the Supervisory Board established a special committee that was comprised of three members. The committee was authorized to grant all necessary approvals and make all other declarations required in connection with the takeover of former DO Deutsche Office AG. In financial year 2016, the special committee came together in one meeting and resolved on editorial amendments of the Articles of Association due to the increase in the share capital by EUR 964,182.00 against contributions in kind executed in May 2016.

In September 2015, the Supervisory Board established a special committee that was comprised of four members. The committee was authorized to grant all necessary approvals and make all other declarations required in connection with the issuance of bonds. The special committee came together in one meeting to discuss the issuance of a corporate bond, and approved by way of written circular a resolution on the issuance of a bond as well as all connected actions and resolutions. Benoît Héroult

and Hermann Dambach could not participate in the meeting due to important competing appointments.

The composition of the special committees is also described in the Company's Corporate Governance Statement on pages 133 to 142 of the annual report.

#### **AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS**

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg branch, audited the financial statements and management report of alstria office REIT-AG and its consolidated financial statements, including the management report of the Group for the financial year from January 1 to December 31, 2016. All reports were prepared by the Management Board and issued with unqualified audit statements.

Immediately after their preparation, the members of the Supervisory Board were presented with the financial statements and management report of alstria office REIT-AG. Likewise, the consolidated financial statements, including the management report of the Group, the auditors' report and the Management Board's recommendation for the appropriation of the annual net profit, were presented. The Supervisory Board examined the documents provided by the Management Board in detail in both its audit committee and at a plenary meeting. In the meeting of the audit committee, the auditors presented the essential results of their audit (including the audit of the internal control and risk-management system) and were available to answer questions. The audit committee conducted the Supervisory Board's audit and reported to the plenary Supervisory Board in the presence of the auditors of the financial statements of alstria office REIT-AG and its consolidated financial statements. The plenary meeting examined and discussed both the annual financial statements of the Company and the consolidated financial statements as prepared by the Management Board, as well as the auditors' results. There were no objections to the results, concluding the review conducted by the Supervisory Board. The Supervisory Board approved the financial statements of alstria office REIT-AG and its consolidated financial statements. The annual financial statements are thus endorsed. The Supervisory Board also shared the Management Board's recommendation for the appropriation of the profit.

#### **CORPORATE GOVERNANCE**

In the reporting period, the Supervisory Board also dealt with whether alstria office REIT-AG fulfilled the recommendations of the German Corporate Governance Code. The Management Board and the Supervisory Board last issued the annual declaration of compliance with the German Corporate Governance Code in February 2017, in accordance with Section 161 AktG; it was subsequently made permanently available to shareholders on the Company's website. In their declaration, the Management Board and Supervisory Board explained that most of the recommendations of the German Corporate Governance Code have been, or will be, adopted. Furthermore, information on the recommendations that have not been, or will not be, followed, is presented together with the reasons for making these decisions.

Concerning its own composition, the Supervisory Board decides on specific objectives (Diversity Statement), which are published in the Company's Corporate Governance Report, together with the status of their implementation. Based on a self-assessment of the members of the Supervisory Board in autumn 2016, we were able to conclude that the composition of the Supervisory Board met these objectives as of December 31, 2016. The Supervisory Board member Hermann Dambach abstained from voting on the proposal for the appropriation of the annual net profit for financial year 2015 due to a conflict of interest, and did not attend the extraordinary Supervisory Board meeting scheduled for this purpose in May 2016. When the Supervisory Board elected its Chairman and the Vice-Chairman, the candidates abstained from voting. No conflicts of interest concerning members of the Management Board arose during financial year 2016.

### CHANGES IN THE SUPERVISORY BOARD

The term of Mr. Alexander Stuhlmann, who had been a member of the Supervisory Board and chaired the Supervisory Board since 2007, came to an end with the Annual General Meeting in financial year 2016. Thereupon, the Annual General Meeting elected Mrs. Stefanie Frensch as member of the Supervisory Board until the Annual General Meeting in financial year 2021. In its meeting on May 12, 2016, the Supervisory Board elected Mr. Johannes Conradi as new chairman of the Supervisory Board.

Mr. Hermann Dambach, who had been elected as member of the Supervisory Board until the Annual General Meeting in financial year 2021 and who used to be Vice-Chairman of the Supervisory Board, resigned from the Supervisory Board effective October 31, 2016. The local court (*Amtsgericht*) of Hamburg appointed Mr. Bernhard Düttmann as successor for Mr. Hermann Dambach on the Supervisory Board, effective January 3, 2017. In the meeting on November 30, 2016, the Supervisory Board elected Mr. Richard Mully as Vice-Chairman of the Supervisory Board.

The Supervisory Board would like to thank Mr. Stuhlmann and Mr. Dambach for their valuable commitment to the Company.

The Supervisory Board would like to thank the Management Board and all employees for their dedication and their successful work in financial year 2016.

Hamburg, March 2017

For the Supervisory Board

**Johannes Conradi**

Chairman of the Supervisory Board

## CORPORATE GOVERNANCE STATEMENT

The Management Board and Supervisory Board of alstria office REIT-AG (“alstria”) are aware of their responsibility concerning the corporate governance of the Company. It is undertaken with due regard to the Company’s shareholders, employees, tenants and business partners. This sense of responsibility is expressed, among other ways, in a transparent corporate governance with the aim of promoting the confidence of alstria’s shareholders’, employees’, tenants’, business partners’ and the public’s trust in the management and supervision of the Company. In this statement, the Management Board and Supervisory Board report on alstria’s corporate governance according to Section 3.10 of the German Corporate Governance Code (“Code”) and Section 289a, para. 1, of the German Commercial Code (“HGB”). This statement includes a description of the Company’s Management Board and Supervisory Board composition, as well as its corporate governance structures, information on the target quota for women’s participation in the Supervisory Board, Management Board and the first management level below the Management Board and information on corporate governance practices and the declaration of compliance according to Section 161 of the German Stock Corporation Act.

### MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and the Supervisory Board cooperate closely and faithfully in the interest of the Company. The chairman of the Supervisory Board has regular contact with the Management Board.

#### Management Board

The Management Board has two members: Olivier Elamine as Chief Executive Officer and Alexander Dexne as Chief Financial Officer. The Management Board is responsible for running alstria in the interest of the Company with the aim of sustainably increasing the Company’s value. It sets the business goals and –in conjunction with the Supervisory Board– the strategic direction of the Company. The tasks of the Management Board and the allocation of responsibilities between the individual members of the Management Board are stipulated in the rules of procedure for the Management Board. The members of the Management Board are obligated to immediately disclose any conflicts of interest to the Supervisory Board. The members of the Management Board may only conduct secondary activities, particularly memberships in the supervisory boards of companies not affiliated with the Group, with the approval of the Supervisory Board. The members of alstria’s Management Board had no conflicts of interest in the reporting year. The members of the Management Board serve on no supervisory boards of listed companies outside of the Group or in supervisory boards of companies with comparable requirements. Major business transactions between the Company and members of the Management Board, or with any persons or companies in close association with them, require the approval of the Supervisory Board. All such business transactions must be concluded at customary commercial conditions. There were no contracts with regard to such business transaction during the reporting period.

## Corporate Governance

The members of the Management Board are appointed by the Supervisory Board, who monitors and advises the Management Board on management issues. The Management Board involves the Supervisory Board in all decisions of fundamental importance to the Company. The rules of procedure for the Supervisory Board stipulate that certain, significant business transactions by the Company are subject to the approval of the Supervisory Board. For example, the acquisition or disposal of real estate property for a consideration of more than EUR 30 m, entering into financing agreements with a volume of more than EUR 30 m, entering or prematurely terminating lease contracts with an annual consideration of more than EUR 2 m, or investing in Company assets (modernization measures) with an annual total sum of more than EUR 2 m, if such investments have not already been included in the budget as approved by the Supervisory Board.

### Supervisory Board

In accordance with the Articles of Association, the Supervisory Board is composed of six members. The Supervisory Board is currently comprised of the following members:

Member	Profession	Appointed until
Dr. Johannes Conradi (Chairman)	Lawyer and partner, Freshfields Bruckhaus Deringer LLP	2020 <sup>1)</sup>
Richard Mully (Vice-Chairman)	Director, Starr Street Limited	2019 <sup>1)</sup>
Dr. Bernhard Düttmann	Independent business consultant	2017 <sup>1),2)</sup>
Stefanie Frensch	Managing Director, HOWOGE Wohnungsbaugesellschaft mbH	2021 <sup>1)</sup>
Benoît Hérault	Managing Director, Chambres de l'Artémise S.à r.l.	2019 <sup>1)</sup>
Marianne Voigt	Managing Director, bettermarks GmbH	2020 <sup>1)</sup>

<sup>1)</sup> Until the end of the Annual General Meeting.

<sup>2)</sup> Judicial Appointment.

The following changes took place in the composition of the Supervisory Board in 2016: Stefanie Frensch was elected as member of the Company's Supervisory Board by the Annual General Meeting held on May 12, 2016. With the close of this Annual General Meeting, the office term of the Chairman of the Supervisory Board, Alexander Stuhlmann, ended. On the same day, the Supervisory Board elected Dr. Johannes Conradi as Chairman of the Supervisory. Vice-Chairman Hermann Dambach resigned from the Supervisory Board, effective October 31, 2016. In the meeting on November 30, 2016, the Supervisory Board elected Richard Mully as new Vice-Chairman of the Supervisory Board. Dr. Bernhard Düttmann was appointed successor of Mr. Dambach by resolution of the Hamburg Local Court (Registration Court) to the Supervisory Board in January 2017.

A list on all memberships of the Supervisory Board members in supervisory or similar controlling bodies in companies external to the Company group pursuant to Section 285, No. 10, of the HGB is presented on pages 121 to 122 of the annual report.



No former Management Board members sit on the Supervisory Board. The Supervisory Board is composed of members who have the necessary knowledge, competence and professional experience to properly carry out their duties.

With due consideration of the specific alstria situation, the Supervisory Board specified the following goals for its composition as recently as November 2016, which are to be considered in its proposals to the shareholders in the General Meeting regarding new elections to the Supervisory Board:

1. Diversity

The members of the Supervisory Board should be reliable and, as a group, possess the knowledge, competence and professional experience necessary to properly carry out their duties as Supervisory Board members.

2. Women

For the female representation in the Supervisory Board, a quota of at least 30% is determined.

3. Experience abroad

At least two members of the Supervisory Board shall have acquired reasonable international experience.

4. Independence

At least three members of the Supervisory Board shall have no business or personal relationships—which could cause a substantial and not temporary conflict of interest—with the Company, its executive bodies, a controlling shareholder or an enterprise associated with the latter.

5. Independent financial expert

At least one independent member of the Supervisory Board should have expertise in accounting or the audit of annual statements.

6. Other conflicts of interest

At least three members of the Supervisory Board shall not have any consulting or representation duties with main tenants, lenders or other business partners of the Company.

7. Age limit

Members of the Supervisory Board should not be older than 70 years of age as a general rule.

8. Length of membership

The membership in the Supervisory Board shall not exceed 20 years as a general rule.

In November 2016, the Supervisory Board assessed the implementation of these targets and came to the conclusion that all targets named above are met as of the reporting date.

Aside from the objectives for its composition, the Supervisory Board also regularly reviews its efficiency. Therefore, the work of the Supervisory Board is analyzed in a structured and transparent manner to sustainably improve the processes and structure.

In its report to the Annual General Meeting, the Supervisory Board reports on its activities undertaken in financial year 2016. The report is presented on pages 126 to 132 of the annual report.

### Supervisory Board committees

The Supervisory Board has formed three standing committees. Each committee has its own rules of procedure to specify its concerns and tasks.

The audit committee monitors the Company's financial reporting process, engages the independent auditors to prepare audit reports, determines the key audit areas and the independent auditors' compensation and is responsible for issues concerning risk management, internal control, internal audit and compliance. In the complete 2016 financial year, the audit committee was comprised of Marianne Voigt as Chair and Benoît Héroult as a member. Dr. Johannes Conradi was a member of the audit committee until May 12, 2016. On the same date, Richard Mully was elected as his successor to become a member of the audit committee.

The finance and investment committee discusses the Company's financing strategy and approves the acquisition or disposal of real estate property or other assets worth between EUR 30 m and EUR 100 m, as well as financing agreements with a financing volume between EUR 30 m and EUR 100 m. Transactions of a value greater than this amount are to be presented to the entire Supervisory Board for approval. The finance and investment committee, furthermore, approves the conclusion, renewal or early termination of lease agreements with third parties with a total annual consideration of more than EUR 2 m, as well as contracts with Supervisory Board members, according to Section 114 of the German Stock Corporation Act (*Aktiengesetz*, AktG). In the complete 2016 financial year, the finance and investment committee comprised Richard Mully as Chair and Benoît Héroult as a member. Hermann Dambach was a member of the finance and investment committee until he resigned as a member of the Supervisory Board effective October 31, 2016. Effective September 8, 2016, Stefanie Frensch was elected to become a further member of the finance and investment committee.

The nomination and remuneration committee prepares resolutions for the entire Supervisory Board for the appointment and dismissal of members of the Management Board, for the Management Board's compensation system and for the total remuneration of individual members of the Management Board. Furthermore, it deals with the resolution of, or amendments to, the rules of procedure for the Management Board, as well as the approval of certain other activities and primary contracts of members of the Management Board. Apart from the amount of compensation, the nomination and remuneration committee decides on the conclusion, amendment, extension and termination of contracts with Management Board members and on the content of such contracts. Finally, the committee prepares the resolutions for the Supervisory Board regarding the proposal of the appointment of suitable Supervisory Board members at Annual General Meetings. In the financial year 2016, the nomination and remuneration committee was comprised as follows: Alexander Stuhlmann was Chairman of the committee until his term of office ended with the close of the Annual General Meeting on May 12, 2016. Effective the same date, Dr. Johannes Conradi was elected to be the Chairman of the committee. Richard Mully was a member of the nomination and remuneration

committee during the entire 2016 financial year. Furthermore, Hermann Dambach was a member of the committee until he resigned from the Supervisory Board, effective October 31, 2016. Effective September 8, 2016, Stefanie Frensch was elected to become a further member of the nomination and remuneration committee.

Additionally, two special committees established by the Supervisory Board in 2015 acted in the 2016 financial year:

In May 2015, the Supervisory Board established a special committee authorized to grant all necessary approvals and make all other declarations required in connection with the takeover of DO Deutsche Office AG. The committee comprised Dr. Johannes Conradi as Chair and Benoît Héroult and Richard Mully as members.

In September 2015, the Supervisory Board established a further special committee authorized to grant all necessary approvals and make all other declarations required in connection with the issuance of bonds. The committee comprised Dr. Johannes Conradi as Chair and Hermann Dambach, Benoît Héroult and Richard Mully as members.

The Supervisory Board reports on the activities of the committees of the Supervisory Board during 2016 financial year in its report to the Annual General Meeting on pages 126 to 132 of the annual report.

### TARGET QUOTAS FOR WOMEN'S PARTICIPATION

The Management Board pays attention to diversity in filling its management positions and aims to adequately consider women for these positions. In September 2015, the Management Board determined the women quota for the first management level below the Management Board shall not fall below 27.3%. This target quota has been achieved as of December 31, 2016, and applies, for the time being, until June 30, 2017. In lack of a further management level with decision-making competence and budget responsibility, a target quota of women's participation for the second management level was not to be determined.

Also, in September 2015, the Supervisory Board determined—and in November 2016, confirmed—a target quota of at least 30% for the Supervisory Board. This quota is currently achieved: On December 31, 2016, the women quota in the Supervisory Board amounted to 33.34%. For the participation of women in the Management Board, the Supervisory Board determined a quota of 0% in September 2015. This quota has been achieved and applies until June 30, 2017.

## COMMUNICATION AND TRANSPARENCY

A transparent corporate governance and good communication with the shareholders and the public contribute to strengthening investor and public trust in alstria's work.

### Communication with the public

When sharing information with people outside the Company, the Management Board follows the principles of transparency, promptness, openness, clarity and a policy of equal treatment of its shareholders. In particular, alstria informs its shareholders and the interested public about the Company's situation and significant business events through financial reports, analyst and press conferences, press and ad-hoc announcements and the Annual General Meeting. The alstria website includes information on the Company and its shares, especially concerning its financial reports, share price tracking and Managers' Transactions Disclosure pursuant to Article 19 of the Market Abuse Regulation (Directors' Dealings). Moreover, alstria's financial reports and website include a financial calendar that indicates all dates of importance to shareholders. The announcements and pieces of information are additionally published in English.

### Relationship to the shareholders

alstria respects the rights of its shareholders and makes the best efforts to guarantee the exercise of those rights to the extent stipulated by law or its bylaws. In particular, these include the right to freely purchase and sell shares, to have an appropriate level of access to information, to an adequate number of voting rights per share (one share, one vote) and to participate in our Annual General Meeting. Shareholders have the option of exercising their voting rights personally, via an authorized representative present at the Annual General Meeting or by sending voting instructions to their proxies. The invitation to the Annual General Meeting includes an explanation of how voting instructions can be issued. The Articles of Association do not stipulate an option to vote by written mail. By means of authorizing a proxy, shareholders now have the possibility to vote prior to the date of the Annual General Meeting. This is why an additional option of voting by written mail would not facilitate the exercise of the shareholders' rights.

It is possible to send invitations and documents for General Meetings to the shareholders electronically upon request. The invitation and the documents are to be made available for viewing prior to the upcoming Annual General Meetings pursuant to the legal provisions that will be published on the Company's website with additional documents pursuant to Section 124a of the German Stock Corporation Act (*Aktiengesetz*, AktG) and the agenda. The results of the votes will likewise be published on the Company's website following the Annual General Meeting.

### Financial reporting

alstria regularly informs shareholders and third parties by publishing its consolidated and half-year financial statements, as well as quarterly interim statements, in the course of each financial year. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). For legal reasons (calculating dividends, creditor protection), financial statements for alstria office REIT-AG are also prepared in accordance with the HGB.

The consolidated financial statements and the financial statements of alstria office REIT-AG are audited by the independent auditor as appointed by the shareholders in the Annual General Meeting and by the Supervisory Board. After examining its independence and following the election of the Annual General Meeting, the audit committee of the Supervisory Board appoints an external auditing firm to audit the financial statements and negotiate the respective auditing fees. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg branch, was appointed to audit the annual and half-year financial statements of alstria office REIT-AG and of the Group for the 2016 financial year and for further interim financial reports until the next ordinary general meeting in 2017. The auditors participate in the plenary sessions of the audit committee and the Supervisory Board to advise on the consolidated financial statements and the financial statements of alstria office REIT-AG and to present the key findings of the audit.

### SUSTAINABILITY

alstria's sustainability approach is based on a three-pillar model, taking the impact of business on the following pillars into account: the economy, the environment and social issues.

As a commercial organization, alstria's main objective is to optimize its long-term sustainable value. It strives to generate the best yield possible on its equity over time. alstria's approach to sustainability does not solely focus on environmental matters, but it considers the economic and social impacts of its actions as well. alstria weighs the risk-benefit ratio of the three areas before making any decisions and adapts its actions to what it feels is the most viable course of action in each case. The result of this approach is that alstria might not always make decisions that maximize its short-term benefits, striving to always take the path that will yield the best long-term prospects for the Company.

alstria's sustainability approach, its achievements in its three defined areas of sustainability and the Company's related future targets are described in detail in the Company's yearly sustainability report. The report is available on the Company's website.

### COMPLIANCE

Complying with the legal provisions and treating business partners and competitors fairly is one of alstria's most important principles. In doing so, alstria regards itself as not only being bound to the law. In accordance with Section 4.1.3 of the German Corporate Governance Code, the Management Board ensures compliance with the legal provisions and Company guidelines throughout all of the Group's

## Corporate Governance

companies. The entire Company shares the understanding that the trust of alstria's shareholders, tenants, employees and business partners crucially depend on the behavior of each individual employee.

For this reason, alstria has developed a code of conduct, listing guidelines for behavior and providing orientation to resolve conflicts (e.g., conflicts of interest), thereby serving as a model for correct behavior for all employees of the Company. The code of conduct is published on the Company's website.

alstria has set up a compliance organization to communicate the values laid out in the code of conduct and Company guidelines and to monitor compliance with these values. The compliance officer is responsible for communicating these values by answering questions on the implementation of the code and by offering in-house training for all employees. Compliance is monitored by colleagues, supervisors and the compliance officer, as well as via regular investigation by auditors. alstria has also set up a hotline through which employees can anonymously report any violations of the code of conduct or the Company's internal guidelines. Furthermore, the Management Board regularly discusses Company compliance with the Supervisory Board's audit committee.

Violations of the code of conduct will not be tolerated; they will be fully investigated and the violators punished. This can include anything from disciplinary measures to dismissal, a claim for damages or even prosecution.

### GERMAN CORPORATE GOVERNANCE CODE

alstria's value-oriented corporate management has already implemented many of the principles of the most recent version of the German Corporate Governance Code (dated May 5, 2015) to an extent beyond what is legally required. The principles and recommendations of the Government Commission, as appointed by the German Federal Ministry of Justice, contain internationally and nationally recognized standards for effective and responsible corporate management.

The Company's declaration of compliance with the recommendations of the German Corporate Governance Code is published on the Company's website ([www.alstria.com](http://www.alstria.com)). After careful consideration, alstria has chosen not to comply with some of the Code's recommendations. These items and the reasons for the Company's nonconformity are set out in the declaration of compliance as issued by the Management Board and the Supervisory Board on February 15, 2017:

### **DECLARATION OF COMPLIANCE, DATED FEBRUARY 15, 2017**

“Since the prior declaration of compliance, dated February 25, 2016, the company has—apart from the exceptions stated below—complied with the recommendations of the ‘Government Commission German Corporate Governance Code’ as amended on May 5, 2015. The Company intends to continue to comply with the recommendations of the Code as amended on May 5, 2015, to the same extent:

#### **Deductible for D&O insurance for the Supervisory Board, Section 3.8**

The D&O insurance for the alstria office REIT-AG Supervisory Board does not comprise a deductible. The Supervisory Board believes its members will carry out their duties responsibly irrespective of any such deductible.

#### **Change of performance targets for elements of variable remuneration, Section 4.2.3**

The short-term incentive remuneration element of the Management Board is mainly based on the achievement of a funds from operations (FFO) target. In the event that the FFO achieved in a financial year is positively and materially impacted by new acquisitions, the Supervisory Board adjusts the FFO target accordingly. In doing so, the Supervisory Board ensures the Management Board is not incentivized to enter into acquisitions by means of achieving personal short-term benefits. The impact of any acquisition on the management remuneration is solely linked to multi-year remuneration elements, therefore aligning the interest of the Management Board with those of the Company and its shareholders. Vice versa, the Supervisory Board adapts the FFO target to disposals.

#### **Determination of a level of benefits for the private pension plan, Section 4.2.3**

As the Company has opted for a defined contribution model for the private pension plan of the Management Board members for reasons of transparency and risk management, the Supervisory Board has not fixed a level of benefits for the private pension plan of the Management Board members. The Supervisory Board believes it is in the best interest of the Company to have a defined contribution model rather than a defined benefit model, as the defined contribution does not create any unforeseen future liability for the Company.

#### **Discussion of the financial reports by the Supervisory Board or its audit committee and the Management Board prior to their publication, Section 7.1.2**

The quarterly interim statements are made available to the Supervisory Board prior to their publication and are discussed with the Supervisory Board in detail soon after publication. In the event of considerable differences to the budget or business plan as approved by the Supervisory Board, the Supervisory Board is given the opportunity to discuss the figures with the Management Board before they are published. Half-year financial reports will be discussed with the audit committee of the Supervisory Board prior to publication beginning financial year 2017. The Management Board and Supervisory Board consider this approach appropriate and adequate.”

## Corporate Governance

All other recommendations of the German Corporate Governance Code dated May 5, 2015, have been fully implemented. alstria has appointed a corporate governance officer within the Company who will report any changes of the Code to the Management Board and the Supervisory Board at least once per year and whenever necessary. In this way, alstria ensures consistent compliance with these principles. Analysis, supervision and transparency are the measures undertaken to lay the foundation for fair and efficient corporate management. They will remain the key criteria in the future.

March 2017

The Management Board

The Supervisory Board



## REMUNERATION REPORT\*

### REMUNERATION OF THE MANAGEMENT BOARD MEMBERS

The remuneration system for the members of the Management Board is determined by the Supervisory Board and is reviewed regularly. 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.

---

\* This remuneration report forms an integral part of the audited Group management report and Notes to the annual financial statements.

### 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%	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.

	Start of deferral period	Reference share price in EUR	End of deferral period	Olivier Elamine Number of virtual shares	Alexander Dexne Number of virtual shares
STI 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.

## Corporate Governance

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	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.

## Corporate Governance

### 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		Alexander Dexne	
	CEO		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	<b>65.66</b>
Richard Mully	Vice-Chairman <sup>2)</sup>	A <sup>2)</sup> , B, C (ch)	54.50	<b>61.81</b>
Stefanie Frensch since May 12, 2016	Member <sup>2)</sup>	B <sup>2)</sup> , C <sup>2)</sup>	-	<b>29.99</b>
Benoît Hérault	Member	A, C	47.85	<b>57.00</b>
Marianne Voigt	Member	A (ch)	57.00	<b>57.00</b>
Alexander Stuhlmann until May 12, 2016	Chairman <sup>2)</sup>	B (ch) <sup>2)</sup> , C <sup>2)</sup>	75.08	<b>25.62</b>
Hermann Dambach until October 31, 2016	Vice-Chairman <sup>2)</sup>	B <sup>2)</sup> , C <sup>2)</sup>	9.92	<b>50.28</b>
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.

<sup>2)</sup> Temporarily.

## REIT DISCLOSURES

### REIT DECLARATION

#### Statement of the management board

In relation with our financial statements according to Section 264 of the German Commercial Code (*Handelsgesetzbuch, HGB*) and our consolidated financial statements according to Section 315a HGB as per December 31, 2016, the management board issues the following declaration regarding compliance with the requirements of Sections 11 to 15 of the REIT Act (German Real Estate Investment Trust Act) and regarding the calculation of the composition of income subject to and not subject to income tax for the purpose of Section 19 paragraph 3 REIT Act in conjunction with Section 19a REIT Act:

1. As per balance sheet date, 75.22% of alstria's shares were free float according to Section 11 paragraph 1 REIT Act. This was disclosed to the German Federal Financial Supervisory Authority (BaFin).
2. In accordance with Section 11 paragraph 4 REIT Act, as per balance sheet date, no shareholder owned directly 10% or more of our shares or shares of such an amount, that he holds 10% or more of the voting rights.
3. In relation to the sum of the assets pursuant to the consolidated statements less the distribution obligation and the reserves pursuant to Section 12 paragraph 2 REIT Act
  - a) as per the balance sheet date the immovable assets amounted to EUR 3,050,147 k which equals to 90.17% of the assets, therefore at least 75% of the assets belong to the immovable assets;
  - b) the assets belonging to the property of REIT service companies as per balance sheet date which were included in the consolidated statements amount to a maximum of 20%, namely EUR 1,546 k and therefore 0.05%.
4. In relation to the sum of the entire sales revenue plus the other earnings from immovable assets pursuant to the consolidated financial statements according to Section 12 paragraph 3 and 4 REIT Act
  - a) for the financial year 2016, the entire sales revenues of the Group plus other earnings from immovable assets amounted to EUR 306.4 m. This equals 100% of total revenues plus other earnings from immovable assets;
  - b) the sum of the sales revenue plus the other earnings from immovable assets of REIT service companies amounted to EUR 186 k in the financial year 2016. This equals 0.06% of total revenue plus other earnings from immovable assets.



## REIT Disclosures

5. In the financial year 2016, a dividend payment of EUR 76,564 k for the prior financial year was distributed to the shareholders. The financial year 2015 resulted in a net loss amounted to EUR 174,132 k according to commercial law pursuant to Section 275 HGB.
6. alstria office REIT-AG's dividend does not derive from already taxed parts of the profit.
7. Since 2012, the Group has realised 32.75% of the average portfolio of its immovable assets and therefore did not trade with real estate according to Section 14 REIT Act.
8. On balance sheet date the Group's equity as shown in the consolidated financial statements according to Section 12 paragraph 1 REIT Act was EUR 1,728.4 m. This equals to 56.67% of the value of the immovable assets which are shown in the consolidated financial statements in conformance with Section 12 paragraph 1 REIT Act.

### **alstria office REIT-AG**

Hamburg, February 21, 2017

**Olivier Elamine**  
CEO

**Alexander Dexne**  
CFO

## REIT MEMORANDUM

We summarized the result of our audit in an auditor's memorandum according to Section 1 (4) Clause 5 of the Act on German Real Estate Stock Corporations with listed Shares:

**Auditor's memorandum according to section 1 (4) of the Act on  
German Real Estate Stock Corporations with listed Shares (REIT Act)**

To alstria office REIT-AG, Hamburg

As auditor of the annual financial statements and the consolidated financial statements of alstria office REIT-AG, Hamburg, for the financial year from January 1 to December 31, 2016, we have audited the information given in the attached declaration of the management board members for the compliance with the requirements of Section 11 to 15 of the REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19 (3) and Section 19a REIT Act as of December 31, 2016 (hereinafter referred to as 'REIT declaration'). The information given in the REIT declaration is in the responsibility of the management board of the Company. Our responsibility is to express an opinion on the information given based on our audit.

We conducted our audit considering the audit guidance promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW): Particularities concerning the audit of a REIT stock corporation according to Section 1 (4) REIT Act, a pre-REIT stock corporation according to Section 2 Clause 3 REIT Act and the audit according to Section 21 (3) Clause 3 REIT Act (IDW PH 9.950.2). Therefore we have planned and performed our audit to make a judgment with reasonable assurance if the free float ratio and the maximum stock ownership per shareholder according to Section 11 (1) and (4) REIT Act agrees with the announcements due to Section 11 (5) REIT Act as of December 31, 2016 and if the provided information concerning the requirements of Section 12 to 15 REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19a REIT Act is appropriate. It was not part of our engagement to fully assess the companies tax assessments or position. Within our audit procedures we compared the information concerning the free float ratio and the maximum stock ownership per shareholder according to Section 11 (1) and (4) REIT Act provided within the REIT declaration with the announcements due to Section 11 (5) REIT Act as of December 31, 2016 and agreed the provided information concerning the requirements of Section 12 to 15 REIT Act with the information disclosed in the annual financial statements and the consolidated financial statements of the Company. Furthermore we tested the adjustments made to the valuation of immovable assets held as investment for their compliance with Section 12 (1) REIT Act. We believe that our audit provides a reasonable basis for our opinion.

## REIT Disclosures

In our opinion based on the findings of our audit, the information given in the REIT declaration concerning the free float ratio and the maximum stock ownership per shareholder due to Section 11 (1) and (4) REIT Act agrees with the announcements made according to Section 11 (5) REIT Act as of December 31, 2016 and the information provided concerning the compliance with Section 12 to 15 REIT Act and the composition of the proceeds concerning the pre-taxation of proceeds according to Section 19a REIT Act are appropriate.

This memorandum is solely provided for submission to the tax authorities of the city of Hamburg within the tax declaration according to Section 21 (2) REIT Act.

Hamburg/Germany, February 21, 2017

**Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

*(Seal)*

**Signed: Reiher**

Wirtschaftsprüfer

[German Public Auditor]

**Signed: Deutsch**

Wirtschaftsprüferin

[German Public Auditor]

## OTHER INFORMATION

### FINANCIAL CALENDAR

---

#### Events 2017

---

May 9	Publication of Q1 Interim report
May 16	Annual General Meeting
August 8	Publication of Q2 Half-year interim report
November 7	Publication of Q3 Interim report Publication of sustainability report

---

### CONTACT/IMPRINT

alstria office REIT-AG is a member of DIRK (Deutscher Investor Relations Verband, the German Investor Relations Association).

Other reports issued by alstria office REIT-AG are posted on the Company's website.

#### Forward-looking statements

This annual report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise the actual results could differ materially from the results currently expected.

#### Note

This report is published in German (original version) and English (non-binding translation).

#### Contact Investor Relations

Ralf Dibbern

Phone +49 (0) 40 22 63 41-329

Fax +49 (0) 40 22 63 41-229

E-Mail [rdibbern@alstria.de](mailto:rdibbern@alstria.de)

BUILDING YOUR FUTURE



**alstria office REIT-AG**

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

[info@alstria.de](mailto:info@alstria.de)

Bäckerbreitergang 75  
20355 **Hamburg**, Germany  
T +49 (0) 40 / 22 63 41-300  
F +49 (0) 40 / 22 63 41-310

Platz der Einheit 1  
60327 **Frankfurt / Main**, Germany  
T +49 (0) 69 / 153 256-740  
F +49 (0) 69 / 153 256-745

Elisabethstrasse 11  
40217 **Düsseldorf**, Germany  
T +49 (0) 211 / 30 12 16-600  
F +49 (0) 211 / 30 12 16-615

Danneckerstrasse 37  
70182 **Stuttgart**, Germany  
T +49 (0) 711 / 33 50 01-50  
F +49 (0) 711 / 33 50 01-55