leg-se.com

2022

Annual Report

LEG

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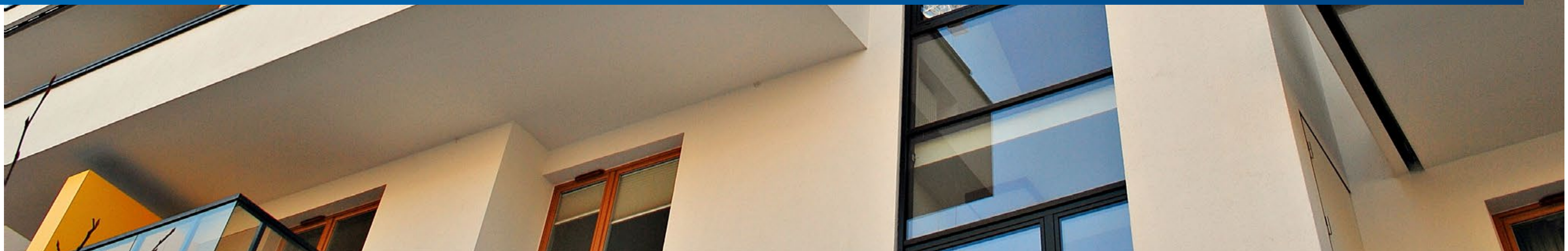


BRIEF PORTRAIT

With around 167,000 rental properties, approximately 500,000 tenants and 2,040 employees (as at 31 December 2022), Dusseldorf-based LEG is one of Germany's leading listed housing companies. The company is listed on the MDAX and generated rental and lease income of EUR 1,149 million in the 2022 financial year. As the biggest landlord in North Rhine-Westphalia, Germany's most populous state, in addition to being active in other states in Germany, it serves the growing demand for housing for low and medium-income earners. The company focuses on the "affordable living" segment.

A consistently value-driven business model with a focus on resilience and customers combines the interests of tenants, shareholders and society. Customer satisfaction is especially important to LEG. It is therefore constantly striving to further improve the quality of its service by focusing on its target group, neighbourhood management and personal service. LEG also fulfils its social responsibility via its two foundations, the "LEG NRW Tenant Foundation" and the "Your Home Helps" foundation.

Targeted and sustainable investments ensure the quality of LEG's property portfolio and meet growing customer needs. The company places particular emphasis on measures to protect the climate and making its portfolio more energy-efficient.

Key figures

T1

		2022	2021	+/– %/bp
Financial Key Figures				
Rental income	€ million	799.1	683.9	16.8
Net operating income (recurring)	€ million	621.0	540.0	15.0
EBITDA	€ million	942.4	2.272.8	–58.5
EBITDA (adjusted)	€ million	598.7	512.2	16.9
EBT	€ million	508.0	2.138.7	–76.2
Net profit or loss for the period	€ million	237.4	1.724.7	–86.2
FFO I	€ million	482.0	423.1	13.9
FFO I per share	€	6.56	5.84	12.3
FFO II	€ million	483.7	419.9	15.2
FFO II per share	€	6.58	5.79	13.6
AFFO	€ million	108.8	92.2	18.0
AFFO per share	€	1.48	1.27	16.5
Dividend per share	€	0.00	4.07	–
Balance Sheet Key Figures		31.12.2022	31.12.2021	+/– %/bp
Investment property	€ million	20,204.4	19,178.4	5.3
Cash and cash equivalents	€ million	362.2	675.6	–46.4
Equity	€ million	9,083.9	8,952.9	1.5
Total financing liabilities	€ million	9,460.8	8,884.3	6.5
Current financing liabilities	€ million	252.4	1,518.1	–83.4
LTV	%	43.9	41.9	200
Equity ratio	%	42.5	43.5	–100
EPRA-NTA, diluted	€ million	11,377.2	11,261.5	1.0
EPRA-NTA pro Aktie, diluted	€	153.52	147.58	4.0
Other Key Figures		31.12.2022	31.12.2021	+/– %/bp
Number residential units		167,040	166,189	0.5
In-place rent	€/sqm	6.33	6.13	3.3
In-place rent (l-f-l)	€/sqm	6.32	6.13	3.1
EPRA vacancy rate	%	2.9	2.8	10
EPRA vacancy rate (l-f-l)	%	2.4	2.6	–20
Employees		2,040	1,770	15.3

bp = basis points

482.0 million

In 2022, LEG could increase FFO I by 13.9 % to 482.0 milion. FFO I is an important earnings indicator for the property industry.

108.8 million

In 2022, LEG could increase AFFO by 18.0 % to 108.8 million. AFFO reflects the earned and freely available cash flow. In the current interest environment LEG is therefore linking corporate success in 2023 to AFFO in instead of FFO I.

2,040

LEG had a total of 2,040 employees on 31 December 2022, 270 colleagues more than on the previous year's reporting date. The LEG team mainly grew at sites in northern Germany, which belong to LEG only since the turn of the year 2021/2022.

2.4 %

The vacancy rate on a like-for-like (l-f-l) basis fell once more to 2.4 %. Excluding the portfolios acquired in late 2021, the vacancy rate in 2022 would be at a new all time low of just 1.9 %.

ESG ratings

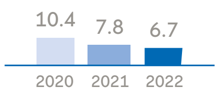
By actively participating in ESG ratings, LEG is transparent with the capital market about the sustainability performance and provide an indication of the extent to which the company has embedded sustainability agencies' ESG criteria in individual areas of the business strategy.

Our aim is to perform better than the sector average and continually improve. Given the high number of ratings, we take care to ensure a good balance between the work that goes into them and the knowledge gained. And it does so with success:

LEG again improved in Sustainalytics's ESG risk rating in the 2022 financial year. LEG was given an updated rating of 6.7, which represents another significant improvement. The assessment of the company's long-term development remains in the lowest risk category ("negligible"). With the rating update, the company has therefore achieved its governance target for the 2022 financial year of maintaining the lowest risk category as achieved in 2021.

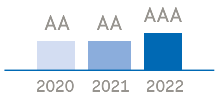
Overview of participation in ESG ratings

In autumn 2022, LEG initiated an update of its Sustainalytics ESG Risk Rating, which improved further following the completion of the review. The rating is now 6.7. The lowest risk category in respect of experiencing material financial impacts from ESG factors, "negligible risk", was confirmed once again, meaning that the short-term governance target for the 2022 financial year was achieved accordingly. Sustainalytics' ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company manages those risks.



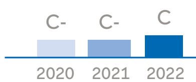
Positive development

The MSCI ESG rating measures how resilient a company is to long-term, sector-relevant environmental, social and governance risks. MSCI ESG ratings range from "Leader" (AAA, AA) to "Average" (A, BBB, BB) to "Laggard" (B, CCC). MSCI upgraded LEG's ESG rating from AA to AAA in December 2022, giving it the best possible rating in the "Leader" category.



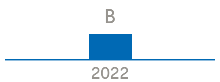
Positive development

ISS analyses how a company approaches ESG issues on the basis of up to 100 assessment criteria, most of which are sector-specific. The ISS ESG Corporate Rating is based on a 12-point scale from A+ (excellent performance) to D- (poor performance). LEG was awarded Prime status by ISS for its sustainability performance in the 2022 financial year. According to ISS, companies with Prime status are above the sector-specific threshold in terms of their ESG performance. The status upgrade awarded to LEG therefore confirms that its ESG efforts make it an industry leader and that it is well positioned to deal with ESG risks and to identify opportunities.



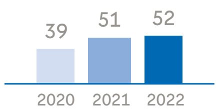
Positive development

CDP is a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impact and detail the associated risks and opportunities. LEG took part in CDP's climate change programme for the first time in 2021. As this was the first time it participated, the achieved score was not published. In the second assessment in the 2022 financial year, LEG was awarded a climate change rating of "B" ("Management Level"). The company made progress in nine out of 11 categories and beat the industry average in almost every category.



Initial disclosure of the rating

LEG's ESG score improved slightly from 51 in 2021 to 52 in 2022, according to an ESG Assessment from Moody's Analytics. Moody's ESG Assessments evaluate how companies manage their exposure to ESG risks and opportunities that are material to their business and stakeholders.



Positive development

The EPRA Sustainability Best Practice Recommendations (sBPR) aim to make public ESG information more transparent and comparable by providing a range of key metrics in the three impact categories of environment, social and governance. LEG was granted the Gold Award in recognition of its performance for the third time in a row in 2022. The company places great value on the EPRA report, as the EPRA sBPRs are the only industry standard for the disclosure of ESG information at European listed property companies.

In the summer of 2021, LEG informed the Science Based Target Initiative (SBTi) that it would submit Science Based Targets (SBTs) under the 2005 Climate Agreement for validation by the Initiative within 24 months. It did this in the 2022 reporting year. SBTs are a way of setting clear and reliable emission reduction targets on the basis of scientific findings. LEG expects the Initiative to validate the targets in summer 2023. By establishing science-based targets to reduce greenhouse gas emissions, the SBTi helps companies develop a clear roadmap to improving sustainability or, in LEG's case, to further underscore this roadmap.

LEG, its subsidiaries and its foundations – good partners in uncertain times

Our world seems to have fallen into a state of disarray: Climate change and coronavirus, a war in the middle of Europe, inflation and the energy crisis – these are issues that have many people feeling worried. We are reliably by our stakeholders' side in these troubled times and are developing concepts for a good future.

850,000
EUR

02/22 Rapid assistance for refugees from Ukraine

On 28 February, we set up a coordination centre for local councils for accommodation for refugees. By the end of the year, LEG furnished and allocated 1,700 apartments in around 60 cities for refugees. The "Your Home Helps" Foundation provided financing of EUR 850,000 in particular to help set up 250 apartments for arriving families as well as organised playful distractions for children from warzones and supported benefit events with donations and sponsorship together with LEG.

01/22 Still combating the effects of flooding

At the start of 2022, the remaining donations from the flood relief fund set up in the summer of 2021 by LEG's two foundations (the "Your Home Helps" Foundation and the LEG NRW Tenant Foundation) were handed over to non-profit aid organisations that continued to help rebuild in Ahrtal and other affected regions.

03/22 Good living in Duisburg-Hochfeld

Since March, we have been helping Talentmetropole Ruhr to establish two education projects in Duisburg-Hochfeld. Duisburg-Hochfeld is to be made into a model district as part of the "Urbane Zukunft Ruhr" flagship project by Initiativkreis Ruhr, an association of more than 60 companies and institutions campaigning for structural change in the region.

04/22 Top gear for climate protection with Renowate

On 1 April, LEG Immobilien SE and the Austrian company Rhomberg Bau met with high-ranking representatives from the worlds of business, science and politics to celebrate the founding of their joint venture for serial solutions for the decarbonisation of residential buildings: Renowate. Throughout the DACH region, the company wants to help others to achieve the European Union's ambitious climate protection targets. Several hundred experts have since visited "serial" LEG and Renowate construction sites in Mönchengladbach. Two pilot projects for LEG were successfully completed in autumn; also, it acquired its first external customer from outside the housing industry.

05/22 Inauguration of new, sustainable LEG head office

We set a standard for climate and environmental protection with the energy-saving building concept for our new headquarters "F99" in Dusseldorf's Airport City. "F99" was inaugurated by the Lord Mayor of Dusseldorf on 28 May in a ceremony attended by many employees and their families. The head office is pre-qualified for strict DGNB gold certification.

06–08/22 **Fun and games in the summer holidays**

In 2022, LEG organised a lively holiday programme for families – there was a lot of catching up to do after two years of COVID restrictions. Events were held at around 50 LEG locations in the summer months – half in cooperation with the LEG NRW Tenant Foundation, the regional council, the Red Cross, the Welfare Society or other housing companies.

08/22 **"Working through the energy crisis together"**

Just in time before the heating was switched on, the Management Board of LEG wrote to all tenants to be prepared for rising energy costs and to offer the promise of assistance in case of emergency. Our "Working through the energy crisis together" customer website went live at the same time. Here, customers can find all the important information on saving energy, heating settings, state relief programmes and much more besides. Together with its energy subsidiary ESP, LEG makes sure to get the best possible energy procurement, green electricity options and sustainable supply concepts, such as green district heating in Herne.

09/22 **Energy saving campaign "Don't burn your money"**

Back in 2021, we tested various approaches for changing residents' energy consumption habits in pilot neighbourhoods. What we learned was that even simple steps such as posters with clear messages like "Don't burn your money" and monthly consumption analysis led to carbon savings of up to 9%. We continued to roll out these measures in autumn 2022.

TalentMetropole Ruhr
53 Städte,
53.000 Möglichkeiten

10/22 **Long-term cooperation agreed with Talentmetropole Ruhr**

Since 2020, LEG's own "Your Home Helps" Foundation has been working on individual projects with the Talentmetropole Ruhr Foundation; financial support for the next several years was also agreed in autumn 2022. The two foundations share the goal of helping disadvantaged children and young people. LEG's CEO Lars von Lackum is a member of the Talentmetropole Ruhr Foundation's Board of Trustees.

11/22 **Social and energy consulting expanded further**

More and more people are worried about rising energy costs – this is increasingly being felt by charitable organisations and our "Your Home Helps" Foundation as well. The Foundation's social managers have therefore continued to step up their cooperation with organisations for energy and debt advice, building its own expertise in these areas that it can now actively apply.

12/22 **Christmas market with key handover in Ahrweiler**

Several LEG buildings in Bad Neuenahr/Ahrweiler were affected by the catastrophic flooding in the summer of 2021. Restoring housing estates and good neighbourhoods was an unprecedented challenge for us, and took longer than we would have wanted for our customers. As a small sign of our gratitude for tenants' trust and patience, and for the support of local hoteliers and service providers, LEG's Management Board, LEG branches and the "Your Home Helps" Foundation organised a small celebration on 6 December, Saint Nicholas Day, to meet with young and old and to await Saint Nicholas together.

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TO THE SHAREHOLDERS

Letter from the Management Board

Dear Shareholders,
Dear Readers,

The year 2022 marks a turning point in the history of Europe. Russia's aggression in Ukraine leaves us stunned. We are deeply affected by the suffering of the people. As a large owner of apartments in Germany, it was natural for us to immediately offer help to Ukrainians seeking protection in this country.

The global geopolitical and economic impact of Russia's war of aggression, which is contrary to international law, is being felt by everyone. Regarding the increased cost of living and energy, we welcome the rapid relief measures taken by the federal government, particularly the Wohngeld Plus (Housing Allowance Plus) initiative, which specifically benefits lower-income households. We flank the government support with advice of extensive energy-saving measures for our tenants, assistance with applications for housing allowances and the offer of installment payments, among other things. In short, as in the heyday of the pandemic, we are doing everything we can to retain our loyal customers. This has proven successful – for our tenants and for us.

Last but not least, the general conditions for our business have changed considerably in the wake of rising interest rates and inflation. We are responding to this development with a cash-focused business strategy adapted for the duration of the crisis to position LEG for a sustainable future – even in difficult times. In this context, our very good operating performance and the immense demand for and strongly reduced supply of affordable housing stand for a permanently crisis-resilient business model. We have therefore continued to develop successfully in 2022 despite a highly volatile environment:

- Our like-for-like (l-f-l) vacancy rate decreased once again; in our established markets it has been lower than ever before in LEG's more than 50-year history.
- We fully integrated around 22.000 apartments acquired in 2021 into our management platform within a few weeks. More than 200 new employees have become enthusiastic LEG colleagues. We have thus successfully completed the largest growth step in our history.
- Renowate, our joint venture for the serial, digital solution for energetic refurbishment of existing buildings, sets standards for efficient climate protection in the building sector.
- Our tenants and our employees reward LEG's reliability in difficult times with rising satisfaction levels.

Despite all the challenges, 2022 was a successful financial year for LEG. This is also reflected in the key figures.

Funds from operations (FFO I), currently the company's key financial indicator, rose by 13.9 % year-on-year to EUR 482.0 million in 2022. Significant positive effects resulted from higher rental income and the aforementioned successfully integrated acquisitions of the previous year. FFO I was thus within the expected range of 475 to EUR 485 million.

As spending discipline and liquidity provision are becoming increasingly important in the changed environment, it is worth looking at AFFO, which was previously reported as a subordinate cash-oriented indicator and that we have made the key performance indicator for LEG for fiscal year 2023. AFFO is FFO I adjusted for capitalized portfolio investments. In the reporting year, it was 18.0 % above the previous year at EUR 108.8 million. In addition to the increase in FFO I, AFFO also benefited from the slowdown in our capital expenditure. Here, too, we responded quickly to the changed environment and invested less than originally planned. At around 41 EUR/sqm, capital expenditure was already significantly below the initially planned 46 to 48 EUR/sqm and slightly below the previous year's figure of 42.50 EUR/sqm.

The actual rent on a l-f-l basis increased to an average of 6.32 EUR/sqm in the reporting period, representing a rise of 3.1 % within twelve months. We have thus slightly exceeded our target for rental growth in 2022.

In addition, the vacancy rate on a l-f-l basis fell from 2.6 % in the previous year to 2.4 % in the 2022 reporting year. Thus, it decreased once again – even though the acquisitions made in 2021 still have a noticeably higher average vacancy rate than LEG's original housing stock. Excluding the portfolios acquired in late 2021, the vacancy rate in 2022 would be just 1.9 %.

"Stable in the present, bold in the future – that's what LEG stands for with its 'good housing at fair prices' business model."

Lars von Lackum (CEO)

"Thanks to our increased cash flow orientation and forward-looking financial planning, we feel well positioned – even in a challenging capital markets environment."

Susanne Schröter-Crossan (CFO)

"Continuous improvements in our core business and a passion for innovation are driving us clearly forward."

Dr Volker Wiegel (COO)

The EPRA NTA per share as of 31 December 2022 was EUR 153.52. This is the result of a slight value increase of the residential portfolio of 1.9 % in the fiscal year 2022. This was still the outcome of the strong first half of fiscal year 2022, where it amounted to 6.1 %, while the valuation declined by 4.0 % in the second half of fiscal year 2022, which was in line with the company's expectations.

This makes our conservative financing strategy even more important to us. It is – and will remain – the hallmark of LEG. As of the 31 December 2022, reporting date, LEG's liabilities had an average remaining term of 6.5 years. The average interest cost was a low 1.26 %. LEG has no significant refinancing obligations until the beginning of 2024. In the past, we have always ensured a good mix between different forms of secured and unsecured debt financing. We are therefore held in equally high regard and trust by all players in the financial markets. As result, LEG has access to all forms of debt financing, even under the changed conditions. To provide for further liquidity in the current volatile market environment, the company concluded a syndicated working capital line of EUR 600 million in autumn 2022 and increased the existing commercial paper program by EUR 100 million to a total volume of EUR 600 million.

Net debt to real estate assets, also known as LTV (loan to value), was 43.9 % as of the 31 December 2022 reporting date. Our medium-term target for LTV remains unchanged at 43 %.

In order to strengthen LEG's capital base and in light of an unsecure market and interest rate environment, the Management Board and Supervisory Board of LEG Immobilien SE intend to propose to the Annual General Meeting on 17 May 2023 not to pay out a dividend for financial year 2022.

LEG's strong results for the fiscal year 2022 cannot hide the fact that our market environment has become considerably rougher. The rapid rise in interest rates has significantly changed the operating environment for the entire capital-intensive real estate sector. Rising requirements for energy efficiency and unclear subsidy conditions for construction measures pose additional challenges for the whole sector. Investors are currently waiting to see where a new balance will be found between interest rates, inflation, rental yields and thereby real estate valuations. As a result, the transaction market has come to a virtual standstill. According to the global real estate services provider CBRE, a particularly low level of activity was recorded in transactions with a volume of more than EUR 100 million. In 2022, such large-volume deals totaled just EUR 6.8 billion, which not only was far below the 2021 level of EUR 39.7 billion but also much lower than the five-year average of EUR 16.2 billion. Spending discipline is therefore the order of the day. Nevertheless, we are looking ahead with great confidence because our LEG is well positioned to emerge stronger from this crisis.

Our clear focus on good housing at fair prices is currently paying off notably in Germany. Demand in our market segment – affordable housing – continues to be strong. Already today demand far exceeds supply in many places. As a result, we are structurally fully leased. Even in the current environment our portfolio is achieving an attractive rental yield of more than 4 %.

The necessary immigration of skilled workers and the intake of refugees are intensifying the need for affordable housing, as is the declining number of completions in this segment. Well-known studies estimate that there is a shortage of around 700,000 apartments in Germany. At the same time, far fewer new homes are being built than originally planned. The 400,000 new homes per year originally targeted by the German government have become a distant prospect in light of the sharp rise in construction and financing costs and unrealistic subsidy conditions.

In a nutshell, we can say that our business model is extremely healthy and resilient to crises; the performance in the operative business is excellent. At the same time, we have the ambition to further optimize our core business in the future.

This is only possible with a dedicated, enthusiastic team committed to our product, our customers and our company every day. And that is what we have at LEG. For us, this is anything but a given. Therefore, we would like to take this opportunity to express our special thanks for the outstanding performance of all our employees.

Adjusted business strategy focuses on capital efficiency

We are ideally placed to navigate the current heavy seas in the housing industry. In addition, we want to navigate LEG through the storm as intelligently as possible. With the approval of the Supervisory Board, the Executive Board has therefore decided to adjust the business strategy for the duration of the unfavorable market environment as follows:

- **First: Improving cost structures and strengthening the operating business**
  A key driver of the adjusted strategy is the reduction in portfolio investment per square meter. For 2023, we have set ourselves the target of spending only 35 EUR/sqm. Compared with the original planning for 2022 of 46–48 EUR/sqm, this represents a real reduction of more than 40 %. At the same time, in 2023 we expect robust rental growth of 3.3 – 3.7 % on a l-f-l basis. We will also reduce our cost base by more than EUR 10 million.

- **Second: Run-off of the capital-intensive project development business**
  The development of new construction projects is capital-intensive and – against a backdrop of rising construction costs and interest rates, uncertain subsidy conditions and increasing environmental requirements – is no longer viable, especially in the "affordable housing" segment. Our customers, mainly people with low and medium incomes, can therefore no longer afford new-build rents. Consequently, we are discontinuing our new construction activities once projects already underway have been completed. Since our project development business is relatively small and has not been part of LEG's core business in the past, we can implement this run-off quickly.

- **Third: Positioning as a net seller**
  In the current environment we are no longer making any purchases. In addition, the marketing of more than 5,000 apartments is underway. This will allow us to position ourselves as a net seller as soon as the transaction market returns. Currently, due to the wait-and-see attitude of most investors, only small lot sizes can be sold with a value-confirming effect. We thus sold around 600 apartments in 2022 – all at or slightly above book values. On balance, therefore, we still grew by a few apartments in the reporting year.

- **Fourth: Preserving and strengthening innovative spirit and sustainability**
  It is important to us to think beyond the day and to push smart future projects while acting sustainably – especially in economically challenging times.

Renowate, LEG's joint venture for serial refurbishments, is developing very encouragingly. The young joint venture has already successfully completed work on two of a total of 14 planned refurbishment projects for LEG. More than a year ahead of schedule, Renowate has also won its first external contract from another housing company and is thus embarking on its foreseen path as a leading provider of serial refurbishment throughout the DACH region. Our efforts in the political arena to improve funding conditions for serial refurbishment, for which there is now a 15 % renovation bonus, have also paid off.

In 2022, we further intensified our involvement in industry associations and direct exchanges at the local, state, and federal political level. We are particularly committed to affordable climate protection in the building sector and, in the interests of tenants and landlords, are calling for an improved investment climate and the appropriate lowering of building standards, openness to technology and the strengthening of the energy transition in the housing industry, as well as the removal of hurdles under rental law.

But back to the innovations from LEG: Youtilly, the digital LEG platform for transparent service management and Germany-wide contracting in the areas of green care, cleaning and winter services, is also increasingly establishing itself as an industry solution and being used by everything from small gardening businesses to large competitors. The ability to directly evaluate services provided means that tenants can actively influence the quality of services provided.

We are not compromising on our climate protection targets – despite lower investment in modernisation. We are encouraged by the very good success of our smart climate projects, like LEG's energy-saving "Are you still heating or already saving?" campaign. Even before the war in Ukraine made saving energy one of the most important issues in Germany, in 2021 we tested five approaches to changing residents' energy consumption behavior (known as nudging or influencing behavior) in some pilot neighborhoods. Even simple measures such as energy-saving posters in the stairwell or monthly consumption evaluations yielded CO_2 savings of up to 9 %. The result – scientifically proven by a study conducted by the Hasso Plattner Institute and the University of St. Gallen – surprised even us. Under the motto "costs little – saves a lot," we rolled out the measures further.

Now we have reported quite a bit about climate protection at LEG. As a responsible landlord, the sustainability dimensions "social" and "good corporate governance" are no less important to us. We further expanded both in 2023. For example, customer satisfaction with LEG – and the corresponding Customer Satisfaction Index (CSI) – rose by around six percentage points compared with the zero measurement in 2020. Employee satisfaction even increased from 66 to 73 % when using the Trust Index based on the renown "Great Place to Work" method. This makes LEG one of the best employers in Germany, which we are very proud of. Both values are important indicators of our sustainable social performance and an incentive for us to make further improvements in the future.

One of our special concerns in the year under review was helping people from Ukraine. A few days after the war began, we set up a LEG coordination office for the accommodation of war refugees. Since then, many employees have shown great personal commitment in helping displaced people from Ukraine. We have now prepared and allocated 1,700 apartments for refugees in around 60 cities. The costs for the initial furnishing of 250 apartments were financed through a special fund of LEG's "Stiftung – Dein Zuhause hilft" (Your Home Helps Foundation). In general, it is worth taking a look at the great work done by both of LEG's foundations, which we describe in more detail on > page 134.

The integrity of management actions and business models – i. e., good corporate governance – is of crucial importance, especially for the economic success of capital-intensive companies. This is not just about avoiding significant legal and reputational risks, but also about the acceptance of the company by investors, customers and employees. For this reason, we have already had our compliance management system regularly audited by the Institute for Corporate Governance in the Real Estate Industry (ICG) since 2018.

As an indicator of good corporate governance, we aimed to achieve a strong ESG risk rating in 2022 from the experts at the independent sustainability agency Sustainalytics, whose rating incorporates around 80 continuously adjusted ESG factors with a high weighting of governance-oriented criteria. Specifically, we had set ourselves the goal of once again achieving the lowest ESG risk category of "Negligible" after 2021. With a further significant improvement in our scoring, not only have we exceeded this target but are currently number 1 among portfolio holders in the region and number 30 out of more than 15,600 companies rated worldwide. This impressively underlines our ambitions around sustainability, especially as this is just one of many ESG ratings we managed to improve in 2022 (for details > see page 5).

We have also expanded our own ESG governance structures. On the one hand, the Supervisory Board formed a dedicated ESG committee in summer 2022. On the other hand, we have established a new ESG department with a direct reporting line to the CEO for the optimal, company-wide bundling and management of our sustainability measures. This once again underscores the great importance we attach to the topic of sustainability.

Outlook for 2023

The adjustment of the business strategy also has an impact on the key performance indicators that LEG will use as a guide in the future. As already described at the outset, FFO I, the most important key figure to date, benefits from a high capitalization rate for investments made. In times of increased financing costs, every expenditure weighs particularly heavily. We therefore only want to spend as much as we earn and are significantly scaling back capital expenditure on existing assets – like other expenses. Accordingly, LEG is linking corporate success for 2023 to AFFO, which is independent of the level of capitalization and thus much better reflects the earned and freely available cash flow. For 2023, we expect AFFO to be in the range of EUR 125 to 140 million. This represents an increase over the original expectation of EUR 110 to 125 million and is essentially driven by reduced expenditures in the new construction sector.

As a result of the adjusted business strategy, the dividend distribution for fiscal year 2023 will also be based on the new cash-oriented key performance indicator system. The plan is to measure the dividend payout based on two components: 100 % of the AFFO is to be distributed on the one hand and a portion of net proceeds from property sales on the other.

Boldly shaping the future with all stakeholders

When we adopted our adjusted business strategy in November 2022, we thought the headline "Cash is king" was very appropriate. However, from a little distance it becomes clear that this title does not fully do justice to our program. We don't just want to mitigate the effects of the current crisis; our roadmap also includes measures to make our LEG even more resilient, sustainable, digital and therefore more successful. That is why we have now given the program the title: "Tackle the crisis decisively, shape the future boldly."

We are pleased that you have joined us on this journey. We would not like to end this letter without thanking you, our shareholders, for your trust and loyalty – especially in these more difficult times. We would also like to thank our customers, our employees, our Supervisory Board and our business partners.

LARS VON LACKUM
CEO

SUSANNE SCHRÖTER-CROSSAN
CFO

DR VOLKER WIEGEL
COO

Equity Story

Leading in the attractive affordable housing market segment

With around 167,000 units, LEG is Germany's second-largest housing company. 80 % of the apartments are in North Rhine-Westphalia and 20 % of the total housing stock is rent-restricted. With an average rent of EUR 6.33 per square meter, the focus is exclusively on the affordable housing segment. The high demand in this market segment combined with the offer of attractive value for money has caused the vacancy rate in the portfolio to fall steadily over the past few years to a current level of 2.4 % (on a like-for-like basis).

Demand for affordable housing will continue to rise in the coming years, mainly due cost pressures resulting from higher inflation rates, expected immigration to Germany, and the trend toward affordable housing in an increasingly difficult economic environment. At the same time, there is clearly too little additional housing being created in this price segment. This is because of high construction costs – stemming particularly from the steadily rising new building energy requirements, time-consuming and costly building permit procedures, and sharply increased financing costs due to higher interest rates. Delays or discontinuation of new construction projects are the result, so that the demand overhang in the German housing market will increase significantly in the coming years.

Low complexity and high flexibility

LEG's focus on the affordable housing segment and its clear regional spotlight on western and northwestern Germany position it as one of the leading providers of affordable housing there. LEG is thus gearing its range of products and services to a clearly defined group of customers, so that uniform processes can be implemented and efficiency gains realised. In addition, the focused approach allows for bundling and deploying investments in a targeted manner. LEG currently has only a very manageable project pipeline in new construction, characterised by greater complexity and a longer-term capital commitment, with a remaining volume of less than EUR 300 million until 2026. Existing projects are being completed but no new ones started or purchased.

This lean, targeted setup enables LEG to respond flexibly and quickly to external changes like the sharp rise in inflation and interest rates while realising new business opportunities, such as in the energy-efficient refurbishment of existing properties. For example, LEG was the first company in the sector to publish both a comprehensive package of measures to respond to the changed inflation and interest rate environment and set up a company focusing on serial renovation so it can decarbonise both its own and third-party portfolios quickly and cost-effectively. LEG's agile setup also allows for rapid implementation of further measures should the external environment improve, or further innovative ideas are identified.

Leading the way in sustainability and innovation

LEG sees itself as a leading provider of affordable housing in western and northwestern Germany. As such, it has a high level of social responsibility, as housing is not just any commodity but the tenants' home. To be able to offer corresponding product and service quality, LEG continuously invests in its employees, which is reflected in very high levels of employee satisfaction. At the same time, the real estate sector is a major source of CO_2 emissions. As part of its ESG agenda, LEG has therefore committed to achieving climate neutrality by 2045 and has presented a clear path for achieving it. In 2022, LEG met its self-imposed decarbonisation target.

LEG not only wants to contribute to CO_2 reduction by improving the efficiency of its own buildings but has also positioned itself as a solution provider for the serial energy refurbishment sector, especially via Renowate, a joint venture with the Austrian construction group Rhomberg. The aim is to use an industrial approach to overhaul better than the traditional approach in terms of time, cost, and quality. This not only contributes to the environment, but also helps tenants, as lower investment means lower rent increases while significantly reducing energy costs.

LEG has received top ratings from leading ESG ratings and initiatives such as MSCI (AAA), Sustainalytics (negligible risk), CDP (B), and ISS (C).

Just as important as progress in improving the energy efficiency of portfolios is digitization within the real estate industry. Here, LEG has launched Youtilly, a first-of-its-kind B2B2C digital business model that coordinates the purchase of external services like organic waste recovery while helping tenants interact directly with these services. Like Renowate, LEG uses Youtilly to manage its own portfolios, but has opened its platform to other housing companies.

Focus on internal financing capability

LEG has responded swiftly to the new inflation and interest rate environment by placing an even stronger fixation on creating liquidity from operations. The adjusted focus ensures that both the funds for investment in the portfolio and the distribution to shareholders are covered by the cash inflow generated. Accordingly, internal management has been changed from FFO I to AFFO, and AFFO flagged as the main indicator in external reporting. At the same time, proceeds from the sale of apartments may contribute to further deleveraging of the company.

Conservative balance sheet

LEG benefits from a well-diversified and long-term financing profile. The average interest rate on financial liabilities is 1.26 % and the average maturity is 6.5 years. Only 11 % of financial liabilities are due within the next 24 months. If LEG successfully realises property sales, the refinancing requirement can be reduced further. The focus on AFFO as a performance indicator and its use as a basis for dividend distributions ensures that the balance sheet is not additionally burdened by distributions.

The share

The 2022 trading year was dominated by Russia's assault on Ukraine in breach of international law and the repercussions this had, especially for Europe's economy. Inflation reached levels not seen for decades in many areas of the world. The far more restrictive monetary policy approach adopted by central banks as a result accelerated the trend of rising interest rates that had already begun in 2021 and proved a tough environment for property stocks. LEG's share price lost about 50 % of its value in 2022, less than the EPRA Germany sector index, which fell by about 54 %.

Russia's assault on Ukraine in breach of international law on 24 February 2022 has taken a heavy toll on the general economy. Sanctions on Russia that halted the import of fossil fuels – both oil and gas – by the EU pushed up energy prices significantly. This was exacerbated by supply chain problems, primarily due to China's zero-Covid policy and considerable limitations on the availability of materials. In connection with central banks' many years of expansive monetary policy, inflation – that had already been rising since mid-2021 – reached levels not seen for decades. For example, in 2022 inflation averaged 7.9 % in Germany (peaking at 10.4 % in October) and 8.1 % in the US (peaking at 9.1 % in June). Around the world, central banks took steps to counter this development and hiked interest rates considerably. This change in central bank policy is reflected in higher interest rates, with yields on ten-year German government bonds rising from – 0.18 % to 2.57 % in 2022. The DAX reached an all-time high of 16,272 points on 5 January 2022. It then declined, reaching its lowest level for the year of 11,976 points on 29 September 2022, before recovering to 13,924 points on 31 December 2022. The DAX thus lost 12 % over the year. The MSCI World fell by 19 % year on year, the German sector index for property stocks (EPRA Germany) by 54 %.

LEG share price outperforms EPRA Germany benchmark index

2022 presented an extremely challenging environment for property stocks on account of rising interest rates, the potential reversal of the long-standing trend of rising property prices as a result, worries about the affordability of housing in light of the sharp increase in energy costs and cost increases in almost all other areas. LEG's good operating performance in 2022 took a back seat in this context. After closing at EUR 122.70 on 31 December 2021, the LEG share price declined to EUR 60.86 at the end of 2022, losing about 50 % of its value. Taking account of the dividend of EUR 4.07, the loss came to 47 %.

The share bottomed out in October at about EUR 54 on account of very high inflation figures and the expectation that interest rates would be increased sharply as a result. As stock markets recovered thanks to declining, albeit still high, inflation and lower interest rates, LEG's share also made some gains. Over the year as a whole, LEG's share price outperformed the benchmark index for German property stocks (EPRA Germany).

As in previous years, LEG shareholders were again able to choose between a stock dividend and a cash dividend in 2022. For approximately 38 % of shares (previous year: 32 %), investors opted to take the dividend in stocks.

Return to more direct investor contact

Even in difficult times, and indeed particularly in these times, capital market communication is a top priority for LEG. Interest in the LEG share among national and international investors remained high given the challenges faced by capital markets. LEG held roadshows or took part in investor conferences on 31 days. After being held almost exclusively virtually in 2020 and 2021, LEG increasingly returned to in-person events in 2022. It also conducted numerous conversations with investors outside these events. At the end of September, LEG invited investors and analysts to Dusseldorf to discuss questions and introduce them to Renowate's serial modernisation project in Mönchengladbach.

While the pandemic situation finally meant that it was possible to hold the Annual General Meeting in person again, for reasons of planning certainty LEG opted for a virtual format. The entire event was streamed on 19 May 2022 on a portal set up for this purpose and accessible only to shareholders.

T2

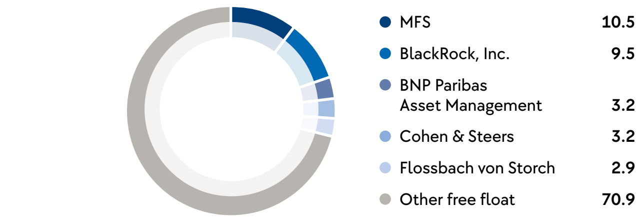
Share performance indicators

Ticker symbol	LEG
German Securities Code Number (WKN)	LEG111
ISIN	DE000LEG1110
Number of shares (31 December 2022)	74,109,276
Initial listing	1 February 2013
Market segment	Prime Standard
Indices	MDAX , FTSE EPRA/NAREIT, GPR Indizes, Stoxx® Europe 600, S&P EUROPE 350, GPR IPCM LFFS Sustainable GRES Index, DAX 50 ESG, MSCI Europe ex UK, MSCI World ex USA, MSCI World Custom ESG Climate Series
Closing price (31 December 2022)	EUR 60.86
Market capitalisation (31 December 2022)	EUR 4,510 million
Free float (31 December 2022)	100 %
Weighting in the MDAX (31 December 2022)	3.10 %
Weighting in the EPRA Europe (31 December 2022)	2.61 %
Average single-day trading volume (2022)	216,240 shares
Highest price (3 January 2022)	EUR 122.05
Lowest price (13 October 2022)	EUR 53.62

On the sell-side, 18 analysts from renowned research companies currently value the shares. A current overview of analysts' recommendations and price targets can be found at https://ir.leg-se.com/en/investor-relations/share Analysts' average price target was EUR 83.50 on 22 February 2023, with predominantly positive recommendations.

G1

Shareholder structure (in %)



Anchor shareholders' shareholdings were extremely stable in 2022. Cohen & Steers, a property specialist, became the latest shareholder to exceed the 3 % mark.

Company strategy adapted to account for the new market environment

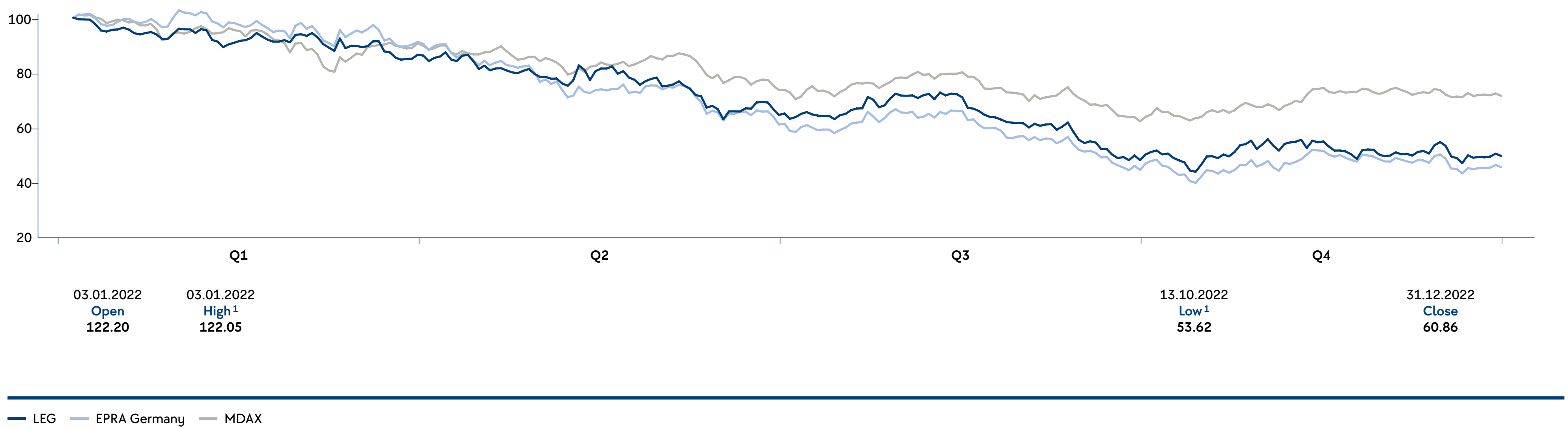
Responding to the substantial changes in market conditions, LEG was one of the first companies in the sector to announce it was adjusting its business model when it published its nine-month figures. Primarily, this steps up the focus on generating liquidity to strengthen the balance sheet and mitigating rising costs, chiefly due to the changes in interest rates. While these unfavourable market conditions remain, LEG will not initiate any new construction projects or make any more purchases. Instead, it will reduce its portfolio and distribute dividends according to the market environment. The response to this change was largely supportive, although as expected feedback varied regarding the dividend reduction discussed. While very dividend-focused investors sold the share, other investors clearly supported cancelling the dividend entirely.

Largest bond issue in company history in good interest environment

As early as January 2022 LEG took advantage of the still good market environment to conclude the largest bond placement in the company's history. It had a volume of EUR 1.5 billion and was divided into three EUR 500 million tranches. The bonds mature in four, seven and 12 years respectively and have coupons of 0.375 %, 0.875 % and 1.5 % p. a. Investor demand was very high, with commitments of EUR 5.5 billion. The primary purpose of the bonds was to refinance a bridge loan concluded shortly before for the purchase of a residential portfolio of 15,400 residential units acquired at the end of 2021. LEG thus secured a major financing volume at attractive conditions before the rise in interest rates.

G2

Share price development (Share Price 2021 indexed to 100)



[1] Based on Xetra's daily closing prices

EPRA key figures

With more than 280 members, including LEG Immobilien SE, EPRA (European Public Real Estate Association) represents the listed real estate industry in Europe. EPRA strives to establish best practices to provide high-quality information to investors.

Financial key figures

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

Sustainability

For sustainability reporting according to EPRA sBPR please see our website.

T3

EPRA key figures

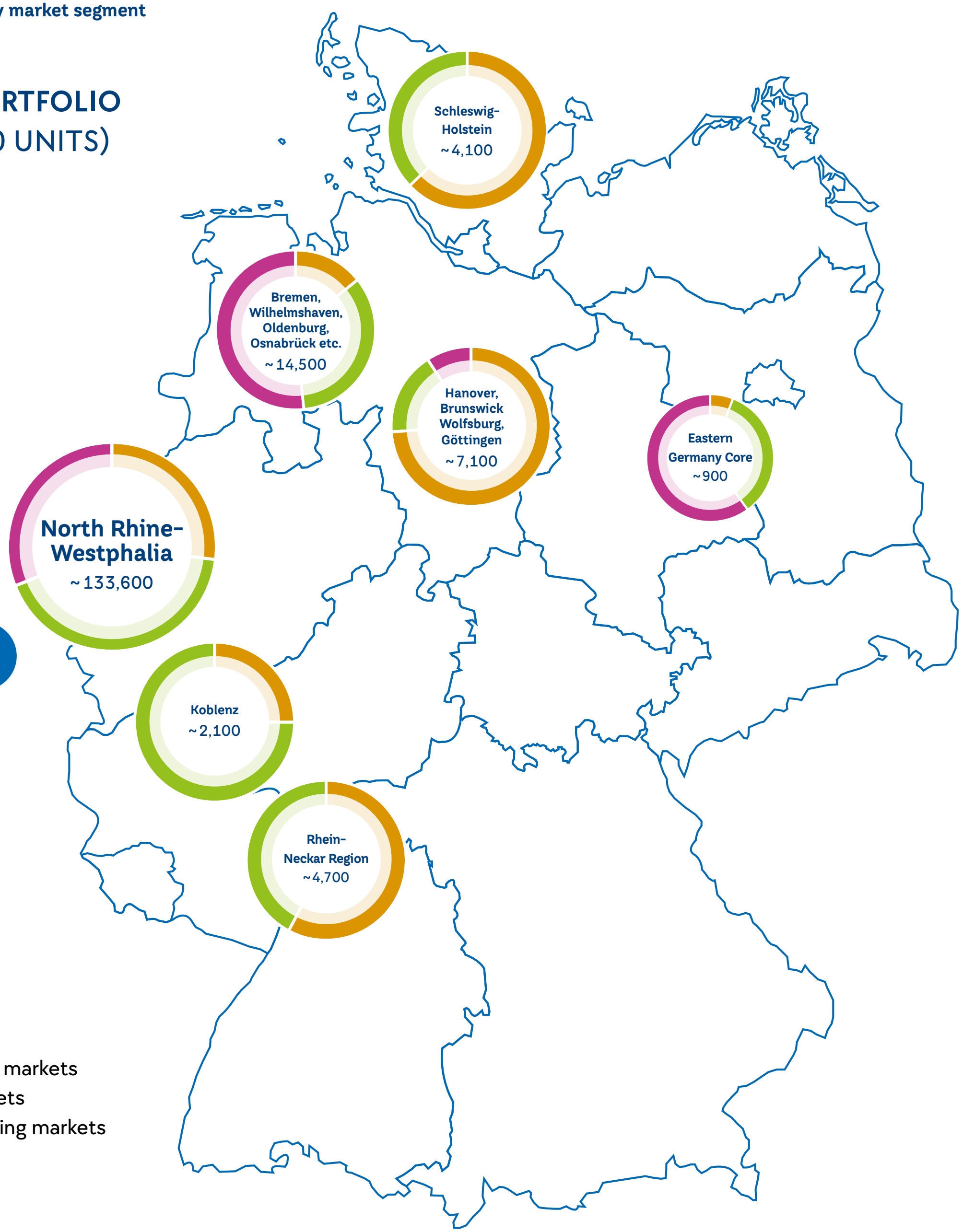
		2022	2021	Details
EPRA Net Initial Yield	%	3.6	3.2	See page 57
EPRA „topped-up" Net Initial Yield	%	3.6	3.3	See page 57
EPRA Cost Ratio incl. direct vacancy costs	%	24.7	24.5	See page 56
EPRA Cost Ratio excl. direct vacancy costs	%	23.0	22.8	See page 56
EPRA Cost Ratio, adjusted by maintenance incl. direct vacancy costs	%	17.6	14.9	See page 56
EPRA Cost Ratio, adjusted by maintenance excl. direct vacancy costs	%	15.8	13.2	See page 56
EPRA Vacancy (like-for-like)	%	2.4	2.6	See page 54
EPRA Earnings per share	€	0.21	2.82	See page 196
EPRA Capex	€ million	689.4	2,790.1	See page 55
EPRA NRV	€ million	13,338.3	13,164.6	See page 63
EPRA NRV per share	€	179.98	172.51	See page 63
EPRA NTA	€ million	11,377.2	11,261.5	See page 63
EPRA NTA per share	€	153.52	147.58	See page 63
EPRA NDV	€ million	9,654.3	8,842.0	See page 63
EPRA NDV per share	€	130.27	115.87	See page 63
EPRA LTV (group)	%	45.3	–	See page 64

Portfolio

G3

LEG locations by market segment

TOTAL PORTFOLIO
(~ 167,000 UNITS)



- High-growth markets
- Stable markets
- Higher-yielding markets

At the end of 2022, LEG's portfolio comprised of 167,040 residential units spread across around 260 sites. 80 % of the apartments are in the home market of North Rhine-Westphalia and 13 % in Lower Saxony. Other portfolios exist in Bremen, Schleswig-Holstein, Hesse, Rhineland-Palatinate, Baden-Württemberg and eastern Germany. LEG also holds a 36 % stake in Brack Capital Properties, which also focuses on North Rhine-Westphalia. The portfolio also includes 1,611 commercial units and 46,636 parking spaces. Based on an average apartment size of 63 square metre and a basic rent of EUR 6.33 per square metre, the monthly rent is around EUR 400.

LEG's systematic scoring divides the portfolio into three overarching clusters: high growth, stable, and higher yielding markets. The scoring is based on external market studies and comparisons of demographic and economic factors, enriched by real estate parameters such as rents and vacancy rates.

High-growth markets are characterised by demographically and economically strong locations with above-average rental growth expectations and low vacancy rates. Stable markets are more heterogeneous than high-growth markets in terms of their demographic and socio-economic development, and their residential attractiveness is solid to high on average. Higher yielding markets are generally subject to a greater risk of declines in demand but offer opportunities for attractive returns with efficient management.

Operating Performance

As of December 31, 2022, the actual rent in the residential portfolio was EUR 6.33 per square metre. This corresponds to an increase of 3.2 % compared with the actual rent of EUR 6.13 per square metre as of the previous year's reporting date. On a like-for-like basis, the actual rent was EUR 6.32 per square metre, up 3.1 % from the prior year's level of EUR 6.13 per square metre.

In the free financed portfolio, which accounts for 80 % of the portfolio, the actual like-for-like rent rose by 3.7 % to EUR 6.68 per square metre (past year: EUR 6.44 per square metre). All three market segments contributed to this increase: in the high-growth markets, the rise in actual rents was 3.6 % and amounted to EUR 7.63 per square metre (like-for-like). In the stable markets and in the higher-yielding markets, the rent level rose by 3.8 % in each case to EUR 6.42 and EUR 6.06 per square metre (like-for-like), respectively.

The rent level for rent-restricted apartments was EUR 5.05 per square metre (like-for-like) as of December 31, 2022, an increase of 0.3 %. Only in 2023 will there be an adjustment of the actual rent for most price-controlled properties pursuant to the second Calculation Ordinance (II. BV). This is possible every three years.

The EPRA vacancy rate developed as follows (all numbers on a like-for-like basis): for the total portfolio the vacancy rate as of December 31 was 2.4 %, which is below the 2021 level of 2.6 %. Adjusted for the Adler Group portfolio to be transferred on December 31, 2021, the EPRA vacancy rate decreased from 2.3 % to 1.9 %. With an occupancy rate of 98.3 %, the portfolios in the high-growth markets were almost fully rented at the end of 2022 (previous year: 98.1 %). In the stable markets, the occupancy rate reached 97.8 % compared with 97.6 % in the previous year, while in the higher-yielding markets an occupancy rate of 96.1 % was achieved (past year: 96.2 %). The annualized fluctuation rate increased slightly from 8.1 % to 8.7 %. Thus, it continues to be at a low level.

Value Development

> Table T6 shows the distribution of assets by market segment. The rental yield of the residential portfolio based on annualized actual rents is 4.2 %. This corresponds to a rent factor of 23.9 x. The valuation of the residential portfolio corresponds to an initial net yield as defined by EPRA (Net Initial Yield) of 3.6 %.

Investment Activity

The primary goal of the investments in 2022 was to reduce the specific CO_2 emissions of our portfolio by continuing the modernisation programme. The modernisations concerned 4,548 units or 2.7 % of the total portfolio (2022) and resulted in a saving of 4,028 tonnes of CO_2 emissions. Total investments in the portfolio, adjusted for new construction activities managed by LEG, public safety measures in connection with portfolio acquisitions and own work capitalised, amounted to EUR 439.2 million in the 2022 financial year. This corresponds to an increase of EUR 32.4 million or 8.0 % compared to the previous year. The share of value-enhancing and thus capitalisable measures was around 75.2 % (previous year 73.4 %). The average investment per sqm of living and usable space was around 2 EUR lower than in the previous year and amounted to around EUR 40.61 in 2022.

Major maintenance and modernisation projects were realised in Mönchengladbach with EUR 23 million, Dortmund with EUR 18 million, Essen with EUR 17 million, Münster and Cologne with EUR 12 million each and Wolfsburg with EUR 10 million. The main focus of investment activities was the installation of thermal insulation composite systems on the exterior walls, roof renovations in connection with floor slab insulation and the renovation or construction of new balconies.

T4

Portfolio segments – top 5 locations

	31.12.2022					31.12.2021					Change on a like-for-like basis	
	Number of LEG apartments	Share of LEG-portfolio in %	Living space in sqm	In-place rent €/sqm	EPRA vacancy rate in %	Number of LEG apartments	Share of LEG-portfolio in %	Living space in sqm	In-place rent €/sqm	EPRA vacancy rate in %	In-place rent in % like-for-like	Vacancy rate (basis points) like-for-like
High-growth markets	**49,733**	**29.8**	**3,273,142**	**7.10**	**2.2**	**49,227**	**29.6**	**3,237,319**	**6.89**	**2.1**	**3.0**	**–20**
District of Mettmann	8,506	5.1	590,850	7.49	0.9	8,523	5.1	592,007	7.25	1.5	3.4	–60
Münster	6,157	3.7	410,518	7.06	0.6	6,197	3.7	412,075	6.90	0.9	2.4	–10
Dusseldorf	5,867	3.5	383,796	8.46	1.5	5,705	3.4	371,824	8.19	1.2	2.8	–30
Cologne	4,284	2.6	290,514	7.77	3.7	4,235	2.5	286,809	7.51	2.1	3.1	30
Aachen	2,430	1.5	164,255	5.53	1.8	2,431	1.5	164,313	5.41	2.6	2.3	–80
Other locations	22,489	13.5	1,433,209	6.63	3.2	22,136	13.3	1,410,292	6.43	3.0	3.0	–10
Stable markets	**66,840**	**40.0**	**4,260,496**	**6.08**	**2.7**	**66,420**	**40.0**	**4,234,615**	**5.90**	**2.6**	**3.1**	**–20**
Dortmund	13,860	8.3	905,367	5.80	1.9	13,752	8.3	898,960	5.69	2.2	1.9	–30
District of Unna	6,916	4.1	430,282	5.49	1.7	6,809	4.1	424,264	5.35	2.5	2.5	–70
Mönchengladbach	6,433	3.9	407,619	6.47	1.3	6,440	3.9	408,077	6.26	1.4	3.4	–10
Essen	3,558	2.1	228,768	6.17	3.1	3,447	2.1	222,756	5.85	3.6	4.9	–50
Bielefeld	3,233	1.9	201,070	6.95	1.2	3,234	1.9	201,168	6.59	2.0	5.4	–70
Other locations	32,840	19.7	2,087,390	6.16	3.6	32,738	19.7	2,079,389	5.97	2.9	3.2	–10
Higher yielding markets	**50,467**	**30.2**	**3,047,926**	**5.82**	**4.1**	**50,542**	**30.4**	**3,054,764**	**5.63**	**4.0**	**3.3**	**10**
District of Recklinghausen	9,027	5.4	549,049	5.61	2.4	9,029	5.4	549,303	5.49	2.6	2.2	–20
Gelsenkirchen	7,250	4.3	414,682	5.96	6.8	7,252	4.4	414,360	5.75	7.2	3.5	–50
Wilhelmshaven	6,854	4.1	397,118	5.75	8.7	6,858	4.1	397,657	5.62	6.4	2.3	220
Duisburg	6,424	3.8	388,188	6.34	2.2	6,327	3.8	382,844	6.05	2.8	4.9	–50
Hamm	4,836	2.9	289,581	5.79	1.9	4,818	2.9	288,365	5.60	2.0	3.5	–10
Other locations	16,076	9.6	1,009,308	5.72	3.4	16,258	9.8	1,022,236	5.53	3.6	3.5	–20
Total	**167,040**	**100.0**	**10,581,565**	**6.33**	**2.9**	**166,189**	**100.0**	**10,526,699**	**6.13**	**2.8**	**3.1**	**–20**

T5

Performance des LEG-Portfolios

		High-growth markets		Stable markets		Higher yielding markets		Total	
		31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Subsidised residential units									
Units		11,459	11,916	14,609	15,888	7,221	8,082	33,289	35,886
Area	sqm	784,010	814,490	987,556	1,077,493	475,788	530,412	2,247,355	2,422,395
In-place rent	€/sqm	5.42	5.38	4.97	4.93	4.60	4.57	5.05	5.00
EPRA vacancy rate	%	0.9	1.1	1.4	2.1	1.6	1.7	1.2	1.7
Free-financed residential units									
Units		38,274	37,311	52,231	50,532	43,246	42,460	133,751	130,303
Area	sqm	2,489,132	2,422,828	3,272,940	3,157,123	2,572,138	2,524,352	8,334,210	8,104,303
In-place rent	€/sqm	7.64	7.40	6.42	6.23	6.06	5.87	6.68	6.47
EPRA vacancy rate	%	2.5	2.3	3.0	2.7	4.5	4.4	3.2	3.0
Total residential units									
Units		49,733	49,227	66,840	66,420	50,467	50,542	167,040	166,189
Area	sqm	3,273,142	3,237,319	4,260,496	4,234,615	3,047,926	3,054,764	10,581,565	10,526,699
In-place rent	€/sqm	7.10	6.89	6.08	5.90	5.82	5.63	6.33	6.13
EPRA vacancy rate	%	2.2	2.1	2.7	2.6	4.1	4.0	2.9	2.8
Total commercial									
Units								1,611	1,576
Area	sqm							276,127	254,164
Total parking									
Units								46,636	45,438
Total other									
Units								2,920	3,123

T6

Market segments

31.12.2022	Residential units	Residential assets in € million[1]	Share residential assets in %	Value/sqm in €	In-place rent multiplier	Commercial/ other assets in € million[2]	Total assets in € million
High-growth markets	**49,733**	**8,203**	**43**	**2,508**	**29.6x**	**337**	**8,540**
District of Mettmann	8,506	1,595	8	2,701	29.9x	72	1,667
Münster	6,157	1,137	6	2,760	32.4x	62	1,199
Dusseldorf	5,867	1,301	7	3,352	33.3x	70	1,371
Cologne	4,284	884	5	3,025	33.5x	31	915
Aachen	2,430	303	2	1,829	28.2x	6	309
Other locations	22,489	2,984	16	2,097	26.6x	95	3,079
Stable markets	**66,840**	**7,000**	**37**	**1,639**	**22.6x**	**219**	**7,218**
Dortmund	13,860	1,566	8	1,723	24.9x	57	1,623
District of Unna	6,916	552	3	1,291	19.7x	23	575
Mönchengladbach	6,433	726	4	1,777	22.2x	16	742
Essen	3,558	375	2	1,628	22.4x	15	390
Bielefeld	3,233	403	2	1,995	23.7x	12	415
Other locations	32,840	3,376	18	1,613	22.1x	97	3,473
Higher yielding markets	**50,467**	**3,740**	**20**	**1,227**	**18.1x**	**97**	**3,837**
District of Recklinghausen	9,027	688	4	1,242	18.8x	20	708
Gelsenkirchen	7,250	475	3	1,137	17.0x	9	484
Wilhelmshaven	6,854	472	2	1,187	18.5x	9	481
Duisburg	6,424	574	3	1,483	19.7x	30	604
Hamm	4,836	359	2	1,237	17.5x	5	365
Other locations	16,076	1,172	6	1,169	17.4x	24	1,196
Total portfolio	**167,040**	**18,943**	**100**	**1,789**	**23.9x**	**653**	**19,595**
Leasehold and land values							286
Balance sheet property valuation assets (IAS 40)							**19,881**
Prepayments for investment properties and construction costs							61
Assets under construction (IAS 40)							324
Inventories (IAS 2)							0
Owner-occupied property (IAS 16)							86
Assets held for sale (IFRS 5)							36
Total balance sheet							**20,388**

[1] Excluding 479 residential units in commercial buildings; including 777 commercial units as well as several other units in mixed residential assets.
[2] Excluding 777 commercial units in mixed residential assets; including 479 residential units in commercial buildings, commercial, parking, other assets.

Report of the Supervisory Board

MICHAEL ZIMMER
Chairman of the Supervisory Board

Dear Shareholders,

The expectation and hope of returning to normalcy after the coronavirus pandemic were dashed on February 24, 2022, by Russia's invasion of Ukraine, in violation of international law. This war has caused immeasurable human suffering and brought global geopolitical and economic repercussions that are felt by everyone.

LEG took immediate action and set up its own coordination office for the accommodation of refugees as early as February 2022, and also wrote to all the larger local municipalities. Since then, the staff has shown great personal commitment in taking care of refugees from Ukraine. By the end of 2022, LEG has now been able to allocate around 1,700 apartments to refugees in around 60 cities. The costs of furnishing and equipping the apartments were partly financed by a special fund from LEG's own "Dein Zuhause hilft" (Your home helps) foundation.

The war in Ukraine, high inflation, rising interest rates and the sanctioning of Russian energy supplies are having a significant impact on LEG's business. Rising interest rates and the subsequent fall in share prices are making it more difficult to raise both debt and equity capital, especially in the capital-intensive real estate sector. Unclear subsidy conditions for construction measures and increasing climate regulations present the sector with additional challenges. As a result, investors are adopting a wait-and-see approach, resulting in transaction markets largely grinding to a halt by the end of 2022. Ultimately, this has put pressure on real estate valuations, which in turn will impact the leverage of all market participants in the sector.

LEG's guidance for 2022 was adjusted in November 2022 due to this accumulation of risk: The expected range for FFO I for the full year was adjusted from the previous EUR 475 to 490 million to 475 to EUR 485 million.

Regarding the dividend proposal for the year under review, the Executive Board and Supervisory Board simultaneously decided to make the previously planned payout ratio of 70 % on FFO I subject to further market developments and to adjust it if necessary. The focus is on strengthening the company's substance and concentrating on LEG's core business, namely the optimal management of residential properties.

Adjustments to the business strategy were also required. The key financial performance indicators have developed positively throughout 2022; however, due to the long-term nature of the business, they do not yet fully reflect the impact of the current market situation. It is therefore important to the Executive Board and Supervisory Board to initiate targeted measures at an early stage by fully focusing attention on LEG's core business of managing residential real estate and thereby further strengthening LEG's future viability. This approach is because the "affordable housing" business model is more viable than ever in times of crisis. Demand for LEG's product continues to grow significantly; the low vacancy rate of 2.4 % reflects this excess demand and the operational excellence LEG has achieved. Further optimization of the core business remains the company's main task.

To enable this optimisation even under the difficult financial market conditions, the Executive Board and Supervisory Board have decided to manage LEG in the future using liquidity ratios – particularly AFFO, instead of focusing on FFO I as in the past – and introduce further targeted measures to increase capital efficiency. The motto is: increase income, reduce costs, drive innovation and continue to pursue the climate protection goals of society unchanged.

In detail, this means:

Strengthening the operating business
LEG anticipates rent increases of 3.3 – 3.7 % in 2023. Capital expenditure, which has increased sharply in previous years, will be reduced from EUR 42 per square metre in fiscal year 2022 to EUR 35 per square metre in fiscal year 2023. This will continue to ensure the preservation of the substance and further qualitative improvement – especially upgrading the energy quality – of the properties. In fiscal year 2022, capital expenditures were already reduced during the year from the originally planned EUR 46 to 48 per square metre to the above-mentioned EUR 42 per square metre. The new approach demands new thinking and ensures an even greater focus on efficiency in the spending of investment funds. In addition, cost reductions of over EUR 10 million are planned in material and personnel expenses.

LEG acts as net seller
No further purchases have been made since the beginning of October. In addition, the marketing of more than 5,000 apartments that no longer fit LEG's portfolio is underway. As a result, the company is well positioned to benefit from rising transaction markets.

Non-exercise of the BCP call option
In consultation with the Supervisory Board, the Executive Board has refrained from acquiring a majority interest in Brack Capital Properties N.V. against the background of the changed geopolitical and capital market environment. The non-exercise of a corresponding call option was resolved in August 2022 and published immediately.

Discontinuation of the new construction business
The new construction business will be discontinued after completion of projects already started. The sale of part of the new construction portfolio to third-party investors is being driven forward. This is due exclusively to the current market situation, as new construction for the "affordable housing" segment will no longer be feasible in the future in view of increased construction costs, higher energy requirements, lower subsidy rates, and higher interest expenses.

Boldly driving innovation
LEG continues to focus on driving forward new, promising ideas and partnerships with as little capital investment as possible. In 2022, LEG can already point to significant successes. One example is Renowate, the problem-solver for serial refurbishment that LEG founded together with the Austrian company Rhomberg. In the year under review, the young company not only completed its first project in a LEG neighborhood but has already won an external housing company as a customer. The digital business model Youtilly, a tender platform for property maintenance that brings together housing companies, service providers and tenants, is also smart, agile, and requires little capital. LEG will continue to develop and implement similar innovative project ideas in the future.

LEG continues to rely on the heightened cost awareness of its employees, which has already proven its worth in day-to-day business. Numerous promising impulses are coming from both the operating and central units, which the company is pursuing further. LEG is proud to have such committed employees.

Focus on political cooperation
LEG's Executive Board is well networked at all political levels. The Executive Board positions LEG on key political issues of fundamental importance to the industry. LEG's key demands relate to an improved investment and subsidy climate for the energy-efficient refurbishment of housing stock, an appropriate reduction in building standards and bureaucracy, the strengthening of the energy transition in the housing industry, and the dismantling of rent regulations as well as interference in free price formation. This is the only way to ensure that sufficient capital is available in the real estate sector to meet the challenges ahead – especially the creation of new housing and the energy-efficient refurbishment of existing buildings.

Review 2022
In 2022, the Supervisory Board devoted considerable attention to discussions on the future strategic business alignment. In addition, it is equally important for the Supervisory Board to discuss how to tackle the main day-to-day business challenge. Among other things, the operating business was characterized by the integration of the portfolios of around 15,000 units acquired at the end of 2021.

A look at the key performance indicators, such as the development of the net cold rent or the occupancy rate, shows that the optimization of the core business continues to progress very successfully. The actual rent on a like-for-like (l-f-l) basis increased by 3.1% to an average of EUR 6.32 per square metre in the 2022 reporting period. The target for 2022 was 3.0%.

LEG has continued to work on improving customer satisfaction, which has increased significantly from 53.8% at the beginning of the measurements in 2020 to 59.2% in 2022. The increase in operational indicators and the improvement in the customer satisfaction index reflect the good performance of LEG employees and their high level of identification with the company.

Climate protection and sustainability, as well as the implementation of sustainability goals, are deeply anchored in LEG's day-to-day business. Accordingly, ESG targets are an integral part of the variable target agreements of the Executive Board and management teams. In line with previous years, ambitious non-financial targets have been agreed for the environment (Environmental), social affairs (Social), and corporate governance (Governance).

By implementing an ESG Committee of the Supervisory Board in May 2022, the importance of sustainability and climate protection for LEG will also be further emphasized and firmly anchored in the Supervisory Board.

In summary, despite the difficult underlying conditions LEG successfully generated its forecasted profit for 2022.

2022 continues to stand for financial stability
In 2022, financial stability was more important than ever for LEG. Thanks to the company's long-standing solid financing policy and an LTV of 43.9%, LEG can hold its own well in the current market situation. In 2022, for example, financing with a volume of approximately EUR 1.91 billion was concluded, with a median total term of 7.3 years and an average interest rate of 1.05%. Of this, EUR 1.5 billion was placed in three bonds. The bonds have maturities of four, seven and twelve years and interest rates of 0.38%, 0.88% and 1.5%, respectively . The funds were used for refinancing, external growth, and general corporate purposes. The increase in the liquidity reserve was secured with the conclusion of a syndicated working capital line with a volume of EUR 600 million.

Even in these times characterized by great uncertainty, the capital market continues to provide LEG with trust and constructive support.

Considering the stock market in 2022, it should be noted that our better share price performance compared to peers shows that LEG has taken the right path with the strategy adjustment and the switch to AFFO. LEG explained to investors and analysts all key aspects affecting LEG's business model due to the current market situation in the Q3/2022 earnings call. The feedback on this earnings call was generally constructive and appreciative. The capital market appreciates LEG's transparent and realistic analysis of the impact of the changed environment on the housing industry. Analyst reports positively highlight LEG's consistently conservative business approach, its early response to the changed market environment, and its consistent focus on liquidity management.

Sustainability and implementation of LEG's ESG goals

LEG's stated goal is to drive forward the reduction of LEG's energy consumption and fully decarbonize LEG by 2045. In line with the Paris Agreement, the German Climate Protection Act sets an overall budget of further CO_2 emissions with sub-targets for 2030, 2040, and 2045. LEG will contribute to this by pursuing its climate path. To achieve its targets, LEG will need to invest in modernizing the building envelope on the one hand and in further electrifying heat generation on the other, such as by using heat pumps or connecting to local and district heating networks. This means that LEG will have to invest a great deal of capital in order to achieve the 2030 sub-target.

In view of the current capital market situation, the company will also increasingly focus on less capital-intensive CO_2 reduction measures, like initiatives to change the consumption behavior of residents (so-called nudging) or cost-optimized modernization by LEG subsidiary Renowate. LEG invests and works on intelligent instead of capital-intensive solutions for CO_2 reduction. LEG can already demonstrate convincing implementation successes in this area and has positioned itself as an industry pioneer.

LEG's ESG strategy and the associated achievement of our climate targets are of particular importance to the Executive Board and Supervisory Board. This is reflected not only in the ESG elements of the variable short and long-term target agreements, but also in the implementation of the ESG Committee of LEG's Supervisory Board and the creation of internal structures for achieving ESG targets in the Group.

The Executive Board achieved 84 % of its planned targets for 2022.

For fiscal year 2023, the Executive Board and Supervisory Board have again agreed on individual and clearly measurable short-term objectives (STI) for all three attributes of sustainability E, S, and G. These STIs include:

Environmental target is to save 4,000 metric tons of carbon dioxide (CO_2) again in 2023. The effects of all modernization measures to increase energy efficiency completed in 2023 will be counted towards the target in relation to the portfolio included in the Annual Report as of December 31, 2022, as well as the effects of changes in customer behavior.

Social's goal is to resolve tenant inquiries regarding outstanding receivables within an average processing time of 13 calendar days. Against the backdrop of the expected dramatic increase in customer concerns due to the considerable rise in extra service charge claims resulting from particularly high energy prices, a meaningful boost in processing efficiency is required.

Governance's objective is to achieve high compliance training completion rates of 99 % for all employees at Group companies, except for the LEG Nord FM, Biomasse Heizkraftwerk KG and TSP – TechnikServicePlus GmbH subsidiaries, where the target is 85 %.

Intensive cooperation between the Board of Management and the Supervisory Board: Overcoming challenges together

Elections to the Supervisory Board took place at the virtual Annual General Meeting on May 19, 2022. For reasons of age, Stefan Jütte and Dr Johannes Ludewig were no longer available for election. The Annual General Meeting approved a reduction in the size of the Board to six members. The members standing for re-election were confirmed in office by a large majority. Dr Katrin Suder was elected to the Supervisory Board for the first time.

The election proposals of the Supervisory Board were based on the motion of the Nomination Committee. They considered the objectives resolved by the Supervisory Board for its composition and fulfill the competence profile drawn up by the Supervisory Board. The targets set by the Supervisory Board for its composition as well as the competency profile drawn up for the entire body also implement their diversity concept pursuant to Section 289f (2) No. 6 of the German Commercial Code (HGB).

The newly elected Supervisory Board re-elected Michael Zimmer as its Chairman and Dr Claus Nolting as its Deputy Chairman for the first time. The Supervisory Board committees were filled considering the professional qualifications of the Supervisory Board members. In addition, the new ESG Committee was appointed.

For the Executive Board and Supervisory Board, the focus of their actions is on their personal responsibility to steer the company through these challenging times. This is because the Ukraine and energy crises, historically high inflation and rising interest rates are also presenting LEG with new challenges – despite the continued high demand for its "affordable housing" product. This relates in particular to increased financing costs. In many meetings and strategy sessions, the Executive Board and Supervisory Board have continuously addressed the challenges currently facing the residential real estate sector and LEG. Among other things, the Supervisory Board discussed the strategic classification of the overall situation with geopolitical experts and economists from international investment banks to determine appropriate measures for LEG. For example, the Supervisory Board and the Executive Board held intensive discussions on adjusting the management of the Group to a cash-oriented performance indicator, the AFFO. For 2023, the Executive Board has therefore decided, with the approval of the Supervisory Board, to focus the business strategy on the highest possible capital efficiency to ensure the best possible use of freely available cash flow for business operations.

The Supervisory Board has thus made a consequential decision to adjust the financial STI performance indicators of the Executive Board's compensation system to the new cash-oriented management of the Company; among other things, the interest on FFO I per share is to be replaced by AFFO per share. A proposal to this effect will be presented at the Annual General Meeting.

The Executive Board always ensured that the Supervisory Board not only had the necessary high level of transparency regarding all major strategic developments, but also actively sought the involvement of the Supervisory Board. As in previous years, the Supervisory Board was actively involved in the strategy development process. In view of the major challenges that have arisen, this essential function of the Supervisory Board took on a completely different, special meaning in fiscal year 2022.

The Supervisory Board was always able to satisfy itself that the work of the Executive Board was lawful, expedient, and proper. LEG stands for a solidarity-based, responsible, strong and forward-looking company that is very well positioned even in a difficult market environment.

LEG: Fit for the Future

Especially in these challenging times, LEG can rely on the commitment of its employees. The outstanding performance is based on exemplary team spirit, a high level of commitment and great loyalty from the employees. Their high level of loyalty and identification with LEG was confirmed by the results of the "Great Place to Work" survey of employees with an outstand-ing "Trust Index" rating. Compared with the results of the last survey two years ago, the Trust Index has once again improved significantly from 66 % to 73 %. Without the valuable efforts of our employees, fiscal year 2022 would not have been so successful: They stand by LEG – even in difficult times.

The Supervisory Board would like to thank the employees for their commitment, motivation and performance in 2022.

The Annual General Meeting in 2022 was once again held as a virtual meeting for the sake of caring for our shareholders, while respecting and safeguarding their rights. In line with LEG's usual practice, every shareholder question submitted was answered in detail. In 2022, many shareholders again took advantage of the stock dividend offered, creating 1,269,651 new shares. The Supervisory Board and Board of Management are particularly pleased about this proof of allegiance to LEG.

The successful committee logistics established over many years and the efficient committee meetings of recent years were continued in the reporting year. The trusting cooperation between the Executive Board and the Supervisory Board is the basis of the Supervisory Board's work. This cooperation continues to be characterized by a comprehensive and continuous exchange of information on strategic, economic and financial matters as well as on current business developments. In addition to the regular meetings prescribed by the Articles of Association, the boards discussed LEG's extensive range of topics and transactions in extraordinary board meetings, video or telephone conferences as required. Irrespective of how the meetings were conducted, the Board of Management was always supported and monitored by the Supervisory Board. Excused absences from board meetings continue to be isolated cases.

Efficient committee work is based on intensive preparation of the committee meetings and other meetings of the Supervisory Board and its committees by the Company. At the meetings, the Executive Board provides supplementary reports on key issues. The meetings are planned in such a way that there is always sufficient time for detailed discussions. It should also be noted that the Executive Board has always fulfilled its duties to provide information in an appropriately detailed and timely manner.

Four regular and two required extraordinary Supervisory Board meetings were held in the 2022 fiscal year. The Executive Board generally attends the meetings. If necessary, such as when personnel matters directly affecting the Executive Board are discussed, the Supervisory Board meets without the Executive Board. Accordingly, in the reporting year the Supervisory Board, the Executive Committee and the Risk and Audit Committee met and adopted resolutions on individual agenda items without the presence of the Executive Board.

Along with the Supervisory Board and the Executive Board, the participation of in-house experts such as the Head of Accounting & Tax or the General Counsel is standard practice. In the specialist discussions, the Supervisory Board gains a deeper understanding of the specialist topics presented through presentations by the Company's executives. Where necessary, the Supervisory Board has also invited external informants to the committee meetings. One example – in addition to the mandatory attendance of the auditor at the meeting to approve the annual financial statements – is the participation of the real estate appraiser CBRE. The Supervisory Board is also advised, where necessary, by a specially mandated law firm.

In 2022, the Supervisory Board updated its competence profile. This was done with a view to the new version of the German Corporate Governance Code 2022 (DCGK), with a view to the current composition of the Supervisory Board and the expectations of the capital market regarding the development and implementation of ESG criteria by listed companies.

The competence matrix below shows that the Supervisory Board is professionally structured. Every member of the Supervisory Board demonstrably possesses the knowledge, skills and special experience required to properly perform their duties. Each individual Supervisory Board member has special competencies which they make available to the Company with great motivation and commitment in the performance of their duties. The 2022 Annual General Meeting elected Dr Katrin Suder as a member of the Supervisory Board for the first time on May 19, 2022. Dr Katrin Suder complements the Supervisory Board very well with her skills and competencies.

Competency profile of the Supervisory Board in its composition following the Annual General Meeting on May 19, 2022:

T7

Competence profile

	Competencies						
	Group management	Housing industry	Real estate transactions	Bank and capital market financing	Finance, accounting and auditing	Management and regulation	Sustainability
Michael Zimmer (Chairman)	●●	●●	●●	●	●	●	●
Dr Claus Nolting (Vice Chairman)	●●	●	●●	●●	●●	●●	●
Dr Sylvia Eichelberg	●●	●	●	●	●	●●	●●
Dr Jochen Scharpe	●●	●●	●●	●	●●	●	●
Dr Katrin Suder	●●	●	●	●	●	●●	●●
Martin Wiesmann	●	●	●●	●●	●	●	●●

●● = Expert knowledge; ● = General knowledge

Source: LEG

Meetings of the full Supervisory Board

In the 2022 fiscal year, the Supervisory Board held four ordinary and two extraordinary meetings. Of these, four meetings were held in person and two as virtual meetings.

A further 16 resolutions were adopted by circular resolution. The matters to be resolved had previously been discussed in detail at the Supervisory Board meetings but were not yet ready for decision at the time of the meeting. The Supervisory Board agreed to adopt the relevant resolutions via circular procedure. These were, for example, the approval of the special sales program for 2022, the retroactive adjustment of Executive Board employment contracts to the compensation system approved at the Annual General Meeting 2022 and the proposed compensation levels effective January 1, 2022, or resolutions on borrowing and increasing the commercial paper program in the context of Group financing matters.

T8

Overview: Attendance at committee meetings in 2022

	Supervisory Board	Risk and Audit Committee	Presidium / Nominating Committee	ESG Committee
Number of meetings 2022	6	4	3	4
Member				
Dr Sylvia Eichelberg	6/6	–	–	4/4
Stefan Jütte[1]	1/6	–	1/3	–
Dr Johannes Ludewig[1]	0/6	–	0/3	–
Dr Claus Nolting[3]	6/6	4/4	2/3	–
Dr Jochen Scharpe	6/6	4/4	1/3 (Substitute member)	–
Dr Katrin Suder[2]	4/6	–	–	4/4
Martin Wiesmann[3]	6/6	4/4	2/3	4/4
Michael Zimmer	6/6	–	2/3	–

[1] No longer a member of the Supervisory Board as of May 19, 2022
[2] Member of the Supervisory Board since May 19, 2022
[3] Member of the Presidium and Nominating Committee since May 19, 2022

Source: LEG

The first ordinary Supervisory Board meeting of 2022 was held on March 8. The resolutions adopted included the appointment of the auditing firm Deloitte GmbH as auditors of the consolidated financial statements for fiscal year 2022, acknowledgement of Deloitte's independence report, and approval of the consolidated financial statements. The meeting began with an assessment of macroeconomic developments in the wake of the conflict in Ukraine and their impact on LEG.

In addition to reports on Supervisory Board/Executive Board matters, the main items on the agenda of the Supervisory Board meeting on March 8, 2022, were:

- To approve the minutes of the Board of Supervisors' resolutions of November 9, 2021, November 29, 2021, and November 30, and to take note of the results of the circulation procedures from December 2021 and January 2022.
- The report from the Risk and Audit Committee or the recommendation of the Risk and Audit Committee on the selection of the auditor for fiscal year 2022 and the audit of any interim financial statements.
- To sign off on the annual financial statements and consolidated financial statements of LEG Immobilien SE as of December 31, 2021, and all relevant reports.
- Approval of the Compensation Report 2021 prepared by the Board of Management and the Supervisory Board.
- To take note of the Q4/2021 SB Report.
- The acquisition/new construction status report considering strategic opportunities.
- An update/review of “One year LWS Plus GmbH”.
- The preparation of the 2022 Annual General Meeting.
- Status reports on the “Energy Transformation” and “Development of a Tender Platform for Real Estate Maintenance” projects and on Renowate GmbH.

The Supervisory Board meeting from May 4, 2022, focused on the following topics:

- To approve the minutes of the Supervisory Board's resolution of March 8, 2022, as well as take note of the outcome of the circulation procedure from April 2022.
- The report from the Risk and Audit Committee.
- The Board of Management's report on the impact of the interest rate and inflation environment on LEG shares.
- The Board of Management's update on the BCP transaction project and the Board of Management's report on the strategy for portfolio sales in this context.
- To note the Executive Board's comments on the Q1/2022 Quarterly Report and Q1/2022 Supervisory Board (SB) Report.
- To take note of the comments on the Sustainability Report 2021.
- The resolution to mandate Deloitte GmbH Wirtschaftsprüfungsgesellschaft with the external business audit to obtain limited assurance on the separate non-financial report 2022.
- To note the status report on “Acquisition and New Construction”.
- To note the Board's presentation on the “Energy Transformation Project”.

- To note the Board's findings from report on the "Resident Consumption Behavior Change Initiatives" project.
- To take note of the report of the Executive Board on the status of preparations for the Annual General Meeting on May 19, 2022.
- The resolution to commission Deloitte GmbH Wirtschaftsprüfungsgesellschaft with a formal audit of the Compensation Report 2022.
- Informing the Supervisory Board of Executive Board mandates approved by the Presiding Committee.

The following key issues were addressed at the extraordinary Supervisory Board meeting (constituent meeting of the newly elected Supervisory Board) on May 19, 2022:

- The election of Mr. Michael Zimmer as Chairman of the Supervisory Board, and Dr Claus Nolting as his Deputy.
- The resolution to implement the ESG Committee as a body of the Supervisory Board of LEG Immobilien SE.
- The elections to fill the positions on the Presiding Committee of the Supervisory Board of LEG Immobilien SE and the Nomination Committee.
- Elections to fill the Risk and Audit Committee and the ESG Committee of LEG Immobilien SE.
- The resolution on the realization of the new "Am alten Güterbahnhof" construction project in Cologne-Ehrenfeld.

At the ordinary meeting of the Supervisory Board on August 30, 2022, Prof Dr Thomas Jäger, University of Cologne, gave an introductory presentation about geopolitics. His keynote speech analyzed the situation in Germany, Europe and internationally, with a focus on China and the USA, considering various factors.

This was followed by an assessment of the macroeconomic situation and classification of the M&A environment by a major international bank.

Key agenda items for the meeting were:

- Taking note of the interim state of economic planning preparation.
- Taking note of the report from the Risk and Audit Committee.
- To take note of the Q2/2022 Quarterly Report.
- To take note of the Q2/2022 Supervisory Board Report.
- Project BCP Transaction/Acknowledgement of Project Completion Report.
- Taking note of the current update on funding.
- To note the update on the "Energy Transformation Project".
- Acknowledgment of the "Crisis Team Energy" report.
- To note the status of purchases/new construction.
- The information on the current "Renowate GmbH" situation.

At the last regular meeting of 2022 on November 3, Prof Dr Achim Wambach, ZEW, gave a keynote speech on "Geopolitics/Impact of the Ukraine Crisis and Interest Rate Developments on the Real Estate Sector" as part of the continuation of the strategy retreat held on August 30, 2022. The Supervisory Board then dealt with the following agenda items:

- To approve the minutes of the August 30, 2022, Board of Supervisors resolution as well as note the outcome of the October 2022 circulation resolution.
- Acknowledgement of the report of the Risk and Audit Committee, inter alia for discussion of the medium-term planning and the proposed change in management from FFO I to AFFO, and explanation of the Q3/2022 Quarterly Report. At the recommendation of the Risk and Audit Committee, the Supervisory Board report as of September 30, 2022, was also noted.
- The adjustment of the business strategy and the associated shift in the Group's focus from FFO I to AFFO were discussed in detail under the agenda item "Economic planning 2023 to 2027, including FC III/2022".
- Taking note of the report from the ESG Committee newly implemented in 2022, among other things, on the developments of the environmental projects as well as solution approaches for reducing CO_2.
- To note the Board's report on the funding update.
- Consent to the issuance of the Declaration of Conformity pursuant to the DCGK (German Corporate Governance Code).
- Acknowledging the reporting by LEG's Compliance Officer on the existing compliance management system, the implementation of data protection in the Group and associated document and process innovations, as well as on the data protection and compliance cases that came to light in 2022 from the web-based whistleblower system introduced by LEG.
- To agree on the procedure of waiting for the results of the discussion on the 2023 business plan and investor feedback before setting the 2023 variable targets according to resolution recommendation of the Executive Committee.

- The reports of the Executive Board under the agenda item “Miscellaneous”, including the Executive Board's comments on the adjustment of the current purchase criteria or on the post-compaction potential.

At the extraordinary meeting of the Supervisory Board on November 9, 2022, the Supervisory Board dealt particularly with the continuation of the discussion of the economic planning 2023 to 2027 including FCIII/2022 and resolved the changeover of Group management from FFO I to cash-oriented AFFO. It also approved the adjusted Group economic plan for fiscal year 2023 and took note of the adjusted medium-term Group economic plan for the years 2024 to 2027.

Strategy meetings of the Supervisory Board

In the 2022 fiscal year, the Supervisory Board discussed the Company's strategy at two meetings. These took place immediately before the meetings of the Supervisory Board on August 30, 2022 (face-to-face meeting) and November 3, 2022 (face-to-face meeting). The discussions focused on the effects of the changed geopolitical and macroeconomic situation on LEG and the measures planned or implemented by the Executive Board.

For example, in addition to the aforementioned geopolitical and macroeconomic situation and its impact on the housing industry and LEG, the Supervisory Board dealt in its meetings with concepts for energy transformation, energy refurbishment, influencing user behavior, and ESG communication. Furthermore, it analyzed growth options for LEG – especially in connection with existing investments.

Meetings of the committees of the Supervisory Board

Executive Committee

- Since May 19, 2022, the Executive Committee has been composed of Michael Zimmer, Chairman of the Supervisory Board, Dr Claus Nolting, Vice Chairman of the Supervisory Board, and Martin Wiesmann. Dr Jochen Scharpe remains the representative member of the Executive Committee. As Chairman of the Supervisory Board, Mr Michael Zimmer is also Chairman of the Executive Committee. Stefan Jütte and Dr Johannes Ludewig resigned from their Supervisory Board seats on May 19, 2022.

- In fiscal year 2022, the Executive Committee met three times in virtual sessions. The attendance of the members is shown in the tabular overview on > page 29 of the report.

- When required, the Executive Committee coordinated outside of meetings in several conference calls.

- As intensive meetings of the Supervisory Board were held in the third quarter of 2022 and the Supervisory Board met several times without the involvement of the Executive Board, it was not necessary to hold a meeting of the Executive Committee in the third quarter of 2022.

- The Executive Committee discussed the topic of the Compensation Report 2021.

- The Presidium dealt with Executive Board matters.

- The Executive Committee examined the Executive Board compensation system and level against the background of Section 113 (3) of the German Stock Corporation Act (AktG – new version) and recommended to the Supervisory Board that the system and level of compensation be adjusted accordingly. The adjustment of the Executive Board compensation and the underlying system was prepared by an external compensation consultant.

- The Executive Committee examined the Supervisory Board compensation system and level against the background of Section 113 (3) of the German Stock Corporation Act (AktG – new version) and recommended to the Supervisory Board that the system and level of compensation be adjusted accordingly. The adjustment of the Executive Board compensation and the underlying system was prepared by an external compensation consultant.

- The Executive Committee received the remarks of its Chairman on the Corporate Governance Roadshow 2022.

- In addition to strategic discussions on growth opportunities and risks in the current market environment, key topics that occupied the Executive Committee in fiscal year 2022 were the appointment of the ESG Committee and the continuation of the sales concept.

- At meetings held in person, virtual meetings, conference calls and via circular resolution, the Presiding Committee discussed the purchase and sale of residential portfolios and their financing, matters relating to the Board of Management such as the determination of the amount of variable compensation for 2021 and the sideline activities of its members, as well as LEG's organizational structure. The Executive Committee also discussed the short and long-term incentive targets for 2023. The Executive Committee submitted proposals for decisions to the Supervisory Board on the individual issues discussed.

- As in previous years, the Executive Committee meetings include discussions of developments in the capital market relevant to LEG and, as a result, guidance on growth opportunities – also with the involvement of external advisors.

Nominating Committee

The Nomination Committee consists of the members of the Presiding Committee and meets as required. The Nomination Committee did not meet in fiscal year 2022.

Risk and Audit Committee

Dr Claus Nolting, Chairman, Dr Jochen Scharpe, Vice Chairman, and Martin Wiesmann form the Risk and Audit Committee. Dr Katrin Suder acts as a deputy member of the committee.

The Risk and Audit Committee held four meetings in fiscal year 2022. Three meetings were held in person and one as a virtual meeting. The attendance of the members is shown in the tabular overview on > page 29 of the report.

The Risk and Audit Committee dealt with the following topics at its four regular meetings:

- The focus of the Risk and Audit Committee meetings was on discussing the annual financial statements as of December 31, 2021, and the management report for fiscal year 2021, as well as the consolidated financial statements as of December 31, 2021, and the Group management report for fiscal year 2021. In addition to analyzing and discussing the Executive Board's reports on the quarterly figures, the internal key figures, the financing strategy and the non-financial report 2021, the Risk and Audit Committee meetings also focused on the 2023–2027 economic plan.
- The Committee also discussed the Compensation Report 2021 prepared by the Executive Board and the Supervisory Board and issued a resolution recommending approval of the Compensation Report 2021 to the Supervisory Board.
- In its meetings, the Risk and Audit Committee also dealt mainly with the treasury policy, the development of minimum liquidity and updates on financing, the continuation of the 2022 sales program, the 2022 audit plan, the report of the Executive Board pursuant to Section 107 (3) AktG, the impact of the current capital market situation on LEG, the Company's tax situation in the changed market environment, inventory valuation, LEG's internal control system (ICS), and LEG's business continuity management.
- The Risk and Audit Committee also regularly discussed the LEG Group's risk reports and risk inventory. In particular, it dealt intensively at several meetings with LEG's risk-bearing capacity concept presented in accordance with the new IDW PS 340 n. F. auditing standard and further development of the ICS.
- The Risk and Audit Committee also received regular reports from Internal Audit and the Compliance Officer.
- Following its November meeting, it also held an intensive exchange with the contacts at Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte) on the upcoming audit of the annual financial statements.

In three circulated resolutions, the Risk and Audit Committee passed one resolution recommending the issuance of a bond to the Supervisory Board in 2022 and two resolutions mandating Deloitte to conduct the audit of a selected Scope 3 category for fiscal years 2019–2021 the project audit of the EU Sustainable Finance Taxonomy-related disclosures in 2022.

ESG Committee

Dr Katrin Suder is Chair of the newly established ESG Committee. Martin Wiesmann is her deputy, and Dr Sylvia Eichelberg also serve as members of the committee. Mr Michael Zimmer is a deputy member of the committee.

The ESG Committee held three regular meetings and one extraordinary meeting in fiscal year 2022. Two meetings were held as face-to-face meetings and two as virtual meetings. The attendance of members is shown in the tabular overview on > page 29 of the report.

The ESG Committee focused on the following topics during its meetings:

- The ESG Committee made its recommendation to the Supervisory Board to add the “Regulations on the ESG Committee” to its Rules of Procedure.
- The constituent meeting also discussed the objectives and tasks of the committee against the backdrop of legal ESG requirements, and the LEG Immobilien SE Executive Board was asked to present the current sustainability or ESG strategy as it relates to economic development.
- As part of an asset tour, members of the ESG Committee were able to visit a Renowate project, a traditional energy modernization project, and a neighborhood development.
- LEG's role regarding the generation and transfer of electricity from renewable energy sources was discussed at length.
- Under the “Environment” agenda item, innovative project ideas were presented to the committee. The ESG Committee is in favor of continuing the projects presented.
- The Executive Board reported on the future energy supply of the company and its holdings.
- At the extraordinary meeting, the ESG Committee discussed how LEG's ESG targets can be achieved through less capital-intensive measures, particularly in view of the current situation in the capital markets.
- The subject of employee satisfaction was explained to the ESG Committee based on the results of the regular “Great Place to Work” survey.

The Supervisory Board is regularly informed about the work of the respective committees at its meetings.

Corporate Governance

In November 2022, the Supervisory Board, together with the Executive Board, dealt with the update of the declaration of conformity issued in the previous year in accordance with Section 161 (1) AktG and issued it. The updated declaration has been made permanently available on the Company's website https://www.leg-wohnen.de /fileadmin/dateien/02_Unternehmen/Corporate_Governance/Entsprechenserklaerung_161-AktG-Nov_2022.pdf).

The LEG Executive Board and Supervisory Board also assert that – since the last declaration of conformity was issued in November 2021 – until the Code 2022 came into force on June 27, 2022, the company complied with all the recommendations of the version of the German Corporate Governance Code dated December 16, 2019, published by the Federal Ministry of Justice in the official section of the Federal Gazette on March 20, 2020.

Against the background of the Act Implementing the Second Shareholders' Directive of December 12, 2019 (ARUG II) that took effect January 1, 2020, and the corresponding amendment to the German Corporate Governance Code, the Supervisory Board presented to the Annual General Meeting on May 19, 2022, the continuation of the compensation system, including compensation levels for the Executive Board and Supervisory Board, as well as its appropriateness and submitted it for resolution.

In accordance with the Code, a regular effectiveness analysis of the Supervisory Board's work is to be done by way of self-evaluation. This effectiveness analysis was implemented in the 2021 fiscal year. The next self-evaluation is scheduled for the 2023 fiscal year.

The Supervisory Board adopted the updated rules of procedure for the Executive Board and Supervisory Board of LEG Immobilien SE by circular resolution in July 2022.

In fiscal year 2021, the Supervisory Board resolved to update the objectives, the competence profile and the diversity concept for the Supervisory Board of LEG Immobilien SE on the recommendation of the Executive Committee. The update was made with a view to the new version of the German Corporate Governance Code 2020 (DCGK), with a view to the conversion of LEG Immobilien AG into an SE and considering the future composition of the Supervisory Board and the expectations of the capital market regarding the development and implementation of ESG criteria by listed companies. The competence profile was sharpened again in 2022 with a view to the newly elected Supervisory Board.

At its November 2022 meeting, the Supervisory Board was informed both about the further development of the existing compliance management system at LEG and about the status of compliance with the General Data Protection Regulation (DSVO) and the further optimization of the data protection management system at the Company.

In January 2022, the Supervisory Board also approved quotas for women on the Executive Board and Supervisory Board of 33.3 % by December 31, 2024. This quota has already been achieved for both the Executive Board and the Supervisory Board.

Audit of annual and consolidated financial statements

The Board of Management has prepared the annual financial statements (separate financial statements) and the management report for fiscal year 2021 in accordance with the provisions of the German Commercial Code (HGB) and the consolidated financial statements and the Group management report in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional requirements of German commercial law pursuant to Section 315a HGB. Deloitte has been appointed as auditor of the annual and the consolidated financial statements for fiscal year 2021. Deloitte audited the annual financial statements and the management report as well as the consolidated financial statements and the Group management report for fiscal year 2021 and issued an unrestricted audit opinion in each case.

An integral part of the audit is assessing the risk management and monitoring system. In its report, the auditor commented on the Executive Board's risk management and monitoring system regarding risks that could jeopardize the company's continued existence. They consider the risk management and monitoring system to be suitable for the early identification of developments that could imperil the Company's survival.

The audited and certified annual financial statements and the management report for fiscal year 2021 were made available to the Supervisory Board in a timely manner. The Supervisory Board examined the annual financial statements, considering the auditor's report and the report of the Risk and Audit Committee Chairman on the preliminary audit. This also applies to the consolidated financial statements and the Group management report as well as to the Executive Board's proposal for profit appropriation.

The Compensation Report 2021 submitted by the Executive Board and Supervisory Board was inspected by the auditor in accordance with Section 162 (3) AktG to determine whether the legally required disclosures pursuant to Section 162 (1) and (2) AktG were made. In addition to the statutory requirements, the auditor also examined the content of the report. The auditor formally examined the compensation report of LEG Immobilien SE, Dusseldorf, for the fiscal year from January 1 to December 31, 2021, to determine whether the disclosures required by Section 162 (1) and (2) AktG were made in the compensation report for the purpose of forming an audit opinion. In the auditor's opinion, the disclosures pursuant to Section 162 (1) and (2) AktG have been made in all material respects in the Compensation Report 2021.

At the meeting of the Risk and Audit Committee on March 7, 2022, and at the gathering of the Supervisory Board on March 8, 2022, the representatives of the auditors explained the results of their audit as a whole and the individual focal points of the audit. No objections were raised. During the audit the auditors found no facts which contradicted the Declaration of Conformity. The Risk and Audit Committee and the Supervisory Board of LEG Immobilien SE received reports on the independence of the auditors from the auditors' representatives at the committee meetings at which the separate and consolidated financial statements were discussed, and took note of the corresponding independence report.

The auditors made it expressly clear that there were no circumstances indicating bias. The Supervisory Board's own detailed examination of all documents did not give rise to any objections. The Supervisory Board concurred with the results of the auditor's review.

On March 8, 2022, in accordance with the proposal of the Risk and Audit Committee, the Supervisory Board approved the 2021 annual financial statements (separate financial statements) and management report of the Company and the 2021 consolidated financial statements and Group management report. The 2021 annual financial statements were thus adopted and the 2021 consolidated financial statements approved.

The Supervisory Board approved the Executive Board's proposed resolution on the appropriation of profits for 2021, thus endorsing the Executive Board's proposal to distribute EUR 296,457,273.75 as dividends (EUR 4.07 per share). The Supervisory Board had also agreed to propose to the Annual General Meeting that the dividends be paid, at the discretion of the shareholders, a) in cash or b) in the form of shares in the Company. Shareholders could elect to receive a cash dividend for part of their shares and a share dividend for the other portion of their shares.

The remaining net profit of EUR 29,972,943.15 was carried forward to new account.

At its meeting on March 8, 2022, the Supervisory Board adopted the annual financial statements for 2021, including the management report, and approved the consolidated financial statements for 2021, including the Group management report, following detailed examination and discussion at the recommendation of the Risk and Audit Committee. The annual financial statements 2021 including the management report and the consolidated financial statements 2021 including the Group management report were audited by Deloitte Wirtschaftsprüfungsgesellschaft mbH. The 2021 compensation report prepared by the Executive Board and the Supervisory Board as part of the management report and the Group management report was also audited by Deloitte Wirtschaftsprüfungsgesellschaft pursuant to Section 162 AktG.

Sustainability

The CSR (Corporate Social Responsibility) Directive Implementation Act was promulgated in the Federal Law Gazette on April 18, 2017, as an amendment to the German Commercial Code in implementation of an EU directive. The Act requires the publication of a so-called non-financial statement in the management report or in a separate document with a reference in the management report no later than four months after the reporting date (sustainability report). LEG has already complied with this obligation since the 2017 fiscal year.

The LEG Executive Board and Supervisory Board have decided to issue the non-financial statement for fiscal year 2022 as part of the Annual Report 2022.

The Supervisory Board of LEG, which is responsible for reviewing the content, has defined the scope of the audit when preparing for it. To support this, it has exercised the right to commission an external review of the details.

In addition, the Supervisory Board has entrusted the Risk and Audit Committee with the monitoring, preparation and review of the Sustainability Report.

The issue of corporate social responsibility (CSR) is of great importance to LEG and its corporate bodies. Mr Martin Wiesmann, as a member of the Risk and Audit Committee, has assumed responsibility for overseeing sustainability reporting from within the Supervisory Board. A governance structure has been established within LEG in order, among other things, to anchor the fundamental ideas of sustainability in day-to-day business. Overall responsibility for CSR activities lies with the entire Board of Management. They are managed by the LEG Sustainability Committee, which is chaired by the Chairman of the Executive Board. In fiscal year 2022, the Supervisory Board implemented an ESG Committee from among its members, which began its work in July 2022.

Executive Board and Supervisory Board

The Executive Board team, consisting of Lars von Lackum as Chief Executive Officer, Susanne Schröter-Crossan as Chief Financial Officer, and Dr Volker Wiegel as Chief Operations Officer, has strategically repositioned LEG with a view to the current market situation. Despite the difficult market situation, a 2022 profit within the expected range was achieved. By redirecting the entire company to an adjusted business strategy and then introducing measures focused on maximum capital efficiency, the Board of Management has embarked on a bold course, supported by the Supervisory Board, that is extremely capital-efficient.

This is for the benefit of all LEG stakeholders, such as employees and tenants, investors and business partners.

The Executive Board demonstrated a high level of performance and management expertise in fiscal year 2022. It has clearly elaborated and sustainably justified its position on the adjustment of strategy in the interests of LEG. The Supervisory Board holds this forward-looking approach by the Executive Board in high esteem and recognition.

The Presidium of the Supervisory Board of LEG Immobilien SE prepares resolutions on Executive Board matters for the Supervisory Board. In 2022, it discussed the extension of the Executive Board employment contracts of Susanne Schröter-Crossan and Dr Volker Wiegel. The current Executive Board employment contract of Susanne Schröter-Crossan ends on June 30, 2023, and that of Dr Volker Wiegel on December 31, 2023.

Ms. Susanne Schröter-Crossan will leave the Executive Board of LEG Immobilien SE by mutual agreement as of March 30, 2023. Ms. Susanne Schröter-Crossan has decided to return to London for family reasons and is therefore leaving the company.

As successor to Ms. Susanne Schröter-Crossan, the Executive Committee – as part of a structured selection process with the support of a personnel consultant – has decided in favor of Dr Kathrin Köhling and made a corresponding recommendation to the Supervisory Board. Dr Kathrin Köhling will officially assume the position of Chief Financial Officer on April 1, 2023. With Dr Kathrin Köhling, it was possible to find a successor for Ms. Susanne Schröter-Crossan who not only has a profound understanding of the residential real estate industry and LEG, but since 2019 has also already made her broad wealth of experience available to LEG as a second-level executive. Before then, she spent seven years in various positions – most recently as an associate partner – at McKinsey & Company, focusing on financial institutions.

Dr Volker Wiegel has been Chief Operating Officer since June 1, 2019. On the recommendation of the Executive Committee, the Supervisory Board extended the Executive Board employment contract with Dr Volker Wiegel by another three years until December 31, 2026. The decisive factor was the outstanding improvements in the operating business that Dr Volker Wiegel has been able to initiate in recent years, which are reflected in the company's excellent operating figures.

With this Executive Board structure, the Supervisory Board of LEG Immobilien SE considers itself well positioned to meet the future challenges of the company.

The Supervisory Board wishes the Executive Board every strength and success for the challenging fiscal year 2023 ahead. The Supervisory Board supports the Executive Board in the tasks it must master, which require strategic skill and a high level of management competence. In 2022, the Executive Board team once again proved that it has these prerequisites.

The Supervisory Board would like to thank the shareholders for their confidence in the Supervisory Board elections. We would like to thank you for this trust and personal appreciation. We are committed to the shareholders to the highest degree and will fulfill our tasks to the best of our abilities and competencies. Safeguarding the interests of all our stakeholders is the focus of the Supervisory Board's work. We would like to express our sincere thanks to our shareholders for standing by LEG Immobilien SE even in difficult times.

2022 represents an exceptional fiscal year in which LEG performed remarkably well thanks to its good structure and flexibility. The Executive Board and all employees who achieved this performance deserve our recognition and thanks. We look forward with confidence to the coming year and are certain that together we will successfully lead LEG through the turbulent times ahead.

Dusseldorf, March 8, 2023

On behalf of the Supervisory Board of LEG Immobilien SE

MICHAEL ZIMMER
Chairman of the Supervisory Board

Compliance

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public in its corporate governance. LEG's compliance management system (CMS) is designed with this in mind. In particular, it includes the following elements:

Declaration of fundamental values

LEG's declaration of fundamental values describes the company's objective and strategy, as well as the values that form the basis of LEG's work with customers, employees, investors, business partners and society.

Code of Conduct

LEG's Code of Conduct describes its declaration of fundamental values in more detail and translates the values set out here for everyday business into regulations for the conduct of our employees. It contains regulations for areas such as ethics, compliance, corruption prevention, conflicts of interest, data protection, discrimination and the protection of company property as well as for political and social discussion and donations and applies to everyone who works for LEG. Details on these standards of conduct can be found in internal Group rules and guidelines, which are published on the intranet.

Guidelines, especially guidelines aimed at preventing corruption and conflicts of interest

Group-wide guidelines include, in particular, guidelines aimed at preventing corruption and conflicts of interest. These serve to promote integrity among employees and avoid corruption and conflicts of interest. The guidelines explain the terms integrity and conflict of interest, as well as explaining and defining bans related to bribery and corruption. The objective of the guidelines is to make employees aware of the development and risks of situations that are susceptible to corruption in all areas of LEG and to clarify the applicable compliance requirements. They therefore help prevent corruption. It is the responsibility of every employee and manager to comply with these guidelines. There is a zero-tolerance-policy in place. Other guidelines concern the topics employees and diversity, whistle-blower, environmental and water and respect for human rights.

Business Partner Code

LEG's Business Partner Code is agreed with business partners, is binding and sets out collaboration principles to guarantee integrity, reliability and economically and ethically sound standards of conduct as well as standards regarding environmental protection.

Based on these fundamental provisions, the CMS bundles measures intended to ensure compliance with legal provisions and internal guidelines. CMS measures include frequent and ad hoc training sessions for employees. All new LEG employees are trained in the area of compliance, with a particular focus on data protection. All employees also complete annual online training sessions in these and other areas on LEG's learning platform, die Akademie. The LEG CMS also features an electronic whistle-blower system that employees and third parties can use to report potential compliance violations around the clock, remaining anonymous if they choose to do so. All information is carefully investigated and appropriate measures are taken if violations are detected.

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

LEG has appointed a Compliance Officer to head up the CMS. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee compliance training and advice. At regular meetings, the heads of Internal Audit, Law and Human Resources departments discuss the design of the compliance management system. Permanent benchmarking against other CMS and independent assessment by external experts also serve to ensure the continuous development and improvement of the CMS. In 2019, LEG's CMS was certificated by the Institute for Corporate Governance in the German Real Estate Industry. Following a successful repeat audit, the certificate was awarded again in 2021 and is now valid until 2024.

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

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

GROUP MANAGEMENT REPORT

3

Basic information on the Group

G4
LEG Group

LEG Immobilien SE

- **COMPANIES WITH EMPLOYEES**
  - e. g.:
  - LEG Management GmbH
  - LEG Wohnen NRW GmbH
  - LEG Bauen GmbH
- **ASSET HOLDING COMPANIES**
  - e. g.:
  - LEG NRW GmbH
  - LEG Wohnen GmbH
  - Ravensberger Heimstätten-gesellschaft mbH
  - LEG Wohnungsbau Rheinland GmbH
  - Ruhr-Lippe Wohnungs-gesellschaft mbH
  - Gladbau Baubetreuungs- und Verwaltungsgesellschaft mbH
  - LEG Niedersachsen GmbH
  - LEG Rhein-Neckar GmbH
- **SERVICE COMPANIES**
  - WohnServicePlus GmbH
  - EnergieServicePlus GmbH
  - TSP-TechnikServicePlus GmbH
  - LWS Plus GmbH
  - LEG Nord FM GmbH
  - LEG Nord Service GmbH
- **OTHER COMPANIES**
  - LCS Consulting und Service GmbH
  - Biomasse Heizkraftwerk Siegerland GmbH & Co. KG
  - Youtilly GmbH
  - Renowate GmbH (Joint Venture)

Group structure and legal form

LEG Immobilien SE is the parent company of the LEG Group (hereinafter referred to as "LEG"), which is shown in the diagram. The company assumed the legal form of an SE (Societas Europaea) on 11 March 2021. It previously traded under the name LEG Immobilien AG, which was formed in 2013 following the transformation of LEG Immobilien GmbH.

Business activities and strategy

Business activities

With a portfolio of around 167,000 rental units at approximately 260 locations, LEG is the second-largest residential property company in Germany as well as the market leader in North Rhine-Westphalia (NRW). LEG's core business is the management and development of its own residential portfolio.

With an average apartment size of 63 square metres and an average monthly rent of EUR 6.33 per square metre, LEG's housing is aimed at broad swathes of the population. As at 31 December 2022, free-financed residential units accounted for 80 % of the portfolio and rent-restricted units for 20 %.

The LEG portfolio's regional focus is on NRW, where 80 % of its residential units are located. Additionally LEG operates as a landlord primarily in the federal states of Lower Saxony, Bremen, Schleswig-Holstein, Hesse, Rhineland-Palatinate and Baden-Württemberg.

LEG's strategic focus is thus on western Germany, as well as the affordable housing asset class. This market segment is characterised by demand that continually outstrips supply. LEG believes that demand will likely continue to increase in future, in part as private households look for more affordable housing on account of the rising cost of living, as well as due to refugees and highly sought-after skilled workers continuing to move to Germany, including because of Russia's illegal war in Ukraine. Supply, on the other hand, looks set to remain largely stable as almost no more new properties are being built in this segment due to higher interest rates, rising construction costs, increased energy requirements and cuts to government subsidies.

LEG's strategy aims to make the business model fit for the future under the external conditions and represent the interests of key stakeholders. It is built on three pillars:

- Optimising core business
- Expanding the value chain
- Consolidating the management platform

A liquidity-focused finance strategy and the ESG framework are what ultimately forms the foundation of LEG's Group strategy.

The individual components of the company strategy are described in more detail below:

Optimising core business

To optimise its core business, LEG focuses on rental growth potential, increasing customer satisfaction, digitalising processes and increasing efficiency.

LEG believes there is also potential for rent increases in the future. In the free-financed portfolio, rents can be increased taking into account statutory regulations by adjusting to local reference rents (mainly rent table) or when letting properties to new tenants or in connection with modernisation measures. In the rent-restricted portfolio, cost rents can be adjusted every three years, determined primarily by the development of the consumer price index. Until 2028, rent control is set to expire for around 21,000 residential units in the current rent-restricted portfolio. This creates further potential to increase rents, as in-place rent is in some cases far below market levels.

Customers are supported by the central customer service and eight regional branches. Customers have access to various contact and information channels in line with their needs and as suitable for the occasion. In addition to using digital channels such as the tenant portal, tenant app, chat, messenger services and online damage notifications, they can also get in touch in person, for example by calling the service hotline or using the emergency repair service.

Since December 2020, LEG has conducted point of contact surveys after handling customer concerns to measure customer satisfaction regarding the process and quality of service. The results are included in the CSI index (customer satisfaction index), which was developed in 2021 and has been used to measure customer satisfaction since the 2022 financial year. The direct contact is also fostered by a Customer Advisory Council, which is actively involved in the decision-making process on neighbourhood development and services improvement.

An efficient business model benefits both customers and all other stakeholders. LEG believes that the company boosts efficiency through constant process optimisation, digitisation and cost discipline.

For example, across the company LEG uses 33 robotics solutions (RPA, robotic process automation), including to process customer enquiries and recognise incoming payments and for modernisation projects and in quality management. Pilot tests of artificial intelligence – such as using flying drones to detect damage to buildings – and the use of sensors and data analysis help improve processes further. If they wish, prospective LEG tenants can arrange a rental entirely digitally, from the initial inquiry right up to concluding the agreement. To improve cost efficiency, a cost-reduction programme was also launched starting in the 2023 financial year with the objective of saving a total of around EUR 10 million per year in operating and administrative costs.

Expanding the value chain

When expanding its value chain to include services, LEG relies on cooperation to combine technical expertise with its own management expertise. The multimedia business was launched in 2014 as the first service activity, covering digital TV and internet in cooperation with Vodafone.

In January 2016, EnergieServicePlus GmbH took on energy technology and services for LEG's properties. EnergieServicePlus GmbH also develops concepts for supplying green energy to tenants. A pilot project with partners including MEGA (Monheimer Elektrizitäts- und Gasversorgung) was launched in 2022 to provide solar power to 96 residential units in Monheim. Since 2021, residents of the car-free Weißenburg settlement in Münster have been able to use locally produced, carbon neutral green energy at their own tenant rate.

Since 2017, LEG and B&O Service und Messtechnik AG have been running the joint venture TSP – TechnikServicePlus GmbH (51 % share held by LEG) for managing small repairs and processing insurance claims.

The wholly owned subsidiary LWS Plus GmbH, a project management company, has organised craftsmen capacities to renovate vacant apartments since the end of 2020. LEG expects this to reduce vacancy periods and improve the quality of craftsmen's work.

In January 2022, LEG founded the start-up Renowate GmbH together with the Austrian Rhomberg Bau Group. The objective of the joint venture is to develop serial, digital solutions to decarbonise existing homes. Core elements include a pre-fabricated building shell and modular building and heating technology. This makes the modernisation process for the buildings more efficient compared to traditional methods and far shorter. Renowate also markets its services to other property managers in the DACH-region and was awarded its first contract even before concluding the pilot phase in the LEG portfolio. LEG expects this to offer growth opportunities with a relatively limited investment.

Consolidating the management platform

LEG aims for a business model with low complexity and thus higher flexibility and therefore focuses exclusively on the Western Germany region and the affordable housing asset class.

LEG believes that maintaining a regional focus on NRW bolsters its operating performance in property management and provides extensive market knowledge. Starting from this geographic base and taking account of the then low interest rate environment, LEG started in 2019 to expand its portfolio into neighbouring states with similar structures to secure economies of scale.

In response to changing macroeconomic conditions dominated by the war in Ukraine, the resulting energy crisis, inflation-driven cost developments and a sharp rise in interest rates, LEG made strategic adjustments in the 2022 financial year. In March 2022, LEG announced a programme to sell up to 5,000 residential units. This also includes residential units acquired at the end of 2021 as part of a larger portfolio acquisition but that are not suitable for LEG's portfolio due to their geographic location, as well as other units that are not efficient to manage on account of where they are situated. Overall, a total of 706 residential units were sold in the reporting year. LEG also suspended acquisitions entirely from October 2022 onwards, so that the Group will become a net seller. Provided the conditions are appropriate, however, it has the flexibility to resume its growth mode. New construction business, the volume of which accounts for only a small share of LEG's business activities, is to be suspended after completing project developments already in progress.

Liquidity-focused finance strategy

In November 2022 LEG announced that, in view of the volatile market environment, it would focus primarily on effects on the Group's liquidity when steering its business in the future.

This shifts focus on to AFFO as a key performance indicator from the 2023 financial year onwards. Starting from FFO I (after non-controlling interests), AFFO generally takes capitalised cost from modernisation and maintenance into account (capex). To calculate capex (recurring), investments that benefit from government funding are deducted. Consolidation effects from intercompany results relating to own work are also eliminated. The AFFO as well as a part of the net proceeds of property disposals are also used as the basis for the dividend for financial year 2023. Through this, LEG aims at minimising the amount of additional funding for the duration of the volatile market environment.

LEG has had an investment grade rating (Moody's Baa1) since May 2015 and has since had access to a wide range of financing instruments. Moody's confirmed the Baa1 rating in November 2022 but issued a negative outlook as general economic conditions deteriorated. At the end of the 2022 financial year, capital market instruments accounted for about 58 % of the debt volume, with secured bank loans making up around 36 %.

ESG framework

Corporate, environmental and social responsibility are at the heart of the LEG business model. To this end, LEG created the ESG Agenda 2024 in the 2021 financial year and published its plans for further development in environmental, social and governance (ESG) aspects.

In terms of the environment, LEG supports the carbon-neutral transformation of the residential sector, which it aims to achieve for its residential portfolio by 2045. In addition to energy-efficiency building upgrades, the Group is also committed to the energy transition in Germany and attempts to have a positive impact on its tenants' consumption patterns. LEG is also working on innovative solutions to modernise its existing portfolio more quickly and cost effectively – including in the interests of its tenants. Its medium-term goal is to reduce CO_2 emissions by 10 % by 2026 compared to 2022 levels. In the reporting year, CO_2 emissions (market based) declined by 12.4 % year on year to 28.3 CO_2 equivalents per square metre.

LEG considers itself a socially responsible landlord that takes account both of its customers' financial situation and their general satisfaction. The latter has been measured using the Customer Satisfaction Index (CSI) since 2022. The company's social concept also includes the LEG NRW Tenant Foundation and the "Your Home Helps" foundation. LEG provides a home to a wide range of people and also promotes diversity within its workforce. LEG Management GmbH has been a signatory on the Diversity Charter since 2019. In the 2021 financial year, LEG also launched a mentoring programme for female and gender-diverse colleagues. Overall employee satisfaction is measured using the Great Place to Work organisation's Trust Index. As well as tenants and employees, municipalities are also a major stakeholder for LEG.

Consideration for the interests of all stakeholders, including shareholders, transparency and responsibility when making business decisions and appropriate risk management are core elements of corporate governance and the basis for LEG's actions. The Group has a certified Compliance Management System, which bundles measures intended to ensure compliance with legal provisions and internal guidelines. Examples of these measures also include regular and ad hoc employee training sessions, such as the cyber-IT security training introduced in the 2022 financial year.

The key objectives of the ESG Agenda are part of the remuneration structure for the Management Board and the management level below the Management Board, with ESG targets accounting for 20 % of the performance criteria for the short-term and long-term variable remuneration component for Management Board members.

Group Management System

LEG's Group management system reflects LEG's value-oriented company strategy. In turn, this is based on sustainably developing the company and consistently increasing its enterprise value. In order to take account of developments in the areas of environmental, social and governance (ESG), the sustainability strategy is an integral part of the company strategy.

A control concept based on performance indicators, with the planning process serving as a key instrument, forms the basis for the Group management system. The key figures are calculated taking into account current business developments as part of a forecast, which is carried out multiple times a year, and multi-year planning covering a five-year period. There is also a close connection between planning and forecasts with the risk management system, with the result that corresponding countermeasures can be promptly derived and implemented for any risks ascertained. Cash flow forecasts for the development of the liquidity situation are prepared on a weekly basis and allow potential financial risks to be identified at an early stage and any countermeasures to be taken where necessary.

The Management Board and executives are informed about the key figures and current business performance on a monthly basis in the form of standardised reporting. The Supervisory Board is informed of these on a quarterly basis. There is regular benchmarking of the key figures against the corresponding figures for competitors. In addition, executives have access to up-to-date online reports by way of a self-service system. The foundation for this reporting system is the IT-based Group data warehouse, which is connected to the Group-wide SAP system, operating sub-systems and to the planning system. This means that deviations from forecasts can be identified and action taken.

The overall system of key performance indicators is structured by functional areas (Operations, Special companies, Management/ Administration) to ensure a targeted control of individual areas. There is a target definition and achievement system within the functional areas which includes both financial and non-financial key figures. Corresponding responsibilities for all key figures are defined within the organisation. The target system relates to the focus of the individual levels of hierarchy.

Debt service plays an important role in Group management on account of its importance for the liquidity and earnings situation. The Corporate Finance & Treasury division, which is responsible for liquidity controlling, determines the LEG Group's liquidity requirements taking into account the development of the Group and of the markets and establishes suitable measures to meet this demand. Based on current forecast figures and risk and opportunity reports, liquidity scenarios are included in reporting and interpreted.

Key performance figures are divided into financial and non-financial key figures.

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Key performance indicators for the 2022 financial year

Most important financial performance indicators
- FFO I - Adjusted EBITDA margin - LTV

Financial key figures	Non-financial key figures	
	Operating key figures	ESG key figures
- Net cold rent - EPRA-NTA	- Rental growth per sqm (like-for-like) (in %) - Vacancy rate (in %) - Investments per sqm	- Carbon footprint - Customer Satisfaction Index (CSI) - Trust Index - Rating classification at Sustainalytics

Financial key performance indicators and other key figures (2022 financial year)

The most important financial performance indicators for Group management are FFO I (from 2023 onwards: AFFO), the adjusted EBITDA margin and LTV.

The EBITDA margin as a key indicator of the company's profitability as well as the LTV indicating net gearing and therefore important for a capital-intensive company such as LEG are classified as most important financial performance indicators from financial year 2022.

Other financial key figures that are particularly relevant for the property industry are net cold rent and EPRA NTA. Non-financial key figures for Group management can be split into operating and ESG figures. In the 2021 financial year, LEG published its 2024 sustainability strategy, including a decarbonisation pathway, which will serve as a guideline for its ongoing ESG evolution (environmental, social and governance). Environmental, social and governance criteria are defined for the ESG targets, which were introduced for the first time in the 2021 financial year, and are put into practice with specific targets. The targets are assigned quantitative or qualitative criteria so that a comparison of target and actual performance can be carried out at the end of the financial year to measure target attainment. The specific ESG targets and the minimum and maximum values are set each year by the Supervisory Board before the start of the financial year. Alongside the financial performance criteria, they are taken into account when determining the overall performance of the Management Board and senior management.

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Most important financial performance indicators

FFO I	FFO I is a key figure in the property sector used to represent a company's operating profitability. It shows funds generated from operating activities. In FFO I, adjusted EBITDA is adjusted for cash interest expenses and income and cash taxes. For calculation see > analysis of net assets, financial position and results of operations, page 60, table 28, FFO I
Adjusted EBITDA margin	The adjusted EBITDA margin (adjusted EBITDA in relation to net cold rent) provides information on a company's profitability and makes it possible to compare companies internationally, primarily by adjusting for national tax and financing conditions. In the case of the EBITDA margin, EBITDA is adjusted for net income from the remeasurement of investment property, net income from disposals, project costs of a non-recurring nature and other extraordinary expenses and income unrelated to the accounting period. For calculation of the adjusted EBITDA see > analysis of net assets, financial position and results of operations, page 60, table 28, FFO I
LTV	LTV (loan to value, net gearing in relation to property assets) provides information on gearing and is therefore an important key figure for LEG as a capital-intensive property company. LTV is equivalent to the ratio of net financial liabilities less cash and cash equivalents to the sum of investment properties, assets held for sale and prepayments for investment properties. For calculation see > analysis of net assets, financial position and results of operations, page 64, table 33, LTV

Change to Group management system from the 2023 financial year onwards

In November 2022 LEG announced that, in view of the volatile market environment, it would focus primarily on effects on the Group's liquidity when managing its business in the future. In connection with the realignment, AFFO replaces FFO I as a most important financial performance indicator from financial year 2023.

Cash-optimised management necessitates a separation of operating cash generation from capital expenditure. Maintenance expenses for purchased services and the own work capitalised previously included in "Other" will no longer be reported in recurring net operating income moving ahead, and will instead be recognised as an EBITDA adjustment.

Starting from FFO I (after non-controlling interests), AFFO generally takes capitalised cost from modernisation and maintenance into account. This procedure for the calculation of AFFO was adjusted in conjunction with the realignment of the corporate management. In future, recurring capex alone will be deducted (capex (recurring)). Capex that benefits from government funding is defined as non-recurring. Consolidation effects from intercompany results relating to own work are also eliminated.

The calculation of the key figures adjusted EBITDA and AFFO from the 2023 financial year onwards is shown in the > analysis of net assets, financial position and results of operations (page 61, table 29).

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Other key figures

Financial key figures	
Net cold rent	Net cold rent is the essential, solely controllable component of LEG's income. It represents rental income from the units rented out. It refers to cold rent and does not include any operating costs.
EPRA NTA	EPRA-NTA is a relevant key figure in the property sector for measuring net asset value from the shareholders' perspective assuming long-term continuation of the business with acquisition and disposal of assets. The key figure is calculated on the basis of the equity attributable to controlling shareholders and eliminates the effects of the fair value measurement of derivative financial instruments and deferred taxes attributable to non-current investment property, derivatives or subsidised housing loans. Intangible assets are not included in the calculation.
Non-financial key figures – operating	
Rental growth per sqm (like-for-like)	Like-for-like rental growth per sqm is an indicator of operating management and shows the increase in net cold rent per square meter at the reporting date on a like-for-like basis.
Vacancy rate	The vacancy rate is an indicator of operating management and shows the number of vacant units in comparison to the total portfolio at a reporting date.
Investments per sqm	Investments per square metre show investments in value-retaining (recognised as an expense) and value-adding (eligible for capitalisation) measures and are compared to total living and usable space.
Non-financial key figures – ESG	
Carbon footprint	ESG target in the "environmental" category. The carbon footprint is the result of an emissions calculation or CO_2 footprint. It indicates the quantities of greenhouse gases released by an activity, process or action. The carbon footprint is measured in CO_2 equivalents (CO_2e) as CO_2e in kg per square metre. LEG includes Scope 1 and Scope 2 emissions in its measurement.
Customer Satisfaction Index (CSI)	ESG target in the "social" category to measure customer satisfaction. The CSI reflects what customers think of LEG's service, products, image and price/performance ratio and presents the results in a measurable manner.
Trust Index	ESG target in the "social" category to measure employee satisfaction. Using a benchmark study from the independent "Great Place to Work" institute, the Trust Index is calculated as the average value across all categories of the employee survey.
Rating classification at Sustainalytics	ESG target in the "governance" category for the 2022 financial year. This rating is calculated by the independent rating agency Sustainalytics.

Economic report

General economic conditions

The German economy as a whole was still generating growth in the first months of 2022 shored up by catch-up effects as many pandemic restrictions were lifted. The Federal Statistical Office estimates that real gross domestic product (GDP) rose by 3.9% year on year in the first quarter of 2022. This was driven primarily by private consumer spending, although government expenditure and construction investment also increased compared to the previous year.

Starting in Q2 2022, however, poorer general conditions increasingly put strain on the economy. The war in Ukraine and the resulting energy crisis exacerbated the price hikes that had begun during the pandemic. Ongoing supply chain disruption, a hangover from international pandemic restrictions, pushed up the cost of raw materials and intermediate products further. Nevertheless, a survey by the ifo Institute found that, on average, German companies had passed just 34% of their procurement price increases on to their customers by October 2022. Higher prices were also fuelled by the European Central Bank's expansive monetary and fiscal policy. Over the year, therefore, inflation even surpassed the high inflation rates seen in the 1970s and early 1980s.

Inflation, measured by the Consumer Price Index (CPI), rose by 7.9% over the year on average in 2022. At the end of 2022, inflation was 8.6% and lower than in previous months, in part due to the December assistance granted by the German federal government – which covered the costs of the December down payment for gas and district heating. The energy price component of the CPI climbed by 24.4% year on year in December 2022 after surging by 38.7% in November 2022. By contrast, the decline in the food component was far less pronounced (+20.7% year on year in December 2022, compared to 21.1% in November 2022). The rent component was unchanged in December at 1.9% year on year.

Despite inflation and the uncertainty stemming from the war in Ukraine, private consumer spending picked up by 4.6% in 2022 in real terms. The Bundesbank believes this is due primarily to catch-up effects that set in as the pandemic eased and that continued to have an effect into the third quarter of 2022. The federal government's relief packages also partially offset the higher costs for the general public. Nonetheless, consumer sentiment grew increasingly pessimistic in the final quarter on account of falling real incomes. The saving rate fell from 15.1% in 2021 to 11.2% in 2022, marking a return to pre-pandemic levels. This reflects both households that were hit particularly hard by inflation due to low incomes and so were unable to set much or any money aside, as well as higher-income households that spent savings they involuntarily accrued during the pandemic.

Investment, another component of real GDP, rose by just 0.4% in 2022, with corporate investment virtually stagnating (+0.1%). Private residential construction investment dropped by a substantial 2.2%. As well as the long-standing rise in construction costs, which rose by a further 16.9% year on year in November 2022, this was attributable mainly to higher financing costs for housing loans. Furthermore, materials shortages worsened on account of the war in Ukraine – including for structural steel and insulation – and were the worse they have been since the shortages seen in 1991. Given these effects, there was no longer any planning certainty for construction projects and so many residential development projects were cancelled. In view of this, LEG also decided in 2022 to suspend its new construction business, the volume of which accounts for only a small share of its business activities, after completing project developments already in progress.

A weak external environment and high costs in energy-intensive sectors ultimately meant that exports also failed to reach the previous year's level, with an increase of 2.9% (2021: +9.7%).

The Federal Statistical Office put real GDP for 2022 as a whole at 1.9%.

Forecasts for 2023 are still subject to major uncertainty. According to its monthly report as of December 2022, the Bundesbank expects economic output (real GDP) to shrink by 0.7%. Gas shortages look unlikely given lower consumption and alternatives to Russian gas imports, but the energy crisis will continue to drive up inflation for the time being. Private households' disposable income and consumer spending will fall as a result. Energy costs will also continue to hurt production in energy-intensive sectors, squeezing exports. The Bundesbank does not expect a gradual recovery to kick in for the German economy until the second half of the year. This assumes that international demand picks up again and the price pressure on energy eases. This, alongside the European Central Bank's interest rate policy, will cause inflation to decline and, in combination with higher salaries, will also boost real household income. Both exports and private consumer spending should thus pick up again. On the other hand, private residential construction investment is expected to decline by a further 5.5% in 2023.

The energy crisis and inflation also dominated fiscal policy in 2022 and prompted the European Central Bank to raise interest rates by 50 basis points in July and December as well as by 75 basis points in September and October. Interest rates on money markets climbed sharply, with yields on ten-year German government bonds also seeing a significant upturn from −0.18% to 2.57%.

In addition to the general economic situation and the situation on financial markets, the performance of the labour market and income trends represent additional key conditions for LEG's business model.

Costs of energy and living rose sharply in 2022. A risk provision has been made for possible payment defaults arising from this with regard to ancillary cost settlements that relate to the year 2022 and will not be settled until the financial year 2023. The Federal Government passed several relief packages to support the population. Furthermore, LEG provided its tenants with information on energy saving and offered assistance, e. g. with housing subsidy applications or instalment payments.

The good performance of the German labour market in 2022 was also underpinned by a new record high number of people in employment. Preliminary figures by the Federal Statistical Office indicate that this figure increased to an average of about 45.6 million. At the same time, unemployment and underemployment fell considerably in 2022 on average, according to the employment agency. The unemployment rate decreased by 40 basis points against the previous year to 5.3 %. This mainly reflects positive effects in the first half of 2022. North Rhine-Westphalia also saw a 50 basis point decrease to an annual average rate of 6.8 %.

Wages and salaries further rose in 2022. According to the Bundesbank, collective wages increased by an average of 2.6 %. Gross wages and salaries per employee rose by 4.3 %. Collective wages are expected to pick up by 3.9 % in 2023 and gross wages and salaries per employee by 5.1 %.

The eurozone economy performed similarly to Germany's. While the first half of the year was shaped by an economic upturn propelled primarily by catch-up effects in private consumer spending, the energy crisis and inflation took a toll on consumer confidence and industrial production over the rest of the year. All in all, the EU Commission's Autumn Forecast puts real GDP growth in the eurozone at 3.2 % in 2022. The EU labour market performed well, with the number of people in work reaching a historic high of 213 million during the year. The unemployment rate remained at a record low of 6.2 % in 2022. Forecasts for 2023 are subject to major uncertainty. The EU Commission assumes that general conditions will remain challenging in 2023 and expects only marginal economic growth (real GDP) in the eurozone of 0.3 %.

Overall, general economic conditions so far had only a minor impact on LEG's operating activities. In response to the volatile market environment, cost increases and interest rate hikes, LEG decided in November 2022 to focus primarily on effects on the Group's liquidity and capital structure when steering its business. To improve cost efficiency, a cost reduction programme was also launched starting in the 2023 financial year with the objective of saving a total of around EUR 10 million per year in operating and administrative costs.

LEG believes that demand for affordable housing in Germany will increasingly outstrip supply on account of the significant decline in new residential construction and ongoing immigration to Germany. The Bundesbank estimates net immigration to Germany at 1.3 million people in 2022. Net immigration is expected to reach 350,000 people in 2023 or 300,000 people a year from 2024. With the increased shortage of affordable housing that this entails, LEG's portfolio takes on particular importance.

Residential market

Demographic change

North Rhine-Westphalia (NRW) accounted for around 80 % of the LEG portfolio at the end of 2022. In light of this, the general conditions on the residential market, including demographic change in the state, are particularly important. According to projections by the state statistical office IT.NRW, NRW's population will decline only slightly from 17.9 million at present to 17.6 million in 2050, with immigration from abroad in particular ensuring the number of residents remains stable and offsetting the fact that there are fewer births than deaths. In the period from January 2022 to August 2022 alone, 379,800 moved to NRW from abroad. The towns and cities along the Rhine, as well as Münster and Aachen, are expected to see population growth. Areas around major cities have also been benefiting from high levels of migration for several years. Suburbanisation as a result of increased purchase prices and living costs is a trend that will likely continue in the long term, in part due to working from home becoming more commonplace and a higher degree of digitisation.

IT.NRW expects the number of households in NRW – another relevant key figure for LEG's business model – to remain virtually stable overall in the long term, although it anticipates a structural shift to one and two person households.

The higher cost of living and reduced affordability of home ownership are creating a more strained situation in the lower to middle price segment of the rental property market. This trend will grow stronger as the number of rent-restricted apartments falls in the years ahead and construction declines.

Construction

Construction in Germany increased practically non-stop for more than 10 years, peaking in 2020 when 306,376 homes were completed. However, housing construction began to stall in 2021 due to shortages of material and labour as well as cost increases, with the Federal Statistical Office reporting a 4.2 % downturn. Only about 50 % of demand was met in the area of rental housing construction, according to the Federal Association of German Housing and Real Estate Companies (GdW), falling to as low as about 22 % for rent-restricted housing.

No construction completion data for calendar year 2022 was available when preparing this report. Nevertheless, general conditions have deteriorated even further on account of higher costs of capital, additional price increases and limited availability of building capacities and materials. In view of this, the Federal Association of German Housing and Real Estate Companies (GdW) expects residential construction to again decline by around 4 % in 2022 to about 280,000 completed buildings. The GdW projects that just 242,000 homes will be built in 2023, declining further to 214,000 in 2024.

Rent-restricted housing portfolio

The number of rent-restricted apartments in NRW is continuing to decline. About 8.9 % or 441,871 apartments were still rent restricted in 2021 according to NRW.Bank. This represents a decrease of about 10,000 residential units on 2020 levels. Most of the apartments (about 41 %) are also in the rent control period and rent control will expire within the next ten years. No data for calendar year 2022 was available when preparing this report.

Development of rent

Rental growth continued in Germany in the 2022 financial year. Most German states generated growth in the low to medium single-digit range. Value AG calculates that average asking rents for free financed portfolio properties in NRW rose by about 3.8 % between the first and the fourth quarter of 2022.

There were major differences in asking prices between individual submarkets in NRW. The highest average rents (median) were seen in Cologne at EUR 12.68 per square metre and Dusseldorf at EUR 11.61. This makes rent prices about twice as high as in locations with the lowest rents, which included Höxter (EUR 5.81 per square metre) and Gelsenkirchen (EUR 6.28 per square metre). It is worth noting that there was an almost EUR 5 per square metre difference in asking rents in the neighbouring cities of Dusseldorf and Duisburg (EUR 6.96 per square metre). However, rent in the state capital does influence neighbouring cities and so the rise in rents in the surrounding areas of Duisburg (up 5.1 %) and Mettmann (up 4.6 %) was higher than in Dusseldorf (up 3.6 %). A similar picture emerges in the areas surrounding the major urban regions of Cologne, Münster and Bielefeld. Asking rents at LEG's largest location in Dortmund averaged EUR 8.21 in 2022 (up 5.1 %).

Average (median) asking rents in other states and locations relevant to the LEG portfolio rose by 2.9 % in Lower Saxony, Rhineland-Palatinate and Baden-Württemberg and by 3.6 % in Schleswig-Holstein in 2022. The state of Bremen saw particularly dynamic rental growth of 7.7 %. Asking rents in the city of Bremen increased to EUR 9.90 (up 6.1 %). Rents rose to EUR 9.56 (up 2.8 %) in Kiel, EUR 8.53 (up 4.2 %) in Flensburg and to EUR 9.44 (up 3.2 %) in the Hanover region. In Wilhelmshaven, asking rents were EUR 6.36 (up 3.0 %), similar to Gelsenkirchen.

Asking rents for new build properties in NRW climbed by 6.4 % to an average of EUR 11.18. Prime rents for new builds in Cologne reported a median of EUR 15.00 (up 8.3 %) and a maximum (95 % percentile) of EUR 21.82 per square metre.

Development of purchase prices

A more nuanced picture is required when considering the development of purchase prices in 2022. On the back of double-digit percentage growth in some cases in previous years, price momentum slowed considerably in 2022. Although purchase prices increased over the year as a whole, growth rates are the result largely of developments in the first few months of the year. In addition, price development must be viewed differently for different regions, depending on the product and the period.

In NRW, purchase prices for owner-occupied apartments and detached houses picked up by 1.5 % and 0.8 % respectively in 2022 according to Value AG. Asking prices for apartment buildings, on the other hand, declined by 3.1 % year on year, with the number of offers far lower than in the owner-occupied apartment and detached and semi-detached home segment.

Developments related to existing properties do not translate directly to the development of new construction prices in NRW. For example, offers for newly built owner-occupied apartments again saw a steady rise in prices in 2022.

Regional differences were even more pronounced for purchase prices than for rents. Asking prices for existing properties at the higher-priced locations of Dusseldorf (EUR 5,000 per square metre), Cologne (EUR 4,810 per square metre) and Münster (EUR 4,322 per square metre) easily exceeded prices in, for example, Gelsenkirchen (EUR 1,557 per square metre), Höxter (EUR 1,571 per square metre) or Hagen (EUR 1,774 per square metre). Nevertheless, price pressure seems to be spreading to the surrounding areas. For example, purchase prices declined in Dusseldorf (down 5.2 %), Cologne (down 0.5 %) and Münster (down 3.9 %), whereas asking prices in surrounding locations such as Duisburg (up 2.9 %), Leverkusen (up 0.9 %) and Warendorf (up 2.9 %) picked up.

Median asking prices for owner-occupied apartments in NRW went up by 1.5 % to about EUR 2,677 per square metre. Asking prices were similar at locations such as Dortmund (EUR 2,519 per square metre), Mönchengladbach (EUR 2,236 per square metre) and Bielefeld (EUR 2,689 per square metre).

Vacancy development

The CBRE empirica vacancy index put active vacancies in NRW at 2.9 %, almost on par with the German national average of 2.8 %. Other states relevant to LEG were similar: the vacancy rate was 3.2 % in Lower Saxony, 2.9 % in Rhineland-Palatinate, 2.8 % in Bremen and 2.4 % in Schleswig-Holstein. Münster remained one of the German cities with the lowest vacancy rate, at 0.3 %. The figures are for 2021. No market data for 2022 was available when preparing this report.

CBRE-empirica says that the gap is growing between cities experiencing a high influx of people and growth regions on the one hand and shrinking regions on the other, both in terms of vacancy rates and purchase and rent prices. The impact of immigration, including due to the war in Ukraine, and low new construction activities combined with already low vacancy rates will likely further exacerbate the demand situation in what are already strained housing markets in the years ahead.

Transaction market

The market for German residential properties benefited from strong fundamentals and a sustained period of low interest rates in the past, which led to a considerable increase in property prices. As interest rate hikes were introduced in 2022, market players entered a pricing phase that became necessary on account of the new environment and caused a significant decline in investment volume.

According to the global property service provider CBRE, the transaction volume (residential properties of 50 residential units or more) came to EUR 13.5 billion in 2022, down 73 % on the previous year. Adjusted to account for the takeover of Deutsche Wohnen SE by Vonovia SE with a volume of EUR 22 billion, the decline is around 50 %.

Transactions with a volume of over EUR 100 million saw particularly low activity. These high-volume transactions came to a total of EUR 6.8 billion, far below the EUR 39.7 billion generated in 2021 and also lower than the five-year average of EUR 16.2 billion.

The number of residential units negotiated thus fell by 76 % to 68,400. At the same time, however, average purchase prices rose by 26 % to EUR 178,800 per residential unit by 30 % to EUR 2,914 per square metre.

The substantial rise in interest rates resulted in higher financing costs in the reporting year. Investors were far more cautious given that both uncertainties and risks were higher. Financing interest rose by around 3 percentage points in 2022 as measured by the five-year swap rate, while the ten-year German government bonds yield – which is used as a benchmark – increased by 270 basis points in the same period to 2.6 %. Prime yields for residential properties in Germany's top 7 cities were temporarily lower than the yield on ten-year German government bonds at an average of 2.58 % in the final quarter of 2022. Given current market dynamics with high demand among tenants combined with a shrinking new construction pipeline, LEG believes that there will likely be considerable potential to increase rents, which could push up rental yields and further widen the spread with German government bonds, depending on the performance of the ten-year government bond.

In terms of price development, CBRE expects market calibration to continue. However, price stabilisation is likely to result from the fact that investing in residential properties is primarily a long-term, recoverable and low-volatility investment that provides at least a proportionate level of protection against inflation.

The largest net investors in 2022 were open-end property and special funds with a transaction volume of around EUR 2.8 billion. They were followed by asset and fund managers – chiefly international investors with a value-add approach – with investments of around EUR 2.3 billion. Property companies came in third place at EUR 1.3 billion. Public housing companies had surplus investment of just EUR 538 million compared to EUR 3.7 billion in the previous year. Property stock corporations also scaled back portfolios by a significant EUR 2.2 billion in 2022. This included the sale of Adler Real Estate's EUR 1.5 billion portfolio. The largest individual transaction in a German speaking country in 2022 was the sale of the Austrian S-Immo to the Czech CPI Group.

North Rhine-Westphalia was one of the most sought-after investment locations in the residential segment in 2022. A total of around 9,000 residential units were sold for approximately EUR 1.7 billion as part of transactions. However, revenue reached only a third of the previous year volume (2021: approx. EUR 5.8 billion). The share of forward deals picked up sharply, coming to just under 50 % in 2022. North Rhine-Westphalia's share of the total German transaction volume remained more or less in line with the previous year at around 13 % (2021: 12 %).

CBRE believes that a transaction volume of up to EUR 15 billion is achievable for German residential properties in the current 2023 financial year. Yield development could increasingly reflect differences in location and quality.

Employees

The number of employees as of 31 December 2022 increased by 15.3 % to 2,040 compared to the previous year's reporting date. Further key figures on employee development and structure are shown in the table.

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Employees of the LEG Group as of 31 December

	2022	2021
Total	2,040	1,770
male in %	65.2	64.7
female in %	34.8	35.3
Full-time[1]	1,750	1,018
Part-time[1]	290	252
FTE (excluding Management Board members and trainees)	1,792	1,588
Fluctuation rate in %[1,2]	13.5	6.2
employee-side	6.3	3.1
employer-side	7.2	3.1
Average age in years[1]	42.2	42.4

[1] Financial year 2021 excl. TechnikServicePlus, Biomasse Heating Plant, LWS Plus
[2] Financial year 2022 excl. TechnikServicePlus

Current business activities

Despite a highly volatile market environment, dominated by the war in Ukraine, the energy crisis it triggered and higher costs for interest and construction, LEG was able to continue its positive business performance in the 2022 financial year. FFO I, one of the most important financial performance indicators, climbed by 13.9 % as against the same period of the previous year to EUR 482.0 million. In the previous year, LEG had defined a range of EUR 475.0 million to EUR 490.0 million as its target for FFO I, which it later narrowed down to a corridor of EUR 475.0 million to EUR 485.0 million when it published its quarterly report as at 30 September 2022. The FFO I generated for the 2022 financial year was thus in line with expectations.

The key drivers were the development of existing rents and the integration of acquisitions from 2021, which were fully included in earnings for the first time in the 2022 financial year. Furthermore, the investment companies for tenant services also increased their contribution to FFO to EUR 50.4 million (previous year: EUR 39.2 million).

The rise in FFO I had been counteracted by disposals in the reporting year and the previous year. Also, average financing costs rose by five basis points year-on-year to 1.26 % as at 31 December 2022 (not including short-term variable bridge financing in the previous year).

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Development of the real estate portfolio

Key figure	Usage	31.12.2022	31.12.2021	Change	in %
Number residential units	Residential	167,040	166,189	851	0.5
	Commercial	1,611	1,576	35	2.2
	Total residential and commercial	**168,651**	**167,765**	**886**	**0.5**
	Parking	46,636	45,438	1,198	2.6
	Total	**215,287**	**213,203**	**2,084**	**1.0**
Lettable area in sqm	Residential	10,581,565	10,526,699	54,866	0.5
	Commercial	276,127	254,164	21,964	8.6
	Total residential and commercial	**10,857,692**	**10,780,862**	**76,830**	**0.7**
In-place rent in €/sqm	Residential	6.33	6.13	0.20	3.2
	Residential (l-f-l)	6.32	6.13	0.19	3.1
	Commercial	8.29	7.77	0.51	6.6
	Total residential and commercial	**6.37**	**6.16**	**0.21**	**3.3**
Number of vacancies	Residential	4,913	4,987	−74	−1.5
	Commercial	261	294	−33	−11.2
	Total residential and commercial	**5,174**	**5,281**	**−107**	**−2.0**
EPRA vacancy in %	Residential	2.9	2.8	13 bps	
	Residential (l-f-l)	2.4	2.6	−20 bps	
	Commercial	9.1	12.7	−365 bps	
	Total residential and commercial	**3.1**	**3.0**	**6 bps**	

As at the end of the reporting period, LEG's property portfolio consisted of 167,040 residential units, 1,611 commercial units and 46,636 garages and parking spaces. The table shows the key portfolio data and KPIs as compared to the previous year.

The number of residential units in the portfolio rose slightly by just 0.5 % or 851 year-on-year as at 31 December 2022. This development reflects the initial effects of strategic adjustments that LEG made in the 2022 financial year in response to the changing macro environment. These include a sales programme for up to 5,000 residential units in total and a full halt to acquisition activities from October 2022. Also, new construction business, the volume of which accounts for only a small share of LEG's business activities and is not a part of its core business, is to be suspended after the project developments already initiated or purchased have been completed.

Acquisitions of 952 residential units were notarised in the first three quarters of the reporting year. In a subdued market environment, 706 sales were also notarised over the reporting year.

1,412 residential units were added to the portfolio in the 2022 financial year. This figure includes 294 new buildings in the cities of Cologne (51 residential units), Dusseldorf (104 residential units) and Bremen (139 residential units). This was offset by disposals of 561 residential units as a result of apartments being sold or combined.

The key operating figures developed as follows:

The average rent for the residential portfolio on a like-for-like basis was up by 3.1 % year-on-year at EUR 6.32 per square metre on 31 December 2022. The increase in the free financed portfolio amounted to 3.7 %. On a like-for-like basis, the average rent for rent-restricted apartments, which accounted for 20 % of the portfolio as a whole as at the end of the financial year, rose by just 0.3 % or EUR 0.02 to EUR 5.05 per square metre as there was no cost rent adjustment in the reporting year.

The EPRA vacancy rate for all of LEG's residential units, including the properties acquired, was 2.9 % as at the end of the 2022 financial year. On a like-for-like basis, the EPRA vacancy rate was 2.4 % and thus 20 basis points below the previous year's level of 2.6 %.

LEG invested EUR 439.2 million in the past financial year in order to further enhance the quality and energy efficiency of the residential portfolio (adjusted for new construction activities managed by LEG, public safety work for acquisitions and own work capitalised). This is equivalent to an increase of EUR 32.4 million or 8.0 % as against the previous year. The share of value-adding measures eligible for capitalisation was 75.2 % in the reporting year (previous year: 73.4 %). Average investment per square metre of living and usable space decreased by EUR 1.89 year-on-year to EUR 40.61.

Various measures were implemented in the reporting year for the continuous improvement of operating business, in particular letting performance, and to avoid fluctuation. Above all, this included the optimisation of operational processes.

Financing

Financing portfolio

At the start of the financial year 2022, LEG issued bonds with a total volume of EUR 1.5 billion. The bonds mature in four, seven and 12 years respectively and have coupons of 0.375 %, 0.875 % and 1.500 %. They were used to repay the short-term bridge financing that was taken out in connection with a portfolio acquisition from the Adler Group.

In addition, secured and unsecured bank loans for a total of around EUR 400 million were rearranged in the 2022 financial year.

LEG also agreed a EUR 600 million syndicated working capital line, expanding and optimising the financing portfolio. LEG's existing commercial paper programme was also increased by EUR 100 million to EUR 600 million.

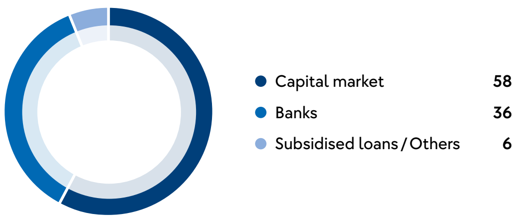
The average interest rate for LEG on 31 December 2022 was 1.26 %, compared to 1.06 % at the end of the previous year. Excluding the variable bridge financing in connection with the portfolio acquisition taken into account in the previous year, financing costs rose by 5 basis points from 1.21 % to 1.26 %. The average term of liabilities rose slightly from 6.47 years to 6.54 years. Adjusted for the variable bridge financing, the average term in the previous year was 7.5 years.

Financing structure

As at the end of the reporting period, 58 % of LEG's total financing liabilities relate to capital market financing (bonds and convertible bonds), 36 % to bank loans, and 6 % to subsidised loans and other liabilities. The loan liabilities to banks are essentially distributed among 15 banks, mainly in the mortgage and state bank (Landesbank) sector. In line with LEG's financing strategy, the share of a single bank in total liabilities is capped at 20 % to avoid an excessive dependence on any one financing partner. LEG's largest creditor currently has a share of 6 % of total liabilities and 16 % of the bank loan portfolio.

G5

Financing sources (in %)



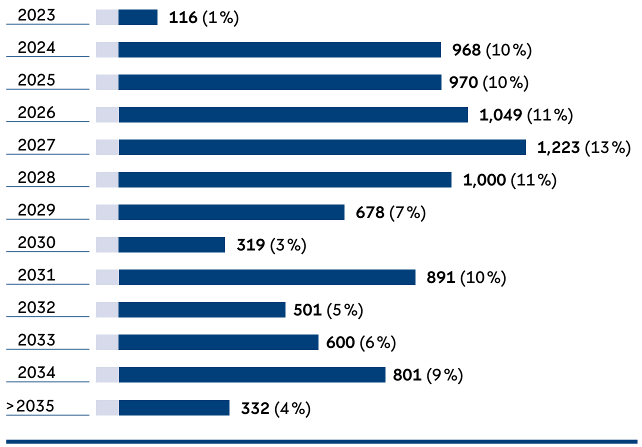
Maturity profile

In line with its long-term business model and in order to ensure a defensive risk profile, LEG believes it has a balanced, long-term financing structure. Financing is arranged with bank partners on the basis of medium- and long-term agreements with terms of up to twelve years. The funds raised on the capital market have contract terms of up to 15 years, while the financing agreed with other lenders has terms of up to 25 years. Taking into account the long-term subsidised loans (average maturity 22.4 years), the financing portfolio as a whole has a maturity of 6.54 years. The goal in managing contract terms is that no more than 25 % of total liabilities fall due within one year. LEG had only minimal liabilities at the end of 2022 that were due within a year.

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

G6

Maturity profile
(credit volume in € million, share of total debt in %)

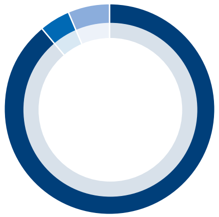


Interest rate hedging

The financing agreements, befitting the long-term strategic outlook of the company, are around 94 % hedged by fixed-rate agreements or interest rate swaps. Derivative interest hedging instruments are linked to the respective hedged loan (micro hedge).

G7

Interest hedging instruments (in %)



Fixed interest rate	89.0
Interest rate swap	4.7
Floating interest rate	6.3

Covenants

LEG's financing agreements usually contain regulations on compliance with defined financial covenants that the respective borrower must comply with throughout the term of the financing agreements.

The secured financing agreements contain covenants that are customary in the market.

With regard to unsecured financing instruments, the following key covenants apply at the level of LEG Immobilien SE:

T14

Covenants

Consolidated Net Financial Indebtedness to Total Assets	max. 60 %
Secured Financial Indebtedness to Total Assets	max. 45 %
Unencumbered Assets to Unsecured Financial Indebtedness	min. 125 %
Consolidated Adjusted EBITDA to Net Cash Interest	min. 180 %

As part of its risk management for the company as a whole, LEG has implemented a process for the continuous monitoring of compliance with covenants relating to both secured and unsecured financing. In the past financial year 2022, the regulations on financial ratios agreed with the financing partners were complied with. Breaches are also not anticipated moving ahead.

Corporate ratings

LEG has had a "Baa1" long-term issuer rating since 2015, which has since then been continuously confirmed by Moody's. The outlook was revised from stable to negative in the financial year 2022 on account of changes to the market and interest rate environment. The rating continues to reflects the strong market position, leading portfolio management and long-term financing strategy of LEG.

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

Dividend

In order to strengthen LEG's capital base and in light of an unsecure market and interest rate environment, the Management Board and Supervisory Board of LEG Immobilien SE intend to propose to the Annual General Meeting on 17 May 2023 not to pay out a dividend for financial year 2022.

Analysis of net assets, financial position and results of operations

Please see the > glossary in the annual report for a definition of individual key figures and terms.

Results of operations

Aggregate income statement
The condensed income statement is as follows:

T15

Condensed income statement

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Net operating income	13.1	114.9	413.5	522.1
Net income from the disposal of investment properties	–0.3	–0.3	–1.5	–1.0
Net income from the remeasurement of investment properties	–785.9	743.9	382.4	1,863.7
Net income from the disposal of real estate inventory	–0.1	0.7	–0.2	0.5
Net income from other services	5.7	0.7	16.4	5.7
Administrative and other expenses	–97.9	–99.6	–182.6	–136.4
Other income	0.0	0.0	0.1	0.1
Operating earnings	**–865.4**	**760.3**	**628.1**	**2,254.7**
Interest income	2.5	1.2	2.5	1.3
Interest expenses	–39.7	–37.2	–143.0	–121.7
Net income from investment securities and other equity investments	–45.1	3.0	–101.4	6.4
Net income from associates	0.3	0.3	0.3	0.3
Net income from the fair value measurement of derivatives	–27.4	–7.8	121.5	–2.3
Net finance earnings	**–109.4**	**–40.5**	**–120.1**	**–116.0**
Earnings before income taxes	**–974.8**	**719.8**	**508.0**	**2,138.7**
Income taxes	24.6	–135.9	–270.6	–414.0
Net profit or loss for the period	**–950.2**	**583.9**	**237.4**	**1,724.7**

Net operating income declined by 20.8 % in the reporting period. The main factors driving this were the net cold rent which increased by EUR 115.2 million and on the other hand a goodwill impairment attributable to this item of EUR 181.4 million as a result of higher interest.

Adjusted EBITDA increased by EUR 86.5 million to EUR 598.7 million. The adjusted EBITDA margin remained constant at 74.9 % in the reporting period (previous year: 74.9 %).

Portfolio remeasurement as at the end of the year resulted in a valuation gain of EUR 382.4 million for the reporting period (previous year: EUR 1,863.7 million).

The rise in administrative expenses of EUR 46.2 million essentially results from an increase in goodwill impairment of EUR 112.4 million attributable to this item.

In the reporting period, net income from the fair value measurement of derivatives primarily resulted from changes in the fair value of embedded derivatives from the convertible bond of EUR 123.0 million (previous year: EUR 3.5 million).

The tax expense is almost entirely attributable to deferred taxes.

Net operating income

Net operating income broke down as follows in 2022:

T16

Net operating income

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Net cold rent	202.5	174.2	799.1	683.9
Profit from operating expenses	–7.2	–1.9	–12.4	–2.4
Maintenance for externally procured services	–6.2	–22.1	–57.1	–65.7
Personnel expenses (rental and lease)	–27.7	–26.4	–107.5	–87.9
Allowances on rent receivables	–12.8	–4.5	–25.2	–10.3
Depreciation and amortisation expenses	–129.4	–3.2	–196.9	–11.5
Others	–6.1	–1.2	13.5	16.0
Net operating income	13.1	114.9	413.5	522.1
Net operating income-margin (in %)	6.5	66.0	51.7	76.3
Non-recurring special effects – rental and lease	1.6	1.9	10.6	6.4
Depreciation	129.4	3.2	196.9	11.5
Net operating income (recurring)	144.1	120.0	621.0	540.0
Net operating income-margin (recurring) (in %)	71.2	68.9	77.7	79.0

Net operating income declined by EUR 108.6 million year-on-year in the reporting period. Net cold rent increased by EUR 115.2 million (+16.8 %) in the period under review. The in-place rent increased by 3.1 % on a like-for-like basis. This was offset by an impairment of the goodwill attributable to this item in the amount of EUR 181.4 million, in particular as a result of higher interest. Also, a higher headcount, essentially in connection with the acquisitions of 2021, caused staff costs to rise by EUR 19.6 million.

The write-down on rent receivables rose by EUR 14.9 million, in particular on account of the higher volume of operating costs not yet invoiced.

The adjusted net operating income (NOI) margin declined slightly from 79.0 % in the previous year to 77.7 %.

The EPRA vacancy rate, which describes rental income lost due to vacancies in relation to potential rental income at full occupancy on the basis on market rents at the end of the reporting period, declined by 20 bps year-on-year to 2.4 % on a like-for-like basis.

T17

EPRA vacancy rate

€ million	2022	2021
Rental value of vacant space – like-for-like	21.8	21.8
Rental value of vacant space – total	26.4	23.4
Rental value of the whole portfolio – like-for-like	897.5	837.8
Rental value of the whole portfolio – total	911.4	844.8
EPRA vacancy rate – like-for-like (in %)	2.4	2.6
EPRA vacancy rate – total (in %)	2.9	2.8

The presentation of EPRA capex breaks down the capitalisation of investments and reconciles them to the payments for investments in investment properties. Value-adding capitalised investments, consisting of development projects (EUR 23.3 million) and modernisation measures for investment properties (EUR 341.7 million), increased to EUR 365.0 million in the reporting period. Acquisitions declined by EUR 2,130.1 million as against the 2021 financial year, when this figure was largely influenced by the purchase of the Adler Group portfolio.

T18

EPRA capex

€ million	2022	2021
Acquisitions	324.4	2,454.5[1]
Development	23.3	14.2
Investments in investment properties	341.7	321.4
thereof incremental lettable space	5.0	5.6
thereof no incremental lettable space	336.7	315.8
EPRA-Capex	**689.4**	**2,790.1[1]**
Correction for acquisitions within the meaning of IFRS 3	–	–1,367.4[1]
Additions to/utilisation of provisions for capex	–20.8	–15.0
Allocation to/utilisation of provisions for incidental purchase price costs	79.6	–59.0
Payments for investments in investment properties	**748.2**	**1,348.7**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation.

The increase of EUR 44.7 million in value-adding capitalised modernisation measures in investment properties and property, plant and equipment and the non-capitalised maintenance expenses of EUR 0.4 million led to total investments of EUR 497.2 million in the reporting period (comparable period: EUR 452.1 million). In addition to the maintenance expenses of EUR 57.1 million (previous year: EUR 65.7 million) for externally procured services recognised in the statement of comprehensive income, the non-capitalised maintenance expenses also include the intragroup maintenance expenses of EUR 54.2 million (previous year: EUR 45.2 million).

Investment for new construction activities on company-owned land, public safety measures in connection with portfolio acquisitions and own work capitalised in the amount of EUR 14.7 million (previous year: EUR 15.8 million) was eliminated from total investment when calculating total investment per square metre. Adjusted total investment amounts to EUR 439.2 million and average total investment per square metre to EUR 40.61 (previous year: EUR 42.50) in the reporting year. The capitalisation rate after adjustments increased slightly to 75.2 % in the reporting year (previous year: 73.4 %).

T19

Maintenance and modernisation

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Non-capitalised maintenance expenses	26.5	40.0	111.3	110.9
Capital expenditure	116.3	103.6	385.9	341.2
Total investment	**142.8**	**143.6**	**497.2**	**452.1**
Area of investment properties in million sqm	10.84	9.94	10.82	9.57
Adjusted total investment	**97.2**	**126.8**	**439.2**	**406.8**
Adjusted average investment per sqm (€)	**8.97**	**12.76**	**40.61**	**42.50**

The EPRA cost ratio, as an indicator for operating efficiency, is the ratio of operating and administrative expenses to gross rental income. By definition, non-recurring items are not adjusted for. Adjustments are made for ground rent and direct vacancy costs. For reasons of transparency and comparability, a further adjustment has been made for maintenance expenses in the financial year as the amount of a property company's maintenance expenses are largely dependent on the accounting standard applied and the specific maintenance strategy.

T20

EPRA cost ratio

€ million	2022	2021
EBIT	628.1	2,254.7
Depreciation and amortisation	314.3	18.1
EBITDA	942.4	2,272.8
Net income from the remeasurement of investment properties	– 382.4	– 1,863.7
Non-recurring special effects	37.0	102.8
Net income from the disposal of investment properties	1.5	0.9
Net income from the disposal of real estate inventory	0.2	– 0.6
EBITDA (adjusted)	598.7	512.2
Rental income	– 799.1	– 683.9
Maintenance expenses	57.1	65.7
Management costs (sign reversal)	143.3	106.0
Maintenance expenses	57.1	65.7
Leasehold land interests	– 3.7	– 5.2
EPRA costs (including direct vacancy costs)	196.7	166.5
Direct vacancy costs	– 13.6	– 11.5
EPRA costs (excluding direct vacancy costs)	183.1	155.0
Rental income	799.1	683.9
Leasehold land interests	– 3.7	– 5.2
Gross rental income	795.4	678.7
EPRA cost ratio (including direct vacancy costs)	24.7 %	24.5 %
EPRA cost ratio (excluding direct vacancy costs)	23.0 %	22.8 %
Adjustment for maintenance	57.1	65.7
Adjusted EPRA costs (including direct vacancy costs)	139.6	100.8
Adjusted EPRA costs (excluding direct vacancy costs)	126.0	89.3
Adjusted EPRA cost ratio (including direct vacancy costs)	17.6 %	14.9 %
Adjusted EPRA cost ratio (excluding direct vacancy costs)	15.8 %	13.2 %

EBITDA is adjusted for non-recurring items to ensure comparability with previous periods. Adjustments are made for all items that are not attributable to operations in the period and that have a not insignificant effect on EBITDA. These non-recurring special items comprise project costs for business model and process optimisation, personnel matters, acquisition and integration costs, capital market financing and M&A activities as well as other atypical matters that distort the long-term result for the period. These are composed as follows:

T21

Non-recurring special effects

€ million	01.01.–31.12.2022	01.01.–31.12.2021
Project costs for business model and process optimisation	5.2	9.4
Personnel-related matters	4.2	5.0
Acquisition and integration costs	20.5	80.0
Capital market financing and M&A activities	2.1	2.5
Others special effects	5.0	5.9
Non-recurring special effects	37.0	102.8

In the previous year, the acquisition and integration costs were essentially due to the acquisition of the 13 companies of the Adler Group. This acquisition was recognised as a business combination in accordance with IFRS 3 and all incidental purchase costs were therefore expensed, in particular the real estate transfer tax of EUR 65.3 million.

Net income from the disposal of investment properties
Net income from the disposal of investment properties was composed as follows in 2022:

T22

Net income from the disposal of investment properties

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01.–31.12.2022	01.01.–31.12.2021
Income from the disposal of investment properties	12.1	3.6	51.0	31.8
Carrying amount of the disposal of investment properties	– 12.1	– 3.6	– 51.3	– 31.8
Costs of sales of investment properties sold	– 0.3	– 0.3	– 1.2	– 1.0
Net income from the disposal of investment properties	– 0.3	– 0.3	– 1.5	– 1.0
Valuation gains induced by disposals (included in net income from the remeasurement of investment properties)	–	0.4	–	1.6
Adjusted net income from disposals	– 0.3	0.1	– 1.5	0.6

There was an increase in disposals of investment properties in the reporting period.

Income from disposals amounted to EUR 51.0 million (previous year: EUR 31.8 million). The increase in income from disposals essentially results from two major block sales for which the contracts were signed in the 2021 financial year but transfer of ownership took place in the financial year 2022.

Net income from the remeasurement of investment properties

Net income from the remeasurement of investment properties amounted to EUR 382.4 million in the reporting year (previous year: EUR 1,863.7 million). Based on the property portfolio at the beginning of the financial year (EUR 19,178.4 million) and taking acquisitions into account (measured at EUR 288.5 million), this corresponds to an increase of 2.0 % (previous year: 12.5 %).

The average value of residential investment properties was EUR 1,789 per square metre as at 31 December 2022 (previous year: EUR 1,706 per square metre) including IFRS 5 properties and acquisitions and EUR 1,788 per square metre (previous year: EUR 1,734 per square metre) not including acquisitions.

The increase in the value of the portfolio in the financial year 2022 is essentially a result of the reduction in the discount and capitalisation rate as well as the increase in in-place-rents. An opposite effect had the expected increase in maintenance and management costs due to the current market situation.

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

T23

EPRA net initial yield

€ million	31.12.2022	31.12.2021
Residential investment properties	18,942.5	17,978.5
Assets under construction (IAS 40)	188.1	–
Assets held for sale	33.3	32.3
Market value of the residential property portfolio (net)	19,163.9	18,010.8
Estimated incidental costs of acquisition	1,843.6	1,765.1
Market value of the residential property portfolio (gross)	21,007.5	19,775.9
Annualised net cash rental income of the financial year	776.1	743.9
Cash income from operating and heating costs	386.4	348.9
Cash expenses from operating and heating costs	–329.1	–360.7
Annualised gross cash rental income of the financial year	833.4	732.1
Annualised maintenance expenses	–57.2	–80.5
Vacancy and non-allocable operating costs	–10.0	–7.0
Legal and consulting costs	–5.0	–3.9
Property manager fee owners' association	–0.5	–0.4
Annualised property expenses	–72.7	–91.8
Annualised net cash rental income of the financial year	760.7	640.3
Adjustments for rental incentives	5.2	4.7
Topped-up annualised net cash rental income of the financial year	765.9	645.0
EPRA Net Initial Yield in %	**3.6**	**3.2**
EPRA topped-up Net Initial Yield in %	**3.6**	**3.3**

Net income from the disposal of real estate inventory

Net income from the disposal of real estate inventory amounts to EUR –0.2 million for the past financial year. The remaining real estate inventory held as at 31 December 2022 amounts to EUR 0.1 million and is land under development.

Net income from other services

T24

Other services

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Income from other services	10.1	3.5	28.4	13.6
Expenses in connection with other services	–4.4	–2.8	–12.0	–7.9
Net income from other services	**5.7**	**0.7**	**16.4**	**5.7**

Other services include the generation of electricity and heat, IT services for third parties and management services for third-party properties.

Among others, operating earnings from electricity and heat generation improved by EUR 5.1 million as against the previous year as a result of the higher price level.

Administrative and other expenses

Administrative and other expenses are composed as follows:

T25

Administrative and other expenses

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Other operating expenses	–17.2	–91.2	–35.7	–104.1
Personnel expenses (administration)	–7.6	–6.6	–28.4	–26.7
Purchased services	–0.1	–0.6	–1.9	–1.5
Depreciation and amortisation	–73.0	–1.2	–116.6	–4.1
Administrative and other expenses	**–97.9**	**–99.6**	**–182.6**	**–136.4**
Depreciation and amortisation	73.0	1.2	116.6	4.1
Non-recurring special effects (administration)	14.8	88.8	26.4	96.2
Administrative and other expenses (recurring)	**–10.1**	**–9.6**	**–39.6**	**–36.1**

The other operating expenses in the previous year essentially resulted from the incidental costs incurred on the acquisition of the Adler companies (mainly the real estate transfer tax of EUR 65.3 million).

The rise in depreciation and amortisation relates to the impairment of goodwill attributable to this item of EUR 112.4 million.

Adjusted administrative expenses thus rose by EUR 3.5 million or 9.7 % as against the previous year.

Net finance earnings

T26

Net finance earnings

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Interest income	2.5	1.2	2.5	1.3
Interest expenses	–39.7	–37.2	–143.0	–121.7
Net interest income	**–37.2**	**–36.0**	**–140.5**	**–120.4**
Net income from other financial assets and other investments	–45.1	3.0	–101.4	6.4
Net income from associates	0.3	0.3	0.3	0.3
Net income from the fair value measurement of derivatives	–27.4	–7.8	121.5	–2.3
Net finance earnings	**–109.4**	**–40.5**	**–120.1**	**–116.0**

Interest expenses increased by EUR –21.3 million year-on-year to EUR –143.0 million and include the interest expense from loan amortisation, which rose by EUR –1.8 million to EUR –22.2 million. The rise in interest expenses essentially results from corporate bonds issued after the prior-year period as well as loans granted.

The decline in other interest expense largely relates to the replacement of an interest rate derivative, which resulted in a non-recurring effect of EUR 4.5 million in the previous year.

The reduction in net income from other financial assets and other investments to EUR –101.4 million is essentially due to the fair value measurement of the equity investment in Brack Capital Properties N.V.

In the reporting period, net income from the fair value measurement of derivatives primarily resulted from changes in the fair value of embedded derivatives from the convertible bond of EUR 123.0 million (previous year: EUR 3.5 million).

The average interest rate rose to 1.26 % as at 31 December 2022 (previous year: 1.06 %) based on an unchanged average term of 6.5 years (previous year: 6.5 years). The prior-year figures take into account short-term, variable bridge financing for the pre-financing of the Adler Group portfolio acquisition. Without the bridge financing, the average interest rate would have been 1.21 % and the average term of the liabilities would have been 7.5 years as at 31 December 2021.

Income taxes

T27

Income tax expenses

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Current tax expenses	2.9	–1.1	1.3	–4.5
Deferred tax expenses	21.7	–134.8	–271.9	–409.5
Income tax expenses	**24.6**	**–135.9**	**–270.6**	**–414.0**

The effective Group tax rate is 53.3 % (previous year: 19.4 %) as at 31 December 2022. The rise in the Group's tax rate as against the previous year is essentially due to the one-off effect of goodwill impairment not taken into account for tax purposes and the lower net profit as a result as well as from the effect of the firsttime non-applicability of the so-called extended trade tax reduction for two property holding group companies.

The effective Group tax rate was impacted by the application of the extended trade tax reduction.

Income taxes essentially relate to deferred tax liabilities on investment properties resulting from the portfolio remeasurement.

Income from current income taxes amounts to EUR 1.3 million for the 2022 financial year. Current tax expenses amounted to EUR 4.5 million in the previous year. The increase as against the previous year is essentially due to prior-period effects. As in the previous year, the offsetting of tax loss carryforwards resulted in lower taxation.

Reconciliation to FFO

FFO I is one of the key financial performance indicator for Group management in the financial year 2022. LEG distinguishes between FFO I (not including net income from the disposal of investment properties), FFO II (including net income from the disposal of investment properties) and AFFO (FFO I adjusted for capex). Please refer to the segment reporting for further disclosures.

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

T28

Calculation of FFO I, FFO II and AFFO

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Net cold rent	202.5	174.2	799.1	683.9
Profit from operating expenses	–7.2	–1.9	–12.4	–2.4
Maintenance for externally procured services	–6.2	–22.1	–57.1	–65.7
Personnel expenses (rental and lease)	–27.7	–26.4	–107.5	–87.9
Allowances on rent receivables	–12.8	–4.5	–25.2	–10.3
Other	–6.1	–1.2	13.5	16.0
Non-recurring special effects (rental and lease)	1.6	1.9	10.6	6.4
Net operating income (recurring)	**144.1**	**120.0**	**621.0**	**540.0**
Net income from other services (recurring)	**5.9**	**1.2**	**17.3**	**8.3**
Personnel expenses (administration)	–7.6	–6.6	–28.4	–26.7
Non-personnel operating costs	–17.2	–91.8	–37.6	–105.6
Non-recurring special effects (administration)	14.8	88.8	26.4	96.2
Administrative expenses (recurring)	**–10.0**	**–9.6**	**–39.6**	**–36.1**
Other income	0.0	0.0	0.0	0.0
EBITDA (adjusted)	**140.0**	**111.6**	**598.7**	**512.2**
Cash interest expenses and income FFO I	–30.8	–22.6	–113.2	–86.7
Cash income taxes FFO I	–1.7	0.1	–1.7	–0.6
FFO I (before adjustment of non-controlling interests)	**107.5**	**89.1**	**483.8**	**424.9**
Adjustment of non-controlling interests	0.2	–0.2	–1.8	–1.8
FFO I (after adjustment of non-controlling interests)	**107.7**	**88.9**	**482.0**	**423.1**
Net income from the disposal of investment properties (adjusted)	–0.1	0.2	0.8	0.7
Cash income taxes FFO II	2.9	–1.2	0.9	–3.9
FFO II (incl. disposal of investment properties)	**110.5**	**87.9**	**483.7**	**419.9**
Capex	–113.5	–100.9	–373.2	–330.9
AFFO (Capex-adjusted FFO I)	**–5.8**	**–12.0**	**108.8**	**92.2**

At EUR 482.0 million in the reporting period, FFO I was 13.9 % higher than in the previous year (EUR 423.1 million). The increase essentially results from the rise in rental income with a constant EBITDA margin of 74.9 % (ratio of adjusted EBITDA to net cold rent).

As a result of higher interest expenses, the interest coverage ratio (ratio of adjusted EBITDA to cash interest expense and income) declined from 591 % in the previous year to 529 % in the reporting period with a simultaneous increase in net gearing (from 41.9 % to 43.9 %).

In conjunction with the reorganisation of the company's management, AFFO (capex-adjusted FFO I) will replace FFO I as the Group's primary key financial performance indicator from the 2023 financial year.

Cash-optimised management necessitates a separation of operating cash generation from capital expenditure. Maintenance expenses for purchased services and the own work capitalised previously included in "Other" will no longer be reported in adjusted net operating income moving ahead, and will instead be recognised as an EBITDA adjustment.

Taking the adjustment described above into account, FFO I, FFO II and AFFO are calculated as follows:

T29

Calculation of FFO I, FFO II and AFFO (new definition)

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Net cold rent	202.5	174.2	799.1	683.9
Profit from operating expenses	–7.2	–1.9	–12.4	–2.4
Personnel expenses (rental and lease)	–27.7	–26.4	–107.5	–87.9
Allowances on rent receivables	–12.8	–4.5	–25.2	–10.3
Other	–7.7	–1.2	–4.2	–0.2
Non-recurring special effects (rental and lease)	1.6	1.9	10.6	6.4
Net operating income (recurring)	**148.7**	**142.1**	**660.4**	**589.5**
Net income from other services (recurring)	**5.9**	**1.2**	**17.3**	**8.3**
Personnel expenses (administration)	–7.6	–6.6	–28.4	–26.7
Non-personnel operating costs	–17.2	–91.8	–37.6	–105.6
Non-recurring special effects (administration)	14.8	88.8	26.4	96.2
Administrative expenses (recurring)	**–10.0**	**–9.6**	**–39.6**	**–36.1**
Other income	0.0	0.0	0.0	0.0
EBITDA (adjusted)	**144.6**	**133.7**	**638.1**	**561.7**
Cash interest expenses and income FFO I	–30.8	–22.6	–113.2	–86.7
Cash income taxes FFO I	–1.7	0.1	–1.7	–0.6
Maintenance for externally procured services	–6.2	–22.1	–57.1	–65.7
Own work capitalised	1.5	0.0	17.7	16.2
FFO I (before adjustment of non-controlling interests)	**107.4**	**89.1**	**483.8**	**424.9**
Adjustment of non-controlling interests	0.3	–0.2	–1.8	–1.8
FFO I (after adjustment of non-controlling interests)	**107.7**	**88.9**	**482.0**	**423.1**
Net income from the disposal of investment properties (adjusted)	–0.1	0.2	0.8	0.7
Cash income taxes FFO II	2.9	–1.2	0.9	–3.9
FFO II (incl. disposal of investment properties)	**110.5**	**87.9**	**483.7**	**419.9**
Capex (recurring)	–113.5	–100.9	–373.2	–330.9
AFFO (Capex-adjusted FFO I)	**–5.8**	**–12.0**	**108.8**	**92.2**

Starting from FFO I (after non-controlling interests), AFFO generally takes capitalised cost from modernisation and maintenance into account. This procedure for the calculation of AFFO was adjusted in conjunction with the realignment of the corporate management. In future, recurring capex alone will be deducted (capex (recurring)). Capex that benefits from government funding is defined as non-recurring. Consolidation effects from intercompany results relating to own work are also eliminated. The reconciliation breaks down as follows:

T30

Reconciliation capex (recurring)

€ million	unaudited Q4 2022	unaudited Q4 2021	01.01. – 31.12.2022	01.01. – 31.12.2021
Investments in investment properties	–110.0	–101.7	–377.7	–335.6
Investments in property, plant and equipment	–6.3	–1.8	–8.2	–5.5
Capital expenditure	–116.3	–103.5	–385.9	–341.1
Subsidised investments	0.0	0.0	0.0	0.0
Consolidation effects	2.8	2.6	12.7	10.2
Capex (recurring)	**–113.5**	**–100.9**	**–373.2**	**–330.9**

Net assets

Condensed statement of financial position

The condensed statement of financial position is as follows:

T31

Condensed statement of financial position

€ million	31.12.2022	31.12.2021
Investment properties	20,204.4	19,178.4[1]
Prepayments for investment properties	60.8	23.4
Other non-current assets	518.2	514.9[1]
Non-current assets	20,783.4	19,716.7[1]
Receivables and other assets	179.5	167.1[1]
Cash and cash equivalents	362.2	675.6
Current assets	541.7	842.7[1]
Assets held for sale	35.6	37.0
Total assets	**21,360.7**	**20,596.4[1]**
Equity	9,083.9	8,952.9[1]
Non-current financing liabilities	9,208.4	7,366.2[1]
Other non-current liabilities	2,491.1	2,370.4[1]
Non-current liabilities	11,699.5	9,736.6[1]
Current financing liabilities	252.4	1,518.1
Other current liabilities	324.9	388.8[1]
Current liabilities	577.3	1,906.9[1]
Total equity and liabilities	**21,360.7**	**20,596.4[1]**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation.

There was an increase in investment properties of EUR 1,026.0 million as against the previous year, essentially as a result of acquisitions (EUR 325.8 million), valuation gains (EUR 382.4 million) and value-adding capitalised modernisation measures (EUR 365.0 million). The share of total assets was 94.6 % as at the end of the reporting period.

The change in goodwill is reflected in the other non-current assets. Here, goodwill was written off in the amount of EUR 293.8 million. In addition, the shares in BCP with a total book value of EUR 268.0 million are shown here.

The rise in rent receivables (EUR +10.3 million) and the deferral of operating costs paid in advance (EUR +16.1 million) largely defined the development of receivables and other assets.

The development of equity since 31 December 2021 has essentially been defined by the capital increase in conjunction with the offer of the script dividend (EUR 113.2 million), the total comprehensive income (EUR 315.6 million) and the dividend payment (EUR 296.5 million).

Financial liabilities increased essentially as a result of the borrowing of new loans of EUR 511.0 million. The reporting of maturity structures has changed as at 31 December 2022 as a result of the corporate bonds with long maturities issued in the amount of EUR 1,500.0 million and the repayment of the short-term bridge financing for the acquisition of the Adler Group portfolio in the amount of EUR 1,400.0 million.

Deferred tax liabilities (reported under other non-current liabilities) rose by EUR 298.9 million to EUR 2,319.7 million, in particular as a result of net income from the remeasurement of investment properties.

The decline in other current liabilities of EUR –63.9 million results in particular from the repayment of tax liabilities and purchase price liabilities.

EPRA net tangible assets (EPRA NTA)

The key metrics relevant to the real estate industry and to LEG are EPRA NRV, NTA and NDV. LEG has defined EPRA NTA as its primary key figure. Another key financial indicator is EPRA NTA per share.

LEG reports EPRA NTA of EUR 11,377.2 million or EUR 153.52 per share as at 31 December 2022. Deferred taxes on investment properties are adjusted for the amount attributable to LEG's planned property disposals. Incidental purchase costs are not taken into account. The key figures are presented exclusively on a diluted basis.

T32

EPRA NRV, EPRA NTA, EPRA NDV

	31.12.2022			31.12.2021		
€ million	EPRA NRV	EPRA NTA	EPRA NDV	EPRA NRV	EPRA NTA	EPRA NDV
Equity attributable to shareholders of the parent company	9,058.6	9,058.6	9,058.6	8,927.9	8,927.9	8,927.9
Hybrid instruments	31.0	31.0	31.0	455.7	455.7	455.7
Diluted NAV at fair value	9,089.6	9,089.6	9,089.6	9,383.6	9,383.6	9,383.6
Deferred tax in relation to fair value gains of IP and deferred tax on subsidised loans and financial derivatives	2,371.9	2,371.9	–	2,091.9	2,080.2	–[2]
Fair value of financial instruments	–78.5	–78.5	–	95.2	95.2	–
Goodwill as a result of deferred tax	–	–	–	–250.0	–250.0	–250.0[2]
Goodwill as a result of synergies	–	–	–	–	–43.7	–43.7[2]
Intangibles as per the IFRS balance sheet	–	–5.8	–	–	–3.8	–
Fair value of fixed interest rate debt	–	–	1,208.3	–	–	–307.4
Deferred taxes of fixed interest rate debt	–	–	–643.6	–	–	59.5
Revaluation of intangibles to fair value	–	–	–	–	–	–
Estimated ancillary acquisition costs (real estate transfer tax)[1]	1,955.3	–	–	1,843.9	–	–
NAV	13,338.3	11,377.2	9,654.3	13,164.6	11,261.5	8,842.0[2]
Fully diluted number of shares	74,109,276	74,109,276	74,109,276	76,310,308	76,310,308	76,310,308
NAV per share	179.98	153.52	130.27	172.51	147.58	115.87[2]

[1] Taking the ancillary acquisition costs into account would result into an EPRA NTA of EUR 13,332.4 million or EUR 179.90 per share (previous year: EUR 13,105.4 and EUR 171.74 per share).
[2] Previous year's figure adjusted due to finalisation of the purchase price allocation.

Loan to value (LTV) ratio
Net debt in relation to property assets rose as compared to the relatively low increase in property values in the reporting period on account of the higher additional debt financing.

As a result of the transition to IFRS 16, financial liabilities are corrected by lease liabilities for which the corresponding right-of-use asset is not reported as investment properties.

The loan to value ratio (LTV) is therefore 43.9 % (previous year: 41.9 %).

T33

Loan to value ratio

€ million	31.12.2022	31.12.2021
Financing liabilities	9,460.8	8,884.3[2]
Without lease liabilities IFRS16 (not leasehold)	22.0	26.6
Less cash and cash equivalents[1]	402.2	745.6
Net financing liabilities	**9,036.6**	**8,112.1[2]**
Investment properties	20,204.4	19,178.4[2]
Assets held for sale	35.6	37.0
Prepayments for investment properties	60.8	23.4
Participation in other residential companies[1]	306.7	119.2
Prepayments for acquisitions	–	1.8
Real estate assets	**20,607.5**	**19,359.8[2]**
Loan to value ratio (LTV) in %	**43.9**	**41.9[2]**

[1] The calcualtion was adjusted to the current market standard as of 31 March 2022. The net financial liabilities are reduced by the short-term deposits, the real estate assets are supplemented by the participations in other real estate companies. The figure as at 31 December 2021 was adjusted accordingly.
[2] Previous year's figure adjusted due to finalisation of the purchase price allocation.

EPRA LTV
The European Public Real Estate Association (EPRA) has expanded the Best Practices Recommendations Guidelines to include the EPRA LTV ratio. Compared to LTV, hybrid debt instruments such as convertible bonds are treated as financial liabilities until the time of conversion. Furthermore, net debt and net assets of joint ventures and significant associates are included and significant non-controlling interests are excluded.

T34

EPRA LTV as at 31 December 2022

€ million	Group LTV	Associated companies	Non-controlling interests	Total
Borrowings from Financial Institutions	3,780.0	134.0	–36.8	3,877.2
Hybrid financial instruments	950.0	–	–	950.0
Bonds	4,780.0	87.4	–	4,867.4
Net payables	14.3	114.6	–6.4	122.5
Owner-occupied property (debt)	57.8	–	–	57.8
Excluding cash and cash equivalents	362.2	62.4	–6.1	418.5
Net financing liabilities	**9,219.9**	**273.7**	**–37.1**	**9,456.5**
Owner-occupied property	86.4	–	–0.4	86.0
Investments properties	19,880.8	367.5	–174.5	20,073.8
Properties held for sale	35.6	139.8	0.0	175.4
Properties under development	323.6	89.4	–0.1	412.9
Intangibles	5.8	0.0	0.0	5.8
Real estate assets	**20,332.2**	**596.8**	**–175.0**	**20,754.0**
LTV	**45.3**	–	–	**45.6**

LEG does not have any joint ventures as at 31 December 2022. Kommunale Haus und Wohnen GmbH and Beckumer Wohnungsgesellschaft mbH are included as material associated companies. In addition, BCP is included for reasons of transparency, although it is not included as an associated company in the consolidated financial statements of LEG Immobilien SE.

Financial position

Financing structure

The Group generated a net profit for the period of EUR 237.4 million (previous year: EUR 1,724.7 million). Equity amounts to EUR 9,083.9 million (previous year: EUR 8,952.9 million) with an equity ratio of 42.5 % (previous year: 43.5 %).

A cash dividend of EUR 183.3 million was paid from cumulative other reserves in the reporting year.

For further explanations, please refer to the chapter "Financing" in the "Economic report".

Statement of cash flows

LEG's condensed statement of cash flows for 2022 is as follows:

T35

Statement of cash flows

€ million	01.01. – 31.12.2022	01.01. – 31.12.2021
Cash flow from operating activities	389.0	353.7
Cash flow from investing activities	–1,058.8	–2,751.9
Cash flow from financing activities	356.4	2,738.4
Change in cash and cash equivalents	**–313.4**	**340.2**

Cash and cash equivalents declined by EUR –313.4 million year-on-year from EUR 675.6 million to EUR 362.2 million.

Higher proceeds from net cold rent had a positive effect on the development of cash flow from operating activities and offset the rise in payments for interest and taxes. The cash flow from operating activities has thus increased by EUR 35.3 million year-on-year to EUR 389.0 million overall.

Acquisitions and modernisation work on the existing property portfolio resulted in payments of EUR 748.2 million that are reported under cash flow from investing activities. There are also cash payments of EUR 77.9 million for investments in intangible assets and property, plant and equipment, of EUR 9.2 million for the acquisition of shares in consolidated companies and of EUR 293.3 million for further shares in BCP. This was offset by proceeds from property disposals of EUR 39.8 million and cash funds invested on a short-term basis of EUR 30.0 million.

The utilisation of new loans in the amount of EUR 511.0 million, repayments of EUR 1,438.6 million including the repayment of the bridge financing for the acquisition of the Adler Group portfolio of EUR 1,400.0 million and the issuance of a corporate bond of EUR 1,482.4 million all contributed to the cash flow from financing activities. The dividend payment is at the previous year's level in 2022, down slightly by EUR 2.3 million at EUR 183.3 million.

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

Risks, opportunities and forecast report

Risk and opportunity report

Governance, risk & compliance

Standard process for integrated management of corporate risks
LEG regularly reviews opportunities to promote the development and growth of the Group. In order to take advantage of opportunities, risks may also have to be taken. It is therefore essential that all key risks are recognised, assessed and professionally managed. As part of its responsible handling of risk, a Group-wide structure for the identification, assessment and monitoring of risks has been implemented. Central components of this are the risk management system (RMS), the internal control system (ICS), the compliance management system (CMS) and Internal Audit.

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

Internal control system
As an integral part of corporate governance, the ICS helps reduce risks related to (financial) reporting, operating activities and compliance through process-integrated measures (e.g. internal controls and organisational safeguards) and process-independent measures (e.g. control self-assessments and third-party assessments). The ICS makes it possible to improve and safeguard the company's success and serves to protect the company's assets and avoid or identify fraudulent behaviour.

In the past, LEG established an internal control system (ICS) in line with the relevant legal provisions and industry standards that comprises principles, procedures and measures aimed at ensuring proper accounting and procedures. As part of a Group-wide ICS project, methodological improvements were made to the existing ICS for LEG as a whole. This included consideration of the Financial Market Integrity Strengthening Act (FISG) that came into effect on 1 July 2021.

LEG's ICS comprises the components "control environment", "risk assessment", "control activities", "information and communication" and "monitoring activities" (see COSO 2013 – Internal Control – Integrated Framework). Objectives of the ICS:

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

Regarding the accounting process, the aim and purpose of the ICS is to ensure the application of statutory requirements and the correct and complete recording of all transactions. Regarding business processes, which are divided into strategic, operational and support processes, LEG's ICS ensures that all relevant recurring transactions are recorded and presented accurately, completely and in accordance with statutory requirements in addition to being verified and monitored on an ongoing basis. The ICS thus has a preventative and detective function and aims to ensure that company processes go as intended.

LEG processes that are defined as material as part of a quantitative and qualitative risk assessment are centrally recorded in process management software and documented in detail. Based on these process descriptions, material risks were identified and corresponding controls put into place. The risk-control matrix derived from this is the binding basis for half-yearly reporting to the Management Board and the Risk and Audit Committee of the Supervisory Board. LEG's Management Board has delegated responsibility for implementing and conducting internal controls and establishing and implementing corresponding measures to resolve any control weaknesses to those in charge of processes and controls. Controlling and Risk Management manages methodological and functional ongoing development and the effectiveness evaluation. Internal Audit also assists with the effectiveness evaluation as part of its regular audits. Process management ensures that the processes and the ICS controls in place are up to date.

A suitable, effective ICS is necessary to ensure that all material business processes function properly. This requires the appropriateness and effectiveness of the company's principles, procedures and measures to be regularly assessed. Appropriateness and effectiveness are assessed at LEG using a control self-assessment (CSA). The CSA is conducted each year on the basis of a standardised methodology and based on two successive modules:

- Review of appropriateness
- Review of effectiveness

The aim of the review of appropriateness is to assess whether the control descriptions are up to date and sufficiently precise and therefore appropriate for reducing the underlying control risk. The review of effectiveness is conducted in accordance with rolling, risk-based CSA review planning, a new version of which is approved each year. The aim of the review of effectiveness is to assess whether the control activities are actually implemented during the period of time under review as described in the control description. This target/actual comparison is carried out for material control activities on the basis of spot checks, taking into account the population. In the event of deviations, corresponding measures are taken to resolve the control weaknesses. The CSA is supplemented by quality assurance by Controlling and Risk Management and by rolling partial reviews by Internal Audit. The Management Board reports the results of the reviews of appropriateness and effectiveness to the Risk and Audit Committee twice a year. On this basis, the Risk and Audit Committee of the Supervisory Board review the functionality of the internal control system.

Compliance management

Compliance is a key element of responsible and successful corporate governance at LEG. LEG has an interest in ensuring the trust of its tenants, customers, business partners, employees, shareholders and the public in its corporate governance. LEG's compliance management system (CMS) is designed with this in mind. In particular, it includes the following elements:

Declaration of fundamental values

LEG's declaration of fundamental values describes the company's objective and strategy, as well as the values that form the basis of LEG's work with customers, employees, investors, business partners and society.

Code of Conduct

LEG's Code of Conduct describes its declaration of fundamental values in more detail and translates the values set out here for everyday business into regulations for the conduct of our employees. It contains regulations for areas such as ethics, compliance, corruption prevention, conflicts of interest, data protection, discrimination and the protection of company property as well as for political and social discussion and donations and applies to everyone who works for LEG. Details on these standards of conduct can be found in internal Group rules and guidelines, which are published on the intranet.

Guidelines, especially guidelines aimed at preventing corruption, human rights abuses and conflicts of interest

Group-wide guidelines include, in particular, guidelines aimed at preventing corruption and conflicts of interest. These serve to promote integrity among employees and avoid corruption and conflicts of interest. The guidelines explain the terms integrity and conflict of interest, as well as explaining and defining bans related to bribery and corruption. The objective of the guidelines is to make employees aware of the development and risks of situations that are susceptible to corruption in all areas of LEG and to clarify the applicable compliance requirements. They therefore help prevent corruption. It is the responsibility of every employee and manager to comply with these guidelines. There is a zero-tolerance-policy in place. Other guidelines concern the topics employees and diversity, whistle-blower, environmental and water and respect for human rights.

Business Partner Code

LEG's Business Partner Code is agreed with business partners, is binding and sets out collaboration principles to guarantee integrity, reliability and economically and ethically sound standards of conduct as well as standards regarding environmental protection.

Based on these fundamental provisions, the CMS bundles measures intended to ensure compliance with legal provisions and internal guidelines. CMS measures include frequent and ad hoc training sessions for employees. All new LEG employees are trained in the area of compliance, with a particular focus on data protection. All employees also complete annual online training sessions in these and other areas on LEG's learning platform, die Akademie. The LEG CMS also features an electronic whistleblower system that employees and third parties can use to report potential compliance violations around the clock, remaining anonymous if they choose to do so. All information is carefully investigated and corresponding measures are taken if violations are detected.

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

LEG has appointed a Compliance Officer to head up the CMS. The Compliance Officer assists executives in ensuring compliance. He is also in charge of employee compliance training and advice. At regular meetings, the heads of Internal Audit, Law and Human Resources departments discuss the design of the compliance management system. Permanent benchmarking against other CMS and independent assessment by external experts also serve to ensure the continuous development and improvement of the CMS. In 2019, LEG's CMS was certificated by the Institute for Corporate Governance in the German Real Estate Industry. Following a successful repeat audit, the certificate was awarded again in 2021 and is now valid until 2024.

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

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

Risk Management
LEG has a Group-wide risk management system (RMS). A key component is the Group-wide risk early warning system. This system is supported by the Risk2Chance (R2C) IT tool.

The coordination and monitoring of the overall system, the organisation of processes, methodological approach and responsibility for the IT tool used fall within the purview of Controlling and Risk Management. The organisational structure that has been implemented and regular consultation with the Planning, Reporting, Accounting, Project Management and Internal Audit departments thus allows uniform, traceable, systematic and consistent procedures. As such, the conditions have been created to identify, analyse, assess, control, document, communicate and track the development of risks.

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

The risk management system in place is subject to a constant process of development and optimisation to adapt it to new internal and external developments. For example, a project on the new EU Supply Chain Act (relevant for LEG from 1 January 2024) was launched in the financial year. This project also assesses the implications for risk management. In addition, a project was started that is designed to better anticipate the impact of climate change on LEG. The objectives include generating an even more in-depth risk assessment for the TCFD risks (Task Force on Climate-related Financial Disclosures) introduced by LEG in 2021.

At an operating level, the results of the quarterly risk inventories are reported to the decision-making and supervisory committees. The Management Board and those responsible for risk management also discuss the assessment and management of the risks identified and resolve and implement changes as necessary. In addition to the quarterly risk reports to the Management Board, material risks with a potential net loss of EUR 0.2 million or more (in the basis scenario) must be immediately reported to the Management Board.

Risk mitigation measures are also applied. In addition to the provisions based on the IFRS regulations, these particularly include building insurance (e.g. burst pipes, extreme weather, natural events). As well as these building insurance policies, various compliance issues are also insured.

The risk inventory reports derived from the risk inventories also include a so-called trend radar for an early recording of potential strategic risks and chances. The foundation for all reporting are the risk inventories, for which the uniform, traceable, systematic and permanent procedures are based on the following assessment content and schemes for risks.

Assessment content/schemes for internal risk reporting
In a uniform risk catalogue system – broken down by categories and their subcategories – risks are identified and assessed by the risk owners as part of a non-central, bottom-up analysis. The risk catalogue comprises both strategic and operational risks. To help substantiate and prioritise risks at LEG, they are assessed and classified according to net liquidity impact and probability of occurrence. The benchmark for assessing and classifying the potential impact is the effect on liquidity and the income statement according to the current business planning. The individual risk assessment is therefore always based on the corresponding change in liquidity and the income statement of the five-year business plan adopted by the Supervisory Board.

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

The individual groups for assessing the impact on liquidity are as follows:

a) Low: net impact between EUR 0.0 million and EUR 0.5 million
b) Moderate: net impact between EUR 0.5 million and EUR 2.25 million
c) High: net impact between EUR 2.25 million and EUR 11.25 million
d) Severe: net impact upwards of EUR 11.25 million

The categories for the probability of occurrence are as follows:

a) Extremely high: 50 % ≤ x < 100 %
b) High: 20 % ≤ x < 50 %
c) Low: 5 % ≤ x < 20 %
d) Extremely low: 0 % < x < 5 %

This model forms the basis for an assessment matrix that uses a traffic light system (red, yellow, green) to classify the individual risk notifications:

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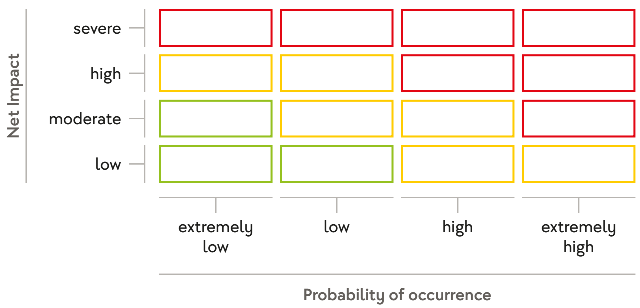
Risk matrix



Overall assessment of risks and opportunities

General risks such as macroeconomic risks and market risks are first discussed below. Continuing from the overall risks, those risks that the company feels are particularly relevant for the next two years are then discussed (net effect on liquidity of over EUR 2.25 million, regardless of the probability of occurrence, basis scenario). At the time of preparing this report, the Management Board did not expect any risks to the continued existence of LEG as a whole for the 2023 and 2024 financial years or for the entire five-year planning horizon/risk identification period.

LEG's material opportunities are listed and discussed after this reporting. These are based on the trend radar (part of the risk inventory report to the Management Board). This section includes material opportunities that can be influenced by LEG. Purely social and/or political opportunities are not discussed. In particular, the areas of digitalisation/robotic process automation and carbon neutrality (including energy efficiency upgrades, expansion and use of green energy) are seen as creating opportunities in the medium and long term.

Risk reporting

Macroeconomic risks

The German property market is influenced by general economic factors beyond LEG's control. Geopolitical developments, the development of the domestic and international business, and changes on financial markets can therefore give rise to risk factors for LEG's business model.

2022 was shaped by the war in Ukraine and related EU sanctions on the Russian Federation, which resulted in a crisis on gas and energy markets and took a significant toll on the German economy. The resulting increase in energy costs, combined with higher food prices, led to a loss of purchasing power among the general public. Supply chain problems also continued to strain economic output and stoked inflation. The Federal Government responded to this with social policy measures and relief packages. LEG also took measures to ensure that higher energy costs do not result in higher defaults. Nevertheless, this risk essentially depends on the further extent and duration of the energy crisis.

To tackle rising eurozone inflation, between July and October the ECB increased its key rate from 0 % to 2 % in three stages. The substantial increase in interest rates that this entails and the potential for subsequent interest rate hikes poses the risk of negative repercussions for property valuation (due to increase in the discount rate in international valuation methods in accordance with the DCF method) and for LEG'S financing conditions. The effects of changes to interest rates on property valuation and financing expenses are not immediate.

Higher materials, labour and financing costs, as well as high energy requirements for new construction, have pushed up the cost of new building and resulted in projects being cancelled or delayed. As a result, the Federal Government's target of building 400,000 new homes a year will not be achieved. According to estimates made by the GdW (Federal Association of German Housing and Real Estate Companies) the number of new construction will only amount to 242,000 units in 2023 and 214,000 units in 2024. Demand pressure for rental housing will thus remain, which could benefit LEG.

The Bundesbank expects a 0.7 % decline in real gross domestic product in 2023 according to its monthly report December 2022. However, Germany's overall economic performance is expected to pick up again from 2024 onwards. A lengthy recession could have a negative impact on the German labour market and the income of private households. As a result of this development, demand for affordable housing could pick up, although this could also be accompanied by an increased risk of payment default.

The Climate Change Act and the requirements of the EU Taxonomy in particular are driving structural change in almost all areas, chiefly in the energy sector, industry, transport and the property industry. At the same time, an increasingly ageing working population and, in turn, a higher share of pensioners in Germany, will also create structural demand for new labour. This will have to mean a significant increase in labour immigration in order to achieve the existing targets. This could have a positive effect on the demand for affordable housing offered by LEG. On the other hand, negative demographic change could reduce demand in the long term.

Market risks
The majority of LEG's property portfolio is located in Germany's most populous state, North Rhine-Westphalia (NRW). Properties in numerous other states, primarily Lower Saxony, Schleswig-Holstein and Bremen, supplement the portfolio's focus on NRW.

Demand for housing is driven to a large extent by demographic/household trends in individual regions. LEG's portfolio, which is spread over several German states, thus varies considerably, from high-demand A and B cities such as Cologne, Münster and Bremen to rural districts where supply tends to exceed demand, such as Märkischer Kreis. Home ownership has become far less affordable, firstly due to price developments in recent years and now also due to construction financing costs in the form of far higher interest rates. As a result, we are seeing people moving from cities, which tend to be more expensive, to outskirts or rural areas that are still more affordable. Demand for rental housing is also rising as ownership rates fall. Accordingly, the fact that LEG operates in many areas allow it to benefit from the shift to other locations if prices or demand decline in certain areas.

The opportunities and risks of regional submarkets are closely analysed using internal and external sources of data. The external data is sourced primarily from the Federal Statistical Office/state statistical offices and from market reports from independent intermediaries, analysis companies, banks, associations and service providers. Internal data come largely from the Group data warehouse and key figures based on this.

As part of the decision-making process for investments, forecasts are prepared regarding future market development at the location and for the property market as a whole. If this forecast is positive, the probability of investment is higher. However, the market development forecast is only one of many parameters that affect the investment decision, alongside the technical requirements of the properties and the management requirements.

Property asset valuation risks
Like all sectors of the economy, the property market is subject to a long-term cycle. The growth cycle of recent years, with the price rises that this entailed, was essentially based on an interest rate environment that stimulated growth with low interest rates combined with low inflation. The property market is therefore also affected by the shift in the interest rate cycle towards rising rates at the same time as high inflation. Price development momentum has flattened considerably, with some submarkets even seeing price declines when transaction volumes are low. Investing in property as an asset is in competition with alternative investments such as equities and bonds, as well as with alternative investment forms including cryptocurrencies, precious metals and venture capital. As such, a relative increase in the attractiveness of other forms of investment (e.g. due to yield or liquidity advantages) may also have a negative impact on demand and thus on the development of property prices. The more sudden and unexpected the development in demand for other investment forms, the more of an effect this change can have on property values.

Transactions actually made on the market, which can be used as a benchmark for the company's own calculations, are relevant for the valuation. As there is a time lag (in some cases of several months) between when the sale is notarised, when the transaction closes and when transaction data is published in official market reports, the market may have already entered a substantial correction phase even though the published data is still showing prices increasing or levelling off. LEG attempts to reduce this lag in publishing the data by staying close to the market through permanently monitoring market developments and maintaining constant dialogue with various relevant market players.

The property asset valuation, which is currently conducted twice a year, is based on several different input factors that are derived from independent market and forecast data where possible. Parameters for which no independent data is available that is suitable for use in the valuation rely on estimates and are thus subject to inaccuracies. Key parameters on the basis of external data are the base discount rate, standard market rents, macro and micro situation assessments, standard market levels of structural vacancies and official indicative land values.

Assumptions about future inflation, the parameters to assess the technical condition of properties and the weighting of various valuation parameters cannot be entirely objective and so are influenced by subjective judgements. In particular, forward-looking parameters and assessments are by their nature subject to a higher risk of incorrect assessments, even though the basis data is gathered with the utmost care. These incorrect assessments may have either a positive or a negative effect on the value of the property.

Risk categorisation

LEG classifies the identified individual risks based on main risk categories and risk subcategories. The following comments therefore generally refer to the individual risks in the respective main risk categories and risk sub-categories.

Individual risks that would have a net effect on liquidity of over EUR 2.25 million within the two years (2023/2024) if they occurred are considered relevant (regardless of how likely they are to occur). The risk categories in which such individual risks exist are shown in the table below. If the individual risks identified are eligible for provisions and have an "extremely high" probability of occurrence, a provision was recognised as at 31 December 2022.

Given the general economic situation and industry-specific developments, most year-on-year changes are shown under financial risks. By contrast, there is no relevant individual risk within the accounting and sustainability risk main risk categories.

An economic risk was added in the General business risks category that LEG cannot influence (shortfall of gas quantities already secured at a price).

The risk situation in the compliance risks category is unchanged against the previous year.

A modernisation and maintenance risk was added in the property risks category. One risk in the management subcategory was increased. Both cases relate to potential inflation developments in the construction price index (general contractors linked to the construction price index and development of construction materials for modernisation and maintenance).

Various risks mostly already included in the previous year were increased in the financial risk category. For example, the risk factors stability of bank partners and medium-term interest rate development were increased. New risks were added regarding bad debt losses from allocable ancillary operating cost statements and BEG new construction subsidy for Efficiency Houses. A risk regarding the integration of acquisitions was considerably reduced as no acquisitions are planned for the next two years.

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Risk categories

Main risk category	Subcategory	Net liquidity impact	Probability of occurrence
General business risks	Communication & image	High	Low
	Other	High	Extremely high
Compliance risks	Other	Severe	Extremely low
Property risks	Modernisation and maintenance	Severe	Extremely high
	Property management	High	Extremely high
	Portfolio control	Severe	Low
Finances	Bad debt losses	High	High
	Rollover risk	Severe	Extremely low
	Breach of covenants	High	Extremely low
	Stability of bank partner	Severe	Extremely low
	Liquidity risk	–	–
	Interest rate risk	Severe	Extremely high
	Debt risk/rating downgrade	High	Low
Accounting	No relevant individual risks	–	–
Tax risks	Taxes and levies	Severe	Extremely low
Human resources risks	Other	High	Extremely high
Legal risks	Liability/insurance risks	Severe	Low
	Data protection	High	Extremely low
Information and communication risks	System security/technology	High	Low
Project business risks	General/commercial/technical project risks	High	High
TCFD risks	Climate-related transition risks	High	High
Sustainability risks	No relevant individual risks	–	–

As in the previous year, there are no relevant risks in the accounting category.

The risk situation for the tax risks category is unchanged against the previous year.

The risk situation in the human resources risks category (subcategory "other") is unchanged on the previous year.

In the legal risks category (subcategory "data protection"), the data protection risk was downgraded compared to the previous year. The risk of changes in tenancy law mentioned in the previous year still exists, but is not currently classified as relevant.

The risk situation in the information and communication risks category is unchanged against the previous year.

In the project business risks category, a risk was added in the commercial project risks subcategory (construction cost increases and availability of materials).

In the TCFD risks category, one risk has been added compared to the previous year (market risks purchase).

In addition to the tabular presentation of the individual risks, the main risk categories of LEG's business model, based on the risk inventory of 31 December 2022, are explained in more detail below regardless of their valuation levels.

General business risks

Under the LEG risk assessment matrix, general business risks are a main risk category that contains relevant individual risks.

Covid-19 pandemic

LEG no longer considers the Covid-19 pandemic a risk. The crisis team that was set up at the time continues to monitor the incidence of infection and, where necessary, adapts the protective measures introduced at any time to the development of the pandemic.

Development of property prices and demand

Supply and demand for housing will still be the decisive factors for future price development. It can be assumed that the long-term general conditions in terms of supply (significant decline in number of new build completions) and demand (continued high level of migration to Germany, trend towards smaller households and increasing living space) will continue.

Arrears and housing vacancies

Tenants could face financial hardship due to rising energy prices and a potential recession, resulting in job losses, and therefore no longer be able to meet their payment obligations in full or to a substantial degree. No developments can be seen at present that would indicate significantly higher receivables, bad debt losses or vacancies. In the event of a severe recession, it could even prove to be an opportunity specifically for LEG that the company has a large number of affordable apartments and can thus benefit from increased demand for this type of housing in times of recession.

Valuation of investments

LEG's cost of capital had been increasing considerably during the last year due to high inflation and increased interest. Within the framework of the annual valuation of the carrying amounts of investments in accordance with IDW S1, this may require an amortisation at individual companies within the Group. Depending on the further development of markets and interests, additional amortisation may be required in financial year 2023 which could also affect the LEG Immobilien SE level.

Compliance risks

Compliance risks are a relevant main risk category, which contains individual risks according to the LEG risk assessment matrix.

Compliance or antitrust breaches can occur in particular where there are business, contractual or even personal relationships between employees of LEG and outside persons. Irregular lease benefits can occur in letting business. Similarly, particularly on markets characterised by housing shortages, unfair practices can occur in the attempt to be given an apartment. These risks are countered by organisational measures. Examples of these are the use of standardised lease agreements, the stipulation of target rents and advising prospective tenants that there is no commission on LEG apartments.

Services rendered by third parties can involve orders or invoices that are not consistent with market standards. This can apply to any kind of service or consulting, such as maintenance, agency or financing services. In order to prevent fraud standardised agreements including anti-corruption clauses have been prepared. There is also a Code of Conduct that is binding for all LEG employees as well as a Business Partner Code that all contractual partners are expected to obey. A clear separation of functions between procurement and invoicing has also been introduced as a further organisational measure. Finally, the company is currently preparing to introduce effective measures for compliance with the statutory regulations of the German Act on Corporate Due Diligence in Supply Chains, which comes into effect for LEG in 2024.

Property risks

Modernisation/maintenance risks

Modernisation/maintenance risks are a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

Legal and regulatory challenges, unexpected cost increases and obstacles during the construction process could negatively impact the economic viability of modernisation work. In addition, new energy requirements, additional safety precaution obligations and expanded tenant protection regulations may necessitate technical work on buildings that had not previously been envisaged. As construction projects are usually subject to lead times for planning, tendering and, where applicable, approval and announcement, signs of regulatory changes can generally be well anticipated and taken into account in the planning process. In particular, safety measures require action to be taken at short notice if unforeseen events occur. In this case, a risk assessment is conducted immediately and appropriate measures are initiated to prevent risks to life and limb. The main causes of such events are natural hazards (flooding, fire, earthquakes, storms).

Larger-scale maintenance and modernisation work is generally carried out as part of construction projects. Accordingly, typical project risks occur, in particular regarding deadlines, costs and unforeseen events, which can result in a deterioration in planned profitability in the case of projects where rent increases are planned. Incorrect assessments, for example regarding tenants' financial viability in the case of rent increases to cover modernisation work, can also cause the economics of a project to deteriorate. Delays initially mean that rent increases are later to take effect than planned, but they can also have implications for the cost of a project, for example as a result of interim price increases or additional costs to maintain the construction site and higher interest. Hardship provisions or formal errors in implementing modernisation-related rent increases can result in lower rent increases than originally planned. These risks are taken into account by way of intensive project controlling and by regularly involving external experts.

Where state or federal subsidies are to be used for a construction project, LEG is dependent on the availability of the subsidy. If funding is suspended in the time between project planning and the application for/approval of the subsidy, this can negatively affect the economic viability of the construction work.

Property management

Property management is a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

Technical risks may arise as a result of the quality, construction or age of the buildings under management. These risks may be more common for certain construction years or types of building. The result of this is higher maintenance expenses to ensure that the buildings can still be used. Particularly in the case of portfolio acquisitions, there is an increased risk that structural deficiencies may become noticeable only over time, despite careful technical inspection by internal and external experts. If contractual relationships are assumed with service providers in the context of acquisitions, the conditions agreed may be worse than contracts that the company negotiates itself.

Even existing maintenance contracts may see their price/performance ratio deteriorate over time compared to standard market conditions. The obligation to follow building regulations, in particular regarding safety and fire protection, may entail increased staff and maintenance costs. To minimise the risks involved in technical management, LEG continues to focus its efforts on pooling and standardising services, optimising processes and integrated service management.

There are commercial property management risks in relation to poor implementation of rent adjustments. In particular, post-refurbishment rent adjustments are sometimes challenged by the public and may meet with resistance by tenants. Particularly in the case of portfolio acquisitions in which modernisation-related rent increases were implemented by the former owner, there is a risk that the agreed rent increases may not meet LEG's requirements. Despite careful review during the acquisition process, there may therefore be increased legal disputes with the resulting risks in the form of rent reduction claims.

Portfolio control

Portfolio risks are a relevant risk subcategory, which contains individual risks according to the LEG risk assessment matrix.

LEG's property portfolio is analysed on an ongoing basis in terms of technical, economic and market-related risks. This makes it possible to respond to unexpected/unpredictable issues at an early stage. This is accompanied by regular property and safety inspections to minimise risks.

A recession in Germany could significantly reduce tenants' solvency. The extent to which potential customers are willing to pay for some types of housing offered by LEG could also be affected. Demand for housing is also dependent on certain housing requirements in terms of size and amenities, and so this could result in shifts that LEG cannot directly influence. As part of ongoing management, these changes can be monitored or even anticipated so that LEG can address lasting changes as they appear by taking corresponding measures. In submarkets with high levels of investment activity, an increase in supply may result in homes of a similar or better quality being offered at lower rents than LEG projected. This may have an impact on LEG's ability to compete in these markets, potentially giving rise to higher vacancy rates or lower rental income. Ongoing monitoring of the rental market and rapid adjustment processes when it comes to leasing reduce the risks for LEG here.

Acquisition risks

Acquisition risks are a risk subcategory, which does not contain any relevant individual risks according to the LEG risk assessment matrix.

Acquisitions are subject to the structured acquisition process. Internal and external experts are involved in reviews, ensuring high-quality assessments of the quality of properties. Furthermore, this approach makes it possible to develop portfolio optimisation measures and their (rent) development. The reviews also ensure that the required human resources and financing options are identified.

In addition to the risk of incorrect assessments during the acquisition, there is a risk that relevant information comes to light only after the acquisition has been concluded. The risk here is that this information will negatively affect economic assumptions and thus impact the evaluation and/or profitability of properties. As far as possible these risks are safeguarded against on the basis of guarantees or declarations by sellers in purchase agreements with guarantors of sufficiently high credit standing or for which money is deposited in notarial accounts in individual cases. However, these guarantees are subject to minimum and a maximum total damage amount. If the seller either is unwilling to make the guarantee or has a poor credit rating that prevents it from doing so, matters relevant to an audit are subjected to an additional audit in order to identify any risks. There is also the opportunity that the properties acquired perform better than expected in terms of rent, quality and occupancy rate as a result of extensive rent and neighbourhood management by LEG.

In share deals, in which usually 89.9 % of the shares in the target property company are acquired, LEG has the obligation to find an investor for the remaining minority interest, or alternatively to take on this minority interest itself, by a fixed date. Under current legislation, the subsequent acquisition of the minority interest by LEG triggers property tax for the entire transaction, which is not generally part of the underlying business plan (see also the explanations under the category tax risks).

No major acquisitions are planned at present on account of current macroeconomic and industry-specific developments.

Sales risks

Sales risks are a risk subcategory, which does not contain any relevant individual risks according to the LEG risk assessment matrix.

LEG's sales activities consist of privatisation of individual apartments and sale of individual properties for management and portfolio optimisation. There was an increase in the sale of property portfolios as part of the 2022 sales programme. The structured sales process applied at LEG guarantees the safe selection of disposal portfolios and the establishment of minimum sales values, chiefly by involving a wide range of internal departments. Moreover, the process allows sustainable and open market placement of the properties to be sold and the selection of sound purchasers with strong credit ratings.

The main risk is that the planned purchase prices are not possible on the market. After sales have been made, guarantees can be violated leading to a subsequent reduction in the purchase price or, in the event of the buyer's failure to comply with contractual obligations, the rescission of agreements.

Sales of high-volume portfolios are rather difficult to place on the current market. The distribution and sale of individual properties and homes proved to be the more significant sales channel in 2022. Current demand for portfolios declined to a very low level by the end of 2022.

Finances

Bad debt losses

Bad debt losses risks are a relevant risk subcategory, which contains individual risks according to the LEG risk assessment matrix.

As a housing company, LEG is subject to bad debt losses. Precautions are taken to minimise this risk with standardised credit checks for rentals, and by identifying problematic leases as part of active receivables management. This also entails initiating appropriate countermeasures. The risk of bad debt losses exists in individual cases.

Back payments from utilities bills for 2022 (created in 2023) and 2023 (created in 2024) will likely increase on account of the current energy crisis and the resulting rise in energy costs. As it was not possible to increase the corresponding progress payments in all cases, this could result in bad debt losses. The Federal Government approved a range of relief packages for tenants. LEG also developed specific instalment payment schemes. The risk is reflected in accounting by recognising allowances in an appropriate amount.

Rollover risk

Rollover risk is a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

Rollover risk describes the risk that, when financing expires, follow-up financing cannot be prolonged or cannot be prolonged at the anticipated conditions, thereby necessitating the repayment of financing. This risk is limited at the LEG Group thanks to the long-term financing structure and the distribution of maturities over a period of several years. Its effect will gradually unfold over time, depending on how interest rates develop moving forward.

Where appropriate, the rollover risk can be minimised by regularly reviewing existing financing and early refinancing. Even before the phase of significant interest rate hikes, financing agreements were agreed and financial instruments issued in 2022 that minimise future rollover risk. Financing with a total volume of less than EUR 120 million is due in 2023, representing 1.2 % of the total financing portfolio. Financing does not come up for renewal in higher volumes until 2024.

Even in the changed market environment, LEG still has access to a broad spectrum of financing instruments on the bank, capital and money markets. In addition, LEG has sufficient cash and cash equivalents and credit facilities at its disposal to minimise refinancing risks. The volume of working capital lines was increased from EUR 400 million to EUR 600 million in 2022, with the commercial paper programme also rising from EUR 500 million to EUR 600 million.

Breach of financial covenants

Breach of financial covenants is a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

Failure to comply with contractually agreed financial covenants can lead to the risk of extraordinary termination of financing agreements. Such termination may also entitle other creditors to terminate their financing agreements early under the contractually agreed cross-default regulations. A breach of financing agreements can also lead to higher interest payments, special repayments or the realisation of the collateral provided. In the event of a failure to comply with covenants, access may be restricted to rental income from the respective financing portfolios, which could negatively impact LEG's cash flow generation.

Internal control processes have been implemented to ensure ongoing compliance with financial covenants. The regulations on financial covenants agreed with financing partners were complied with in the 2022 financial year. Even given the current economic environment with rising interest and inflation rates, there are no indications that financial covenants will not be complied with in future.

Stability of bank partners (banking market)

Stability of bank partners is a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

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

The default of a financing partner can have an adverse economic impact, particularly under contractual arrangements that give rise to claims on the part of LEG, e. g. derivative interest hedges. The internal guidelines for concluding new interest rate hedges therefore include corresponding minimum requirements regarding the counterparty's credit rating.

Liquidity risk

Liquidity risk is a risk subcategory, which contains no relevant individual risks according to the LEG risk assessment matrix.

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

To expand liquidity reserves, the volume of short-term credit facilities was increased from EUR 400 million to EUR 600 million in 2022, with the commercial paper programme also rising from EUR 500 million to EUR 600 million.

Changes in interest rates

Changes in interest rates is a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

The interest rate risk mainly arises from financing agreements without long-term interest rate agreements. Due to the predominant use of fixed interest rates and interest rate swaps, around 94% of LEG's liabilities are hedged long-term and so the interest rate risk is largely limited due to the existing financing structure. LEG also accounts for the current market environment and rising interest rates by constantly monitoring capital market performance and includes expected interest rate changes in business planning and risk management.

Debt risk/rating downgrade

Debt risk/rating downgrade risk is a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

The leverage ratio has a significant effect on the assessment of LEG's economic situation and therefore on its access to the financing market. LEG also plans to maintain a conservative leverage ratio in the future. In the current market situation, LEG will thus make increased use of internal financing options and employ debt financing to a lesser degree. The current rating by the ratings agency Moody's confirms the investment grade rating Baa1. The change in the rating outlook from stable to negative reflects the changed business environment within the property sector as a whole, especially in terms of interest rates and the related rise in financing costs.

Accounting

Accounting is a main risk category, which does not contain any relevant individual risks according to the LEG risk assessment matrix.

Risks may result from a failure to comply with statutory regulations, which could lead to incorrect annual, consolidated or quarterly financial statements. Secondly, violations of other regulatory requirements such as the German Corporate Governance Code, or disclosure obligations could, for example, result in a limited qualified audit opinion or record of denial, reputational damage or negative effects on the share price. An internal control system for the accounting process is in place to counteract this risk.

Tax risks

Taxes and levies

Taxes/levies are a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

Tax risks from external audits can achieve a relevant magnitude if they occur. The current external audits for 2009 to 2012 and 2013 to 2016 are largely completed. Audit orders for 2017 to 2019 have been announced.

In principle, the tax regulations on a ceiling for interest expenses limit the tax deduction from net interest expenses (i. e. after deduction of interest income) to 30% of taxable EBITDA. Applying the escape clause also allows an additional interest deduction. This provides for unlimited interest deductibility if the Group's equity ratio is not significantly higher than the equity ratio of the individual operation. LEG has utilised the escape clause in the past.

Before acquiring shares in property companies, LEG transferred properties to these companies. In the opinion of the tax authorities, a higher assessment base for real estate transfer tax could be applicable to the entire transaction. Appeal proceedings are pending at the German Federal Fiscal Court for one comparable case.

The amendments to the German Real Estate Transfer Tax Act that came into force in 2021, particularly the addition of the new notional state of affairs involving a change in ownership at stock corporations, could also result in real estate transfer tax being incurred with existing structures for listed property companies.

Human resources risks

Human resources risks are a main risk category, which contain relevant individual risks according to the LEG risk assessment matrix.

SOKA-BAU is the joint name for the holiday and wage compensation fund and the supplementary health insurance for the construction industry. The construction companies pay contributions to SOKA-BAU in an amount determined by collective agreements or by the German Act to Secure the Social Funds Procedure (SokaSiG). These contributions are determined such that they can finance SOKA-BAU's payments. In legal proceedings, SOKA-BAU demands corresponding contributions from TechnikServicePlus GmbH (51% LEG subsidiary) and has also initiated legal proceedings for past periods. Appeal proceedings for the contribution year 2017 are currently underway against the second-instance ruling in favour of SOKA-BAU. Appeal proceedings against the first-instance ruling in favour of SOKA-BAU are currently underway for the 2018 contribution year. TSP is still of the legal opinion that it is not a construction company and so it filed a constitutional complaint in 2022.

Human resources management faces major strategic challenges in irreversible megatrends such as demographic and technological change and the changing values of younger generations. LEG will meet these challenges mainly with targeted HR development and with measures and activities geared to the needs of current and future staff that contribute to LEG's employer branding and employee satisfaction. In connection with this, LEG entered into a works agreement on more flexible working hours and remote working. LEG again participated in a "Great Place to Work" employee survey in 2022, the results of which were again better than in the previous survey.

Being and remaining an employer of choice requires a variety of measures to motivate qualified employees and managers in the long term and to ensure their loyalty to the company. Activities that promote team spirit outside day-to-day business also play an important role for LEG.

Legal risks

Liability/insurance risks

Liability/insurance risks are a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

All LEG's employees and executive bodies must comply with the statutory regulations on insider trading (Market Abuse Regulation). Violations mean the personal liability of those concerned and a loss of reputation by LEG. There are also significant risks of fines for LEG. A risk relevant to LEG could result from this.

Information on LEG is regularly analysed for its significance to LEG and, if the legal requirements are met, categorised as insider information – sometimes even just as a precaution. If information really is insider information, it is communicated only among a select group of participants and the participants are expressly advised that this is confidential.

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

Contract risks

Contract risks are a risk subcategory, which does not contain relevant individual risks according to the LEG risk assessment matrix.

Risks in connection with warranties and legal disputes arise in particular from purchase and sale projects and the contracts on which they are based. Sufficient provisions for these were recognised in previous years.

Legal disputes

Legal disputes are a risk subcategory, which does not contain relevant individual risks according to the LEG risk assessment matrix.

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

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

Claims are made against LEG on various grounds. The most common of these in terms of volume are past purchases/sales of properties or shares, and in connection with the intended use of subsidies. The risk reported last year concerning the recalling of subsidies no longer exists as the matter has been settled.

Data protection, other legal risks and legislative changes

Changes in the law is a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

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

Current legal and political developments also pose risks. These include the German Telecommunications Modernization Act (TKModG) that came into effect in 2023, under which it will no longer be possible to allocate the costs for TV cable contracts signed by the landlord to incidental rental costs, as well as various energy price caps and the EU's efforts to introduce mandatory asbestos screening, reporting and removal before renovation or modernisation work begins and national public asbestos registers.

These risks depend on political decisions and are therefore difficult for LEG to influence. Only through work in property industry associations and dialogue with politicians and parties can LEG attempt to exercise political influence.

Information and communication risks

Information and communication risks are a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

IT applications and systems are essential to providing seamless support for LEG business processes. In-house solutions are thus secured by redundant components. If IT services are outsourced, their availability is ensured through service level agreements with the service provider. Given the rising threats posed by cyber criminals, as well as established IT security measures (e.g. penetration tests) LEG has also introduced numerous other measures (e.g. compromise assessment). These measures, as well as Group-wide multi-factor authentication, considerably improve IT security and further reduce the risks of cyber attacks or access by unauthorised parties.

Project business risks

General/commercial/technical project risks

Under the LEG risk assessment matrix, general/commercial/technical project business risks are a main risk category that contains relevant individual risks.

LEG pursues new construction activities for its own portfolio; these are consistently controlled and monitored to avoid risks. Construction services continue to be procured from renowned project developers subject to strict technical and economic criteria. The economic viability of new construction measures can be negatively affected by changing legal and regulatory framework conditions and changes to interest rates and construction costs.

Contractual commitments with general contractors mean that the construction project in question is economically dependent on one company. If the general contractor defaults before or during construction, new companies must be hired. This can incur monetary expenses and/or delay the project.

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

Risks of an investment in a biomass combined heat and power station are a risk subcategory, which does not contain any relevant individual risk according to the LEG risk assessment matrix. LEG is the majority shareholder in a biomass heating power plant. The complex technology could cause unplanned downtime, thereby leading to risks. These risks include lost revenue or unplanned costs of repairs. Audits are carried out on a regular basis in order to prevent these risks. In addition, profits are expected to be absorbed in 2023/2024 as a result of the energy price cap (absorption of windfall profits from energy prices).

TCFD risks
(Task Force on Climate-related Financial Disclosures)

TCFD risks are a risk subcategory, which contains relevant individual risks according to the LEG risk assessment matrix.

To mitigate future climate-related physical and transitional risks, in 2021 LEG began integrating risks in the risk management system in line with the TCFD recommendations. The Group's TCFD risk assessment covers all risks posed by climate change (physical risks) and risks resulting from the shift to a green economy (transitional risks). Risk potential is reported in monetary terms and shown in the risk management software. These are also reported to the Management Board and the Risk and Audit Committee of the Supervisory Board as part of quarterly risk reporting. Integration of these risk measures is being continuously expanded.

The following individual climate risks/criteria are considered:

Climate-related physical risks

Regarding climate change, LEG assumes that climate change and changing weather conditions will result in physical risks in the long term. To mitigate future risks posed by climate change, LEG has begun systematically recording and identifying building stock that may be at a higher risk from changes in the climate. This is central to LEG's long-term climate strategy. In this context, the Group developed modernisation schedules for existing buildings that could be exposed to the risk of climate change. This is taken into account in the Group's modernisation investment plans and when putting these into effect. Acute risks such as extreme weather are generally covered by building insurance policies. The risk here is from rising insurance premiums, deductibles and limits on compensation or the possibility that individual risks can no longer be insured. LEG will continue to monitor the physical risks according to the TCFD in order to focus on how these develop.

Climate-related transitional risks

LEG reviews fundamental and potential transitional risks according to the TCFD on an ongoing basis in order to focus on how these develop. Technological risks may be posed by disruptive/new technological development, such as replacing oil and gas heating with green/carbon neutral solutions. Likewise, changing market prices for products and services, lower material availability and changes in tenant preferences may occur.

Sustainability risks

Sustainability risks are a main risk category, which does not contain any relevant individual risks or risks subject to reporting requirements according to the LEG risk assessment matrix.

In addition to conventional monetary risks, non-financial sustainability risks have also been reported since 2020. Sustainability risks are not assigned a monetary value and are instead measured by their negative impact (low, medium, high) on the environment and/or the company. No risks that are material for the environment and/or society were identified in the risk subcategories upholding human rights, employee matters, environmental issues, social issues or tackling corruption and bribery. The risk categories shown align with the CSR (Corporate Social Responsibility) Directive.

In order to identify developments that meet the "materiality criteria for society and the environment" at an early stage, the risk managers in question record sustainability risks that do not have to be reported externally under current regulations and report these to the Management Board and the Risk and Audit Committee of the Supervisory Board as part of the risk inventory. In connection with this, relevant measures are established to manage or adapt to potential sustainability risks.

LEG is also required as part of non-financial reporting to report on sustainability risks that are associated with the Group's business operations, business relations, products or services and that would very likely have a severe negative impact on the aspects to be reported.

Report on opportunities

In addition to the opportunities discussed in the risk section, the following significant opportunities of LEG are listed below. These existed in the previous year too and will be a key driver of further earnings performance in the medium to long term (in the five-year planning horizon):

As at 31 December 2022, the property portfolio comprised 167,040 residential units, 1,611 commercial units and 46,636 garages and parking spaces. This makes LEG one of the leading listed property managers of residential housing in Germany. Its regional focus remains on North Rhine-Westphalia. Additionally LEG is present in the federal states of Lower Saxony, Bremen, Schleswig-Holstein, Hesse, the Rhineland-Palatinate and Baden-Württemberg. The consistently value-driven business model combines the interests of shareholders and tenants. In view of developments on the property market in 2022, LEG's growth strategy refocused on the sustainable development of its existing portfolio, the selective expansion of tenant-oriented services and services to improve energy standards in existing buildings. Demand for affordable housing is continuing to rise.

Up to 2022, LEG placed far greater focus on leveraging economies of scale through selective external growth. No further large-volume acquisitions are planned at present in light of the current market situation. The main reasons for postponing the transaction business are:

- Greater focus on internal financing due to far higher interest rates
- Increased uncertainty regarding further property valuation, which also considerably reduces transaction business on account of uncertainty about future interest rates
- Substantial decline in the share price and, in turn, substantial increase in the cost of equity

Despite increasing shortages of affordable housing, made worse by the decline in new construction and high levels of immigration, both national and international investors are extremely reluctant to invest on account of uncertainties on financial markets. However, given the substantial amount of capital raised for investment in European real estate, investment is expected to cease only temporarily and interest in German residential properties as an asset class should remain high.

LEG considers itself very well positioned and is experiencing continuous rental growth above the market average. This reflects the quality of the property portfolio, considerable management expertise and resilience to economic fluctuations. The main growth drivers in free-financed housing are regular rent index adjustments, adjustments in line with market rents particularly on new rentals and value-adding investments. The cost of rent is adjusted at regular intervals in the rent-restricted portfolio according to the legal requirements and restrictions. Increasing the occupancy rate on a like-for-like basis represents an additional opportunity.

Yet the challenges that the German Climate Change Act poses for the German housing industry present considerable opportunities for LEG. In 2021 LEG published its path to carbon neutrality by 2045 – as per the Climate Change Act – and identified three drivers for achieving this: (1) upgrading energy efficiency, (2) expanding and using green energy and (3) tenants acting responsibly to make a contribution. LEG already has a network of tradespeople and therefore the capacity and the expertise to make these projects a reality. This will be a major factor in helping the company stand out to property owners. For LEG, not only does this present opportunities to improve its own portfolio, in the future it also opens up business opportunities as not all property owners will be able to make their properties carbon neutral. This approach is confirmed by our first third-party order and the many external inquiries directed at the joint venture Renowate, newly established by LEG with the Austrian construction company Rhomberg, for serial renovation work on existing buildings.

LEG also expects to benefit from opportunities from digitalisation. Efficient and professional property management will mean moderate incidental costs for tenants and so will increasingly become a criterion that bolsters satisfaction and helps the company stand out from the crowd for existing and potential prospective tenants. LEG believes that it is well positioned here with its range of digital services such as digital leases or the use of RPA (robotics process automation) solutions and its new digital start-up Youtilly.

Further opportunities lie in a significant acceleration of the global and European economy.

Summary of the opportunity situation
The opportunities listed offer possibilities for LEG beyond the underlying forecast period. In particular, the topics of digitisation/robotic process automation and climate neutrality (including energy-efficient modernisation, expansion and use of green energy) are seen as opportunities in the medium and long term. If opportunities arise in addition to the forecast developments, or if they occur more quickly than expected, this could have a positive impact on the net assets, financial position and results of operations of LEG.

Overall, the opportunity situation of LEG has not changed significantly compared to the previous year.

Forecast

LEG essentially achieved the targets that it set itself for the 2022 financial year. The following section compares the key performance indicators achieved against the forecast from the previous year.

In the previous year, LEG had defined target FFO I in a range between EUR 475.0 million and EUR 490.0 million. In its quarterly report as at 30 September 2022, LEG issued a more specific expectation within the original range of between EUR 475.0 million and EUR 485.0 million. FFO I of EUR 482.0 million for the 2022 financial year was thus within expectations.

Since financial year 2022, both the adjusted EBITDA margin and the LTV are classified as most important performance indicators.

The adjusted EBITDA margin in the reporting year was 74.9 % and thus in line with the guidance of c.75 % that had been forecast to the capital market.

To ensure a defensive long-term risk profile, LEG specified that the LTV (loan to value) should not exceed 43 % in the mid term. In light of the devaluation of the property portfolio in the second half of 2022, LTV increased to 43.9 % as at 31 December 2022.

LEG had forecast like-for-like rental growth per square metre of approx. 3.0 %. Actual rental growth per square metre was 3.1 % (like-for-like) as at the reporting date 31 December 2022 and above expectations.

The 2022 financial year was marked by inflation-driven cost developments and a sharp rise in interest rates. Given the volatile market environment, in November 2022 LEG announced it would now focus primarily on effects on the Group's liquidity when steering its business.

These strategic changes also had an impact on investment planning. LEG had initially planned to invest around EUR 46.00 to EUR 48.00 per square metre in maintenance and modernisation in the 2022 financial year, with value-adding investments eligible for capitalisation accounting for a significant share of this figure. This outlook was revised to less than EUR 46.00 per square metre in the quarterly report as at 30 June 2022 and to around EUR 42.00 per square metre in the quarterly report as at 30 September 2022. Actual investment was EUR 40.61 per square metre in the 2022 financial year and therefore lower than indicated in the most recent forecast. The capitalisation rate was 75.2%. The investment figures were adjusted by investments for new construction activities managed by LEG, public safety measures for acquisitions and capitalised own services.

In 2022, LEG proposed distributing a dividend of EUR 4.07 per share or EUR 296.5 million in total to the Annual General Meeting for the 2021 financial year, in line with the 70% of FFO I forecast. There was the option to receive the dividend either as a cash or a scrip dividend. The Annual General Meeting on 19 May 2022 approved this resolution. Overall, investors holding around 38% of shares entitled to dividends decided to receive their dividend in stocks.

For the 2022 financial year, LEG assumed that the projected positive rental performance would also be reflected in a positive development in the value of its property portfolio, which in turn would have a positive effect on EPRA NTA. As at 31 December 2022, LEG reported an EPRA NTA of EUR 11,376.3 million or EUR 153.51 Euro per share compared to EUR 11,149.1 million or EUR 146.10 per share in the previous year. This corresponds to an increase of 5.1% per share.

In the 2021 financial year and subject to availability on the market, LEG also planned further acquisitions for the 2022 financial year. However, given the significant changes to the market environment and, in turn, the greater focus on Group liquidity, LEG has not made any acquisitions since October 2022. The number of acquisitions in 2022 therefore only amounts to 952 residential units.

In its capital market communication, LEG announced ESG targets for 2022 that are part of remuneration for the Management Board and senior management and that were met as follows:

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ESG targets FY 2022

	Target	Target attainment
Environmental	4,000 ton reduction in CO_2 from modernisation	4.028 t CO_2 (107% target attainment)
Social	"Trust Index" calculated as part of the "Great Place to Work" employee survey of 66%	Trust Index of 73% (200% target attainment)
Governance	Stabilisation of Sustainalytics rating at < 10 (negligible risk)	Sustainalytics Rating 6.7 (200% target attainment)

With regard to the ESG targets, reference is also made to the remuneration report 2022.

Outlook 2023

How LEG's business model develops moving forward depends primarily on demand and offer on the housing market, the general economic situation and its impact on household income, political developments and regulations, development of inflation and interest rates.

LEG assumes that demand will continue to outstrip supply, especially in LEG's affordable segment. For the German housing market as a whole, the Federal Government's target of building 400,000 new homes a year will not be achieved in the next few years. The Federal Association of German Housing and Real Estate Companies (GdW) estimates that just 242,000 new homes will be built in 2023 and 214,000 in 2024. At the same time, the Bundesbank anticipates net immigration of about 350,000 people in 2023 and 300,000 from 2024 onwards.

Looking at household income, the Bundesbank assumes that the energy crisis will keep inflation on a high level, depressing private households' disposable income. However, the Bundesbank expects a gradual recovery to kick in for the German economy in the second half of 2023. This assumes that international demand picks up again and the price pressure on energy eases. This, alongside the European Central Bank's interest rate policy, should cause inflation to decline and, in combination with higher salaries, also boost real household income. According to Bundesbank estimates, standard wages are expected to pick up by 3.9% in 2023 and gross wages and salaries per employee by 5.1%. Various measures in government support packages, especially the housing subsidies reform that came into effect in January 2023, will also help.

The ECB has announced further interest rate hikes for 2023. The first rate increase of 50 basis points was on 2 February 2023. LEG's average interest rate on 31 December 2022 was 1.26 %. LEG assumes that the average interest rate as at 31 December 2023 will be higher than the previous year figure. EUR 116 million (equivalent to approximately 1 % of total debt) will mature and will be partly refinanced in the 2023 financial year. In addition, LEG intends to address the unsecured portion of the EUR 500 million in refinancing that is due in the 2024 financial year already in the current financial year.

Legal and regulatory frameworks have an impact on the economic viability of the energy-efficient refurbishment of existing buildings. The Federal Funding for Efficient Buildings (BEG) introduced a 15 % bonus for serial refurbishment on 1 January 2023. This is a substantial source of funding for the joint venture Renowate, established by LEG with the Austrian construction company Rhomberg for serial renovation work on existing buildings. In addition, the worst performing buildings bonus – a bonus for the least energy-efficient buildings introduced in September 2022 – was increased from 5 % to 10 % and expanded to include renovation work at the EH/EG 70 EE standard as well as EH/EG 40 and EH/EG 55 levels.

LEG's business model still faces fundamental general conditions such as the fact that demand continues to easily outstrip supply in the affordable segment and rents are consequently continuing to rise that, from LEG's perspective, are positive for the company's future development. LEG responded to negative general conditions, primarily cost inflation, interest rate hikes and even stricter rent regulations, in the 2022 financial year by redirecting its business. To improve cost efficiency, LEG has launched a cost-reduction programme from financial year 2023 with the objective of saving a total of around EUR 10 million a year in operating and administrative costs.

Based on this and subject to further developments in inflation, interest rates and rent regulations, LEG provides the following forecast for the 2023 financial year.

The following development is forecast for the most important financial performance indicators:

AFFO

In November 2022 LEG announced that, in view of the volatile market environment, it would focus primarily on effects on the Group's liquidity when managing its business in the future. This shifts focus on to AFFO as one of the most important financial performance indicators from the 2023 financial year onwards. LEG expects AFFO in a range between EUR 125 million and EUR 140 million for the 2023 financial year. This represents an increase compared to the initial expectation of EUR 110 million to EUR 125 million which is mainly driven by lower expenditure for new construction.

Adjusted EBITDA margin

LEG puts the expected adjusted EBITDA margin for the 2023 financial year at around 78 %.

The derivation of the key figures adjusted EBITDA and AFFO as from financial year 2023 is shown in the analysis of net assets, financial position and results of operations.

LTV

LTV for the 2023 financial year depends on external factors beyond LEG's control, such as the development of interest rates and the transaction market and, consequently, the portfolio valuation. Assuming stable valuation and excluding effects of disposals, LEG expects an LTV of c.43 % at year-end but it cannot rule out the target being exceeded due to external factors.

The following development is forecast for other relevant key figures:

Like-for-like rental growth

LEG is forecasting like-for-like rental growth of between 3.3 % and 3.7 % for the 2023 financial year.

Investments

LEG invests in its portfolio to safeguard its quality, boost its value and improve its energy efficiency. An average of approx. EUR 35.00 per square metre is to be invested in maintenance and modernisation work in the 2023 financial year.

Dividend

In order to strengthen LEG's capital base and in light of an unsecure market and interest rate environment, the Management Board and Supervisory Board of LEG Immobilien SE intend to propose to the Annual General Meeting on 17 May 2023 not to pay out a dividend for financial year 2022.

ESG targets

In its reporting as at 30 September 2022 (Q3 2022), LEG also set out its ESG targets, which are part of remuneration for the Management Board and senior management. The following ESG targets were set for the 2023 financial year:

- Environmental: 4,000 tons CO_2 reduction from modernisation projects and customer behaviour change
- Social: timely resolution regarding outstanding receivables
- Governance: 85 % of Nord FM, TechnikServicePlus, biomass plant and 99 % of all other staff holding LEG group companies have completed digital compliance training

Remuneration report

This remuneration report outlines the structure and amount of the remuneration paid to the members of the Management Board and the Supervisory Board. The report is based on the provisions under the German Stock Corporation Act in accordance with section 162 AktG as amended by the Act Implementing the Second Shareholders' Rights Directive (ARUG II) and the recommendations of the German Corporate Governance Code (as amended 28 April 2022).

The Management Board and Supervisory Board submitted the remuneration report for the 2021 financial year to the Annual General Meeting of LEG Immobilien SE for approval in accordance with section 120a (4) AktG for the first time on 19 May 2022. The Annual General Meeting approved the remuneration report for the 2021 financial year with 52.63 % of the vote. The Management Board and Supervisory Board noted comments by investors on the 2021 remuneration report. The main comments related to a more detailed presentation of the remuneration comparison to ensure that the remuneration is in line with the market, the comprehensive explanation of changes and deviations, e. g. with regard to the amount of remuneration, and the presentation of the agreed targets for the coming years. These comments have been taken into account accordingly in the remuneration report 2022.

LEG Immobilien SE's Annual General Meeting on 19 May 2022 also approved an updated remuneration system for members of the Management Board presented by the Supervisory Board with 85.83 % of the vote. In this Management Board remuneration system, the Supervisory Board took on board investor suggestions as follows:

- Until the 2021 financial year, there were provisions in place for special remuneration (a transaction bonus) as an extraordinary remuneration component in the event of exceptional success in connection with the acquisition of property portfolios. This bonus is determined by the scope and success of the transaction. The Executive Board remuneration system 2022 no longer provides for a transaction bonus for transactions that have taken place since then. All Executive Board members waived the transaction bonus for real estate portfolios acquired in 2021.
- The Supervisory Board made Management Board remuneration as a whole more share-based. The performance cash plan, a long-term variable remuneration component, was replaced by a virtual performance share plan with effect from 1 January 2022. 80 % of this is based on relative TSR (total shareholder return) and 20 % on environmental, social and governance (ESG) targets. As well as the share ownership guidelines, a share purchase and holding obligation linked to long-term variable remuneration was also introduced for Management Board members. Under this obligation, Management Board members are obliged to invest 25 % of the amount paid out for long-term variable remuneration in shares in LEG Immobilien SE and to hold them for the duration of their Management Board position.
- In short-term variable remuneration, too, the Supervisory Board took on board investors' request for better comparability of the funds from operations (FFO I) performance target with other companies. FFO I per share has thus been used instead of FFO I since 1 January 2022.
- To ensure competitive, customary remuneration even after removing the transaction bonus, target remuneration was increased, largely in long-term variable remuneration, to reflect a stronger sustainability focus in the remuneration structure. Maximum remuneration was also increased accordingly.

This remuneration system is effective for Management Board agreements with retrospective effect from 1 January 2022 onwards for all current Management Board members.

Preliminary remarks

2022 was operationally a successful year for LEG Immobilien SE. FFO I rose by 13.9 % year on year to EUR 482 million. EBITDA as of 31 December 2022 was EUR 598.7 million, an increase of 16.89 % compared to the previous year's reporting date of 31 December 2021. This means that LEG Immobilien SE exceeded or reached the targets it published for 2022. In addition to financial targets, the ESG strategy is also of great importance to LEG Immobilien SE. For this reason, alongside financial targets, non-financial environmental, social and governance targets were set that are also incorporated in the Management Board remuneration systems and in the management of LEG Immobilien SE.

In light of the current market situation dominated by inflation and interest rate hikes, the Management Board, with the approval of the Supervisory Board, has decided to realign the business strategy for 2023 and focus it on maximum capital efficiency, regardless of the capitalisation rate of the funds invested. As a result, in line with guidance LEG Immobilien SE no longer reports the key figure FFO I, as this is significantly affected by the capitalisation rate, and instead reports FFO I adjusted for recurring capitalised capex measures as well as consolidation effects resulting from self-produced services, known as AFFO. In order not to be limited in the use of subsidy measures, the capex measures for the years 2023 and beyond are adjusted for non-recurring investments that benefit from government subsidies. The related adjustments to the short-term variable remuneration components (STI plan conditions) for the 2023 financial year will be submitted to the Annual General Meeting on 17 May 2023 for resolution. In connection with the change to the governance of LEG Immobilien SE, given current market conditions the Supervisory Board believes it is appropriate to deviate from the previous financial performance indicators that make up 80 % of the STI and use AFFO per share (40 %) and the adj. EBITDA margin (40 %) as new financial performance criteria for 2023.

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Overview of 2022 remuneration system:

FIXED REMUNERATION COMPONENT	BASIC REMUNERATION		• Fixed contractually agreed remuneration payable in twelve equal instalments
FIXED REMUNERATION COMPONENT	FRINGE BENEFITS		• Essentially company car for business and private use, for business trips the services of a driver can be used, various insurance elements
FIXED REMUNERATION COMPONENT	PENSION ENTITLEMENT		• Receipt of a fixed amount, specified in the respective employment contract, into a reinsured support fund
VARIABLE REMUNERATION COMPONENT	SHORT-TERM VARIABLE REMUNERATION COMPONENT (STI)	Plan type	• Tantieme
VARIABLE REMUNERATION COMPONENT	SHORT-TERM VARIABLE REMUNERATION COMPONENT (STI)	Restriction / cap	• 200 % of the target amount
VARIABLE REMUNERATION COMPONENT	SHORT-TERM VARIABLE REMUNERATION COMPONENT (STI)	Performance criteria	• 40 %: Result from renting & leasing • 40 %: Funds from operations I • 20 %: ESG-targets • Criteria-based adjustment factor (0,8 – 1,2) to assess the individual and collective performance of the Management Board as well as extraordinary developments
VARIABLE REMUNERATION COMPONENT	SHORT-TERM VARIABLE REMUNERATION COMPONENT (STI)	Payout	• After the end of the respective financial year
VARIABLE REMUNERATION COMPONENT	LONG-TERM VARIABLE REMUNERATION COMPONENT (LTI)	Plan type	• Performance cash plan
VARIABLE REMUNERATION COMPONENT	LONG-TERM VARIABLE REMUNERATION COMPONENT (LTI)	Restricition / cap	• 250 % of the target amount
VARIABLE REMUNERATION COMPONENT	LONG-TERM VARIABLE REMUNERATION COMPONENT (LTI)	Performance criteria	• 80 %: Relevant Total Shareholder Return in comparison to the relevant index (EPRA NAREIT Germany) • 20 %: ESG-targets
VARIABLE REMUNERATION COMPONENT	LONG-TERM VARIABLE REMUNERATION COMPONENT (LTI)	Term of a performance period	• Four years
VARIABLE REMUNERATION COMPONENT	LONG-TERM VARIABLE REMUNERATION COMPONENT (LTI)	Payout	• After the four-year performance period • Purchase obligation of LEG shares in the amount of 25% of the payout
MALUS/CLAWBACK			• Partial or complete reduction or reclaim of variable remuneration possible
SHARE RETENTION OBLIGATION			• Obligation to purchase LEG shares equivalent to a gross basic salary within four years • Obligation to hold the acquired shares for the duration of the Management Board activity
MAXIMUM REMUNERATION			• Chairman of the Board: EUR 4,800,000 • Full members of the Board: EUR 3,100,000

Management Board members in the 2022 financial year

The members of the Management Board in the 2022 financial year were:

- Lars von Lackum, CEO
- Susanne Schröter-Crossan
- Dr Volker Wiegel

Secondary activities of Management Board members

At the request of LEG Immobilien SE, Management Board members also assume duties or positions on bodies at affiliated companies of LEG Immobilien SE. This also applies for performing functions at associations and similar organisations, where LEG Immobilien SE has an interest in this. Performing these duties does not constitute an additional employment contract. The number of mandates at companies and comparable entities in which LEG Immobilien SE, directly or indirectly, holds less than 51 % of the respective capital or, if higher, of voting rights, must not exceed four. This limitation does not include mandates at housing industry associations, the LEG NRW Tenant Foundation and the “Your Home Helps” foundation. All secondary activities by a member of the Management Board require the prior approval of the Supervisory Board and, as the responsible committee there, of the Executive Committee, where these activities may affect the interests of LEG Immobilien SE. If the Management Board member receives separate remuneration for these positions and offices, this remuneration is taken into account in his/her existing claims for remuneration from LEG Immobilien SE in accordance with the recommendation G.15 of the German Corporate Governance Code.

Any remuneration is taken into account regardless of whether it is granted for activities at affiliated companies or at external third parties. If the Management Board member has claims for remuneration from affiliated companies, this remuneration is transferred not to the Management Board member but directly to LEG Immobilien SE.

In the case of external Supervisory Board mandates of Management Board members, in accordance with recommendation G.16 of the German Corporate Governance Code the Supervisory Board is to decide whether and to what extent the remuneration paid to the Management Board member for this mandate is to be taken into account for Management Board remuneration. The only non-Group Supervisory Board mandate held at present is by Ms Susanne Schröter-Crossan on the Supervisory Board of Hello Fresh SE. The Supervisory Board has thus decided not to take the remuneration Ms Schröter-Crossan receives for this activity into account for her remuneration as a Management Board member of LEG Immobilien SE. The Supervisory Board believes it is in LEG Immobilien SE's interests for its Management Board members to receive impetus from individual, non-Group Supervisory Board mandates that they can also apply to their Management Board work.

Management Board remuneration system in the 2022 financial year ("new remuneration system")

The Management Board remuneration system supports LEG Immobilien SE's three fundamental core activities: optimising core business, expanding the value chain and portfolio growth.

Management Board remuneration is intended to further strengthen these fundamental elements of the LEG business model. Accordingly, the remuneration system reflects the material financial key performance indicators for Group management. As well as internal key figures, the primary focus of long-term variable remuneration is on external, capital-marked-related key figures and short-term and long-term LEG Immobilien SE targets.

LEG Immobilien SE's strategic decisions here have an impact both on the company's business interests and the interests of various stakeholders. LEG Immobilien SE is aware of this responsibility and has developed a sustainability strategy that is an integral part of the company strategy and affects essential action areas. In doing so, LEG Immobilien SE aims to manage and shape sustainability efficiently and reliably. LEG Immobilien SE believes sustainable action and business practices are a corporate obligation and it fulfils this commitment to its stakeholders. In view of this, sustainability aspects are specially taken into consideration in Management Board remuneration, both in the STI (short-term variable remuneration component) and in the LTI (long-term variable remuneration component).

To sum up, this means that alongside investor suggestions, the following aspects were also incorporated when designing the remuneration system:

- Support of company strategy
- Focus on long-term and sustainable financial development at LEG Immobilien SE
- Environmentally-oriented improvement in line with climate protection goals, optimising customer and employee focus and continuously adapting governance to meet the highest standards (ESG)
- Performance-based Management Board remuneration while simultaneously ensuring ambitious targets (pay-for-performance)
- Harmonising the interests of the Board and shareholders
- Taking account of the interests of other LEG Immobilien SE stakeholders and aligning Management Board remuneration accordingly
- Taking into consideration market practice.

The Management Board remuneration system comprises fixed and variable components, the sum of which forms the total remuneration of a member of the Management Board. Regarding this total remuneration, the Supervisory Board has set an individual, contractually agreed maximum amount for each Management Board member (maximum remuneration).

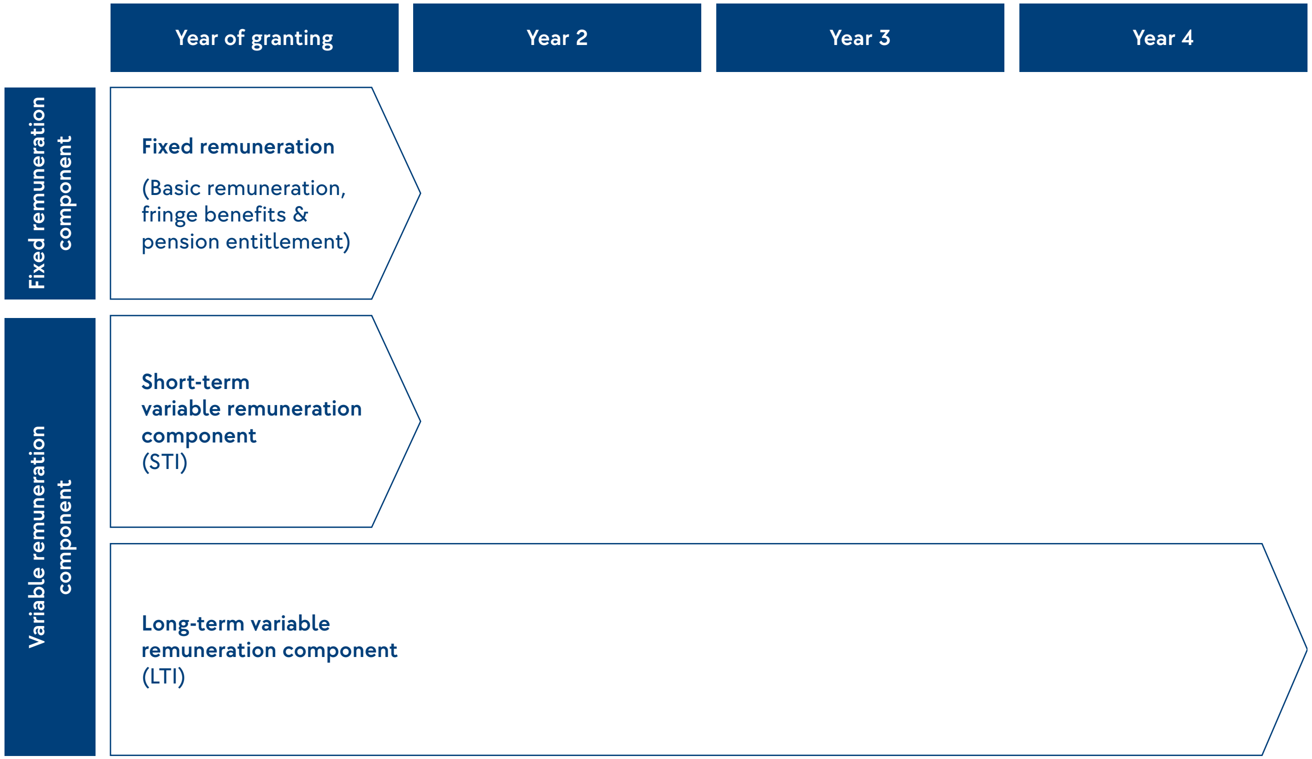
The fixed remuneration component comprises basic remuneration, additional benefits and expenses for the occupational pension.

The variable remuneration component includes a short-term incentive (STI) and a long-term incentive (LTI).

Overview of the individual regular components of the remuneration system over time:

G10

Remuneration system over time



The following overview shows the respective contractually agreed annual targets for the individual remuneration components, assuming 100 % achievement:

T38

Remuneration components

€ thousand	Lars von Lackum CEO	Susanne Schröter-Crossan CFO	Dr Volker Wiegel COO
Fixed remuneration	950	550	550
One-year variable remuneration (STI)	600	375	375
Multi-year variable remuneration	1,000	650	650
Target remuneration	**2,550**	**1,575**	**1,575**

The target remuneration comprises the basic remuneration, the one-year variable remuneration (STI) and the multi-year variable remuneration (LTI), each based on 100 % target attainment. The target remuneration was adjusted with effect from the 2022 financial year. The Supervisory Board sought advice from a renowned, independent remuneration consultant (hkp///group) when determining the remuneration. In accordance with recommendation G.3 DCGK, the Supervisory Board used suitable peer groups of other companies to assess the customary nature of the target remuneration of the members of the Management Board.

As LEG Immobilien SE is listed in the MDAX, the first peer group consists of the companies in this index. In order to emphasise the high importance of sustainability for LEG Immobilien SE, the DAX 50 ESG was also considered. The positioning in the comparison groups is based on the equally weighted key figures of sales, number of employees and market capitalisation. The target remuneration of the CEO and the members of the Management Board is still within the normal market range in both comparison markets after the adjustment in 2022.

In addition to the competitive comparison by the independent remuneration consultant (hkp///group), the adjustment as part of the revision of the remuneration system also took into account the situation of LEG Immobilien SE and its earnings performance in recent years as well as the tasks and performance of the members of the Management Board.

Target remuneration is revised based on the following considerations:

- The remuneration component transaction bonus is removed entirely in the new remuneration system, reducing the maximum target remuneration accordingly.
- The changes to remuneration also account for the good business performance in recent financial years, which is reflected both in the 8.3 % average increase in FFO I per share since 2018 and the above-average performance of TSR compared to similar companies.
- Lower remuneration was initially agreed with the CEO when he joined the company. The Supervisory Board made this decision in view of the fact that he was appointed for the first time. The CEO's remuneration has now been revised to a remuneration level appropriate for a CEO's area of responsibility in a MDAX listed company.

Fixed remuneration component

Basic remuneration

The members of the Management Board receive their basic remuneration in twelve equal monthly payments (pro rata temporis).

Additional benefits

Management Board members receive contractually agreed benefits in addition to basic remuneration:

- The members of the Management Board receive standard contributions of up to 50 % of their private health and long-term care insurance, however, this is limited to the amount that would be owed if the respective member had statutory health insurance.
- If members of the Management Board are voluntarily insured under the statutory pension scheme or are members of a professional pension scheme in place of the statutory pension scheme, 50 % of the standard contributions to the statutory pension scheme are paid. This regulation also applies to employee-financed pension commitments for which LEG Immobilien SE is the contractual partner. These pension commitments are capped at an annual payment of EUR 20 thousand for Lars von Lackum and EUR 15 thousand for the other members of the Management Board.

- Furthermore, LEG Immobilien SE provides its Management Board members with an appropriate company car for business and private use. All costs of company car upkeep and use are paid by LEG Immobilien SE. In addition, members of the Management Board can use the services of a driver for official journeys. The benefits granted to the Management Board members through the provision of a company car are capped at EUR 80 thousand per member of the Management Board for the monetary value arising from private use. The wage and income taxes on these benefits are paid by the respective member of the Management Board. Members of the Management Board are also reimbursed for expenses and travel expenses.

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

- D&O insurance has also been taken out for the members of the Management Board. The D&O insurance policies each include a statutory deductible of 10 % of the loss, limited to 1.5 times the fixed annual remuneration per calendar year.

Pension entitlement

Each calendar year, LEG Immobilien SE grants members of the Management Board a fixed employer-financed occupational pension commitment, the amount of which is set out in the Management Board agreement. This is paid into a provident fund which is backed by the assets of a life insurance policy. This amount is reduced on a pro rata basis if the member leaves or joins the company during the year. In addition, the pension benefits allowance for the Management Board member provided as part of the additional benefits can also be paid into the provident fund instead of this allowance.

Occupational pensions granted to members of the Management Board in the 2022 financial year are shown in the table below.

T39

Occupational pension scheme granted

	Company pension benefits via a provident fund with annually paid fixed contribution			Company pension benefits via a provident fund or professional pension scheme		
in €	Amount p. a.	Monetary compensation amount	Monetary compensation year	Amount p. a.	Monetary compensation amount	Monetary compensation year
Lars von Lackum	100,000	2,325,000	2042	7,924	183,555	2042
Susanne Schröter-Crossan	50,000	1,245,537	2046	7,924	204,693	2046
Dr Volker Wiegel	50,000	1,141,667	2043	7,868[1]	[2]	[2]

[1] The company pension benefits for Dr Volker Wiegel is provided by the pension scheme for lawyers
[2] A monthly payout starts with the day of retirement

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

The purpose of the STI is to secure profitable, organic growth and ensure that annual operating targets are met. The STI consists of an annual payment measured on the basis of the following financial and non-financial performance targets:

- Net operating income,
- Funds from Operations I (FFO I) per share,
- Non-financial environmental, social and governance targets (ESG targets).

The financial performance criteria each account for 40 %. The ESG targets derived from the sustainability report (CSR report) account for a total of 20 % of the STI target amount, with the three ESG subtargets equally weighted. The STI also has a criteria-based adjustment factor with a range of 0.8 to 1.2. Target attainment for the performance targets is capped at 200 %.

Financial performance criteria

The targets for net operating income and for FFO I per share are based on the annual business plan. The business plan resolved by the Supervisory Board for the respective financial year applies. Financial targets are each weighted at 40 %.

The following financial performance indicators were set for the 2022 financial year:

T40

Financial performance indicators

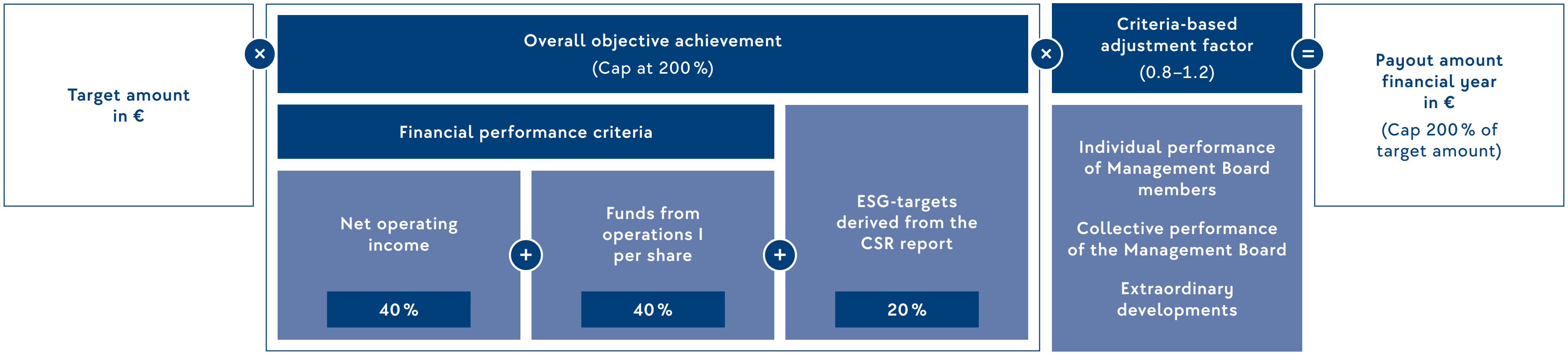
Performance criterion	Target value
Net operating income	EUR 569.9 million
FFO I per share	EUR 6.21

If the target is achieved, target attainment is 100 %. If the target is exceeded by 20 %, the maximum target attainment of 200 % is achieved. If target attainment is less than 20 % of the target, the level of target attainment is set at zero. Target attainments between the defined target attainment points (0 %; 100 %; 200 %) are calculated by linear interpolation.

When calculating the STI amounts to be paid out for the financial performance indicators, the actual figure per sub-target is to be compared with the figure in the business plan. Firstly, target attainment is calculated by taking the percentage deviation from the actual figure compared to the target using the contractually agreed weighting. The STI partial amount achieved is then calculated based on the target attainment.

G11

Short-term variable remuneration scheme



The targets from the business plan, which was adopted before the start of the financial year, are to be assessed in accordance with the regulations defined in the Management Board agreements in terms of the effects of acquisitions and disposals not taken into account in the business plan and of changes in consolidated companies and adjusted where necessary. In summary, it should be noted that in view of the acquisition and disposal activities in 2022, an adjustment of the targets resulting from the 2022 business plan for net operating income and FFO I per share is necessary. For the 2022 financial year, 350 disposals were planned as a lump sum in the approved business plan. However, the transfer of ownership actually took place for a total of 489 units in 2022. In addition, 817 acquisitions were made in 2022 that already took effect in the current 2022 financial year but were not included in the 2022 business plan. Thus, 817 units that were not included in the 2022 business plan must be taken into account in the STI calculation.

The following targets are relevant for calculating the STI for the financial performance indicators:

T41

STI – Financial performance indicators

	Target according to 2022 business plan	Adjusted target value for 2022
Net operating income	€ 569.9 million	€ 571.9 million
FFO I per share	€ 6.21	€ 6.23

T42

STI target attainment

	Adjusted target	Actually achieved	Deviation	Degree of target attainment based on contractually agreed weighting	STI partial amount
Net operating income	€ 571.91 million	€ 413,51 million	72.30 %	0.00 %	0.00 %
FFO I per share	€ 6.23	€ 6.56	105.26 %	126.32 %	50.53 %

Non-financial targets

ESG targets are based on LEG Immobilien SE's sustainability report and on strategic considerations and future projects. Environmental, social and governance criteria are defined for the ESG targets and are put into practice with specific targets. The targets are assigned quantitative or qualitative criteria so that a comparison of target and actual performance can be carried out at the end of the financial year to measure target attainment. The specific ESG targets and the minimum and maximum values are set each year and finalised by the Supervisory Board in agreement with the members of the Management Board before the start of the financial year.

The Supervisory Board set the following ESG targets for the 2022 financial year:

T43

ESG-Ziele STI 2022

Environmental	Social	Governance
Target: 4,000 ton reduction in CO_2 from completion of energetic refurbishment of existing stock that is classified as modernisation measures in accordance with section 555b no 1 – 3 BGB p. a. (e. g. heating, roof, basement, façade, windows, doors) in relation to the stock included in the annual report as at 31 December 2021 and calculated on the basis of the energy savings calculations available, taking account of the applicable CO_2 factor	**Target:** "Trust Index" measurement for the LEG Group, which is calculated as part of the "Great Place to Work" employee survey conducted in 2022.	**Target:** Stabilisation of Sustainalytics rating at < 10 (negligible risk)
Targets: 0 % minimum value: 3,600 tons CO_2 100 % target attainment: 4,000 tons CO_2 200 % maximum value: 4,400 tons CO_2	**Targets:** 0 % minimum value: 60 % 100 % target attainment: 66 % 200 % maximum value: 72 %	**Targets:** 0 % minimum value: 13 100 % target attainment: < 10 200 % maximum value: 7

Environmental target:
One core element of LEG Immobilien SE's sustainability strategy presented in May 2021 is its CO_2 reduction trajectory to make the company carbon neutral by 2045. Part of the plan to cut these emissions includes reducing CO_2 through energy efficiency upgrades for the housing portfolio. Energy efficiency upgrades must help reduce CO_2 by about 4,000 tons. The following fundamental parameters were set to manage and measure target attainment:

- Work must be complete, i. e. modernisation work must be finished from a technical perspective.
- The provisions of section 555b BGB form the basis for assessing when modernisation work applies.

As actual reductions cannot be reliably calculated until after several heating periods but a target that can be determined in the short term had to be determined for the STI, expected energy savings are determined on the basis of energy savings calculations prepared by experts before work begins.

Social target:
The benchmark chosen for the social target was the improvement in the "Trust Index" surveyed by an external research and consultancy institution as part of the "Great Place to Work" employee survey, as this reflects the ongoing development and engagement of the company and its staff with the corporate culture. The Trust Index was conducted in the 2022 financial year as part of a full employee survey. The Trust Index is disclosed in LEG Immobilien SE's annual report. Using the survey, LEG Immobilien SE can be compared both against external benchmarks and against presurvey figures.

Governance target:
As an indicator for good corporate governance, LEG Immobilien SE strived for a strong ESG risk rating from the experts at the independent Sustainalytics agency for the 2022 financial year. LEG Immobilien SE received an ESG risk rating of 7.8 in 2021, putting it in the lowest risk category – "negligible". LEG Immobilien SE's fundamental aim is to achieve good scores across all sustainability ratings as evidence of its transparent, sustainable corporate governance. LEG Immobilien SE selected the Sustainalytics rating for the governance sub-target within the STI's ESG targets for two reasons. Firstly, the Sustainalytics report assesses the risk of negative financial effects of ESG factors in great detail in more than 80 individual criteria, as well as assigning very high weighting to governance criteria. Secondly, LEG Immobilien SE already received a Sustainalytics ESG risk rating in the lowest risk category in 2021. Sustainalytics makes its evaluation stricter each year and so it is more and more challenging each year to achieve the lowest risk category. This underscores its ambitious targets.

Based on investor feedback, the Supervisory Board no longer uses the Sustainalytics rating as a target for 2023.

Non-financial targets are weighted at 20 % overall. All sub-targets (environmental, social and governance) were weighted equally.

T44

STI – ESG target attainment

	Actual attainment	Target attainment	ESG-target partial amount (weighted)
Environmental	4,028 t CO_2	107 %	35.7 %
Social	73 %	200 %	66.7 %
Governance	Sustainalytics Rating 6.7	200 %	66.7 %

Target attainment for the non-financial targets in the 2022 financial year was 169.0 %.

STI overall target attainment:
The total STI amount is calculated based on weighted sub-target attainment. Based on the attainment of all STI targets (weighted), the Management Board's average target attainment for the STI target was 84.33 %.

Criteria-based adjustment factor:
In December 2021, the Supervisory Board determined the following criterion for the criteria-based ad-justment factor for the 2022 financial year:

- Successful integration of properties acquired in the assessment period.

In addition, in line with recommendation G.11 sentence 1 of the German Corporate Governance Code the Supervisory Board also retained the right to account for extraordinary developments in the criteria-based adjustment factor.

The Supervisory Board decided by circular resolution of 23. February 2023 – following a recommendation of the Executive Committee of 22 February 2023 – to set a criteria-based adjustment factor in the amount of 1.1 with a view to the successful integration of the portfolios acquired in the assessment period 2021. In particular, the Supervisory Board took into account the fulfilment of the operational key figures, e. g. the like-for-like rent increases, the vacancy rate, and the transfer of the acquired portfolios into the LEG management platform as well as the transfer of the personnel into the LEG organisation. For the Supervisory Board, the decisive factor in determining the criteria-based adjustment factor was that the integration of the largest acquisition in the LEG Group's history has worked very well overall, even if further efforts will be required in the future to develop the portfolio positively in the interests of the company.

The criteria-based adjustment factor was applied in determining the management board remuneration.

STI – amounts paid out:
This results in the following amounts due:

T45

STI – Payment claims

in €	Lars von Lackum CEO	Susanne Schröter-Crossan CFO	Dr Volker Wiegel COO
STI 2022	556,553.80	347,846.40	347,846.40

The amount paid out from the STI is capped at EUR 1,200 thousand for Lars von Lackum and EUR 750 thousand for both Susanne Schröter-Crossan and Dr Volker Wiegel.

The STI to be paid according to the above calculation shall be settled and paid out to the Executive Board member not later than 30 days after the approval of the LEG Immobilien SE's consolidated financial statements.

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

In addition to an STI, the members of the Management Board are entitled to an LTI based on the company's long-term, sustainable development. This LTI is newly awarded for each financial year and is spread over a four-year performance period. There are currently three different LTI programmes in place for Management Board members that are based on different regulations: the LTI programme in place until the 2020 financial year, the LTI programme for the 2021 financial year and the LTI programme that applies from the 2022 financial year onwards.

Management Board members still have LTI entitlements under the relevant Management Board agreements prior to the 2021 financial year, under the LTI plan conditions of which payments may still be made until 2024 for the third tranche of the 2020 LTI ending in the 2023 financial year. Remuneration granted and payable in the 2022 financial year includes only payments from these LTIs valid until the 2020 financial year.

The section below provides an overview of the LTI plan conditions in place since the 2022 financial year. The LTI for the 2022 financial year is a further development of the 2021 LTI. These LTI tranches do not lead to remuneration granted and payable until the end of the four-year performance period. Target attainment for the 2019/2020 LTI to be presented as remuneration granted and payable in the 2022 financial year is reported after the presentation of the current LTI programme.

LTI plan conditions from 2022 (2022 LTI)

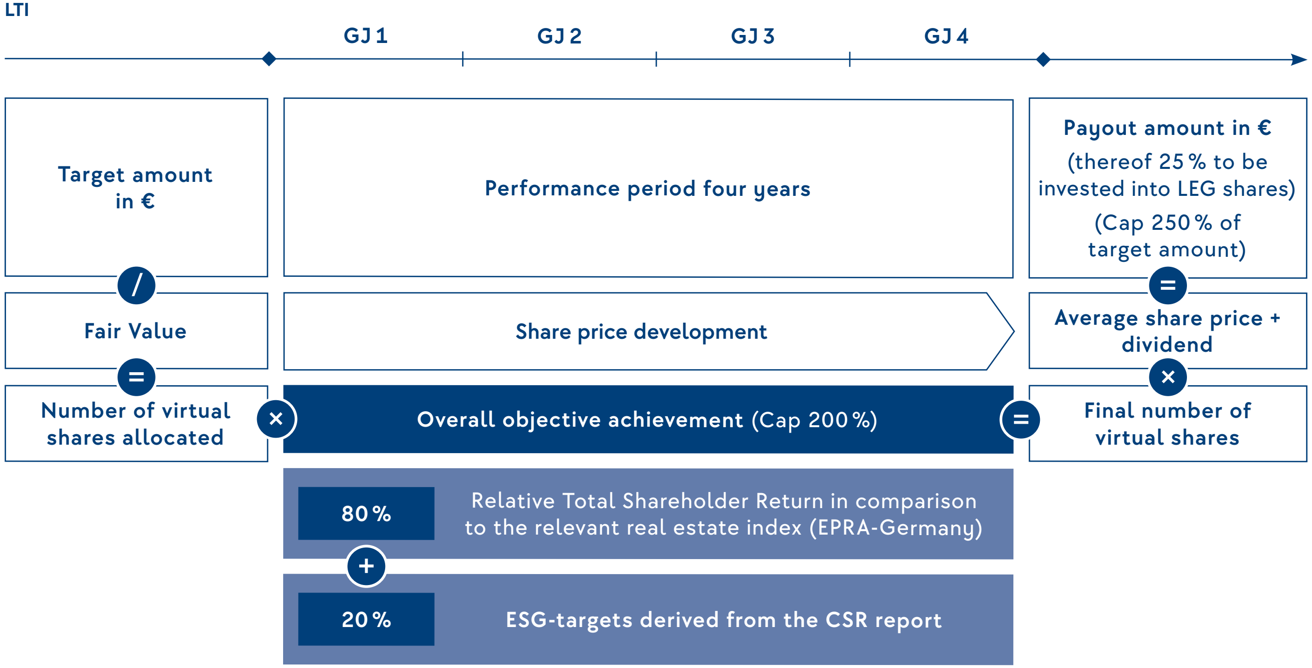
Management Board members will receive an LTI in the form of a virtual performance share plan for a four-year performance period for the first time for the 2022 financial year.

The 2022 LTI is determined on the basis of the following financial and non-financial performance targets:

- Development of relative total shareholder return compared to the relevant property index (EPRA Germany) (80 %)
- Non-financial environmental, social and governance targets (ESG targets) (20 %)

G12

LTI



The total amount of the LTI awarded for a financial year, determined after the end of the respective performance period, is limited to a maximum of 250 % of the target amount (2.5 times the value of the individual target amount). The Executive Board member is obliged to invest 25 % of the payment from the LTI in shares issued by the company and to hold them for the duration of the Executive Board activity. A cap of 200 % is set for the total target achievement.

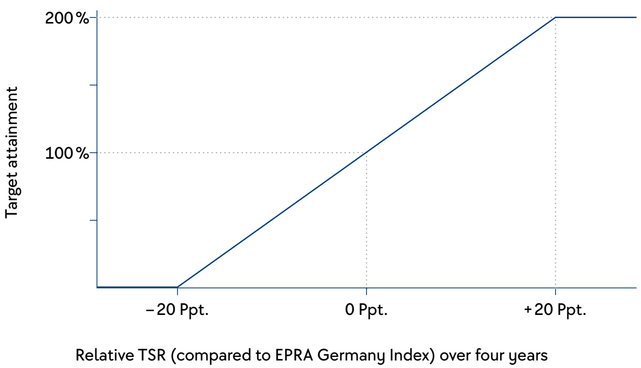
The financial performance criterion used in the 2022 LTI is relative TSR compared to a relevant property index, with a weighting of 80 %. The Supervisory Board has decided using the EPRA Germany Index as the benchmark index. The EPRA Germany Index comprises LEG Immobilien SE's key national listed competitors and is thus a relevant peer group.

TSR describes changes in LEG Immobilien SE's share price for the performance periods, including notionally reinvested gross dividends per share. Relative TSR describes the percentage point difference between the price change of the LEG Immobilien SE share, including notionally reinvested gross dividends, and the change in EPRA Germany Index over the performance period.

Target attainment for relative TSR is 100 % if LEG Immobilien SE's relative TSR is 0 percentage points, i.e. LEG Immobilien SE's share price performance including reinvested gross dividends is the same as the performance of the EPRA Germany Index. If relative TSR is 20 percentage points or more below TSR in the benchmark index, target attainment is 0 %. Target attainment is 200 % if relative TSR is 20 percentage points or more above the benchmark index's TSR. Relative TSR higher than this does not further increase target attainment. Target attainments between the defined target attainment points are calculated by linear interpolation.

G13

Target attainment curve relative TSR



As for the STI, specific ESG targets are set for the respective LTI tranche. Different ESG targets are used here than for the STI in order to avoid duplicate incentives. The specific ESG targets for the tranche in question are set by the Supervisory Board before the start of the performance period. These targets are precisely defined and it is ensured that they can be clearly measured.

The following equally-weighted ESG targets apply to the 2022 LTI performance period from 2022 to 2025:

T46

LTI ESG-targets 2022 – 2025

Environmental	Social
Target: 10 % reduction in adjusted CO_2 emissions in kg/m² in the portfolio in accordance with the annual report as at 31 December 2021 compared with the portfolio in accordance with the LEG Group's annual report as at 31 December 2025	**Target:** Customer Satisfaction Index of 70 %
Targets: 0 % minimum value: – 6 % 100 % target attainment: – 10 % 200 % maximum value: – 14 %	**Targets:** 0 % minimum value: 60 % 100 % target attainment: 70 % 200 % maximum value: 80 %

The total 2022 LTI available for a financial year calculated after the end of the performance period is capped at EUR 2,500 thousand for Lars von Lackum and EUR 1,625 thousand for both Susanne Schröter-Crossan and Dr Volker Wiegel.

If an LTI for 2022 is to be paid, this must be settled for the last year of the tranche's performance period and paid to the respective Management Board member no later than 30 days after the approval of LEG Immobilien SE's consolidated financial statements. Management Board members are obliged to invest 25 % of the payment from the LTI in shares issued by LEG Immobilien SE and to hold these for the duration of their Management Board position.

LTI plan conditions for the LTI granted in the 2021 financial year (2021 LTI)

The 2021 LTI is a performance cash plan. The 2021 LTI is determined on the basis of the following financial and non-financial performance targets:

- Development of absolute total shareholder return (TSR) (40 %),
- development of LEG Immobilien SE's share price compared to the relevant index, EPRA Germany (40 %),
- Non-financial environmental, social and governance targets (ESG targets) (20 %).

The amount paid out for the 2021 LTI is capped at 200 % of the target amount.

The financial performance indicators used for the 2021 LTI are the development of absolute TSR and LEG Immobilien SE's share price performance in comparison to that of the EPRA Germany Index. These performance indicators are therefore geared towards boosting value for shareholders and create incentives to generate shareholder value.

Absolute TSR essentially describes changes in LEG Immobilien SE's share price for the performance periods, including dividends per share paid in this period.

Target attainment is 100 % if absolute TSR for the LEG Immobilien SE share is within 0 percentage points of the target determined for the tranche in question. If absolute TSR is 10 percentage points or more below target, target attainment is 0 %. Target attainment is 200 % if absolute TSR is 10 percentage points above target. TSR higher than this does not further increase target attainment. Target attainments between the defined target attainment points are calculated by linear interpolation.

To determine target attainment for the performance target "relative share price performance", the share price performance of the LEG Immobilien SE share in percent in the respective performance period is compared against the percentage change in the EPRA Germany Index. The EPRA Germany Index comprises LEG Immobilien SE's key national listed competitors and is thus a suitable peer group.

Environmental, social and governance criteria are defined for the ESG targets and are put into practice with specific targets. The specific targets and minimum and maximum values were set each year by the Supervisory Board before the start of the financial year. The Supervisory Board had to set different targets than for the STI. The Supervisory Board assessed target attainment using suitable quantitative/qualitative surveys to measure the performance of the ESG targets in question. Target attainment for ESG targets is also capped at 200 %.

The 2021 LTI will be paid after the end of the four-year performance period in the 2025 financial year. Target attainment and remuneration granted and payable under the 2022 – 2025 performance share plan will be reported in detail in the 2024 remuneration report.

LTI plan conditions for LTIs granted in the 2019 and 2020 financial years (2019 and 2020 LTI)

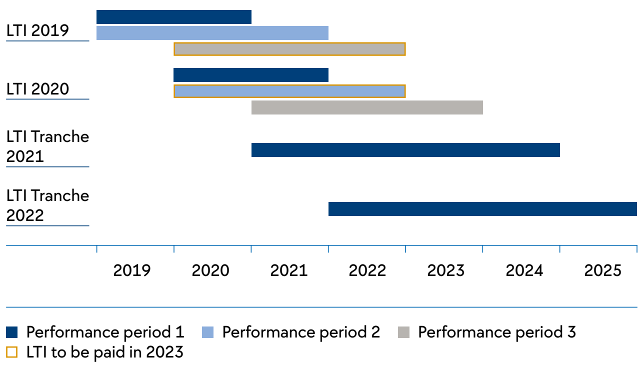
The 2019 and 2020 LTI programme in place until 31 December 2020 was spread over four years and newly awarded for each financial year.

The 2019 and 2020 LTI for a financial year was spread over the following three performance periods in three equal tranches:

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

G14

Performance periods LTI



The key performance targets for the LTI are:

- average development of total shareholder return;
- development of the LEG Immobilien SE's share price compared to the relevant index, EPRA Germany.

The following specific targets apply to the 2019 and 2020 LTI programmes:

T47

LTI – Shareholder Return

in %	Target attainment 80	100	120 (maximum)
Total Shareholder Return Ø p. a.	5.6	7.0	8.4
Performance against EPRA Germany-Index	90	100	110

LTI granted and owed in 2022

LTI 2019/performance period 3 and LTI 2020/performance period 2:
For the LTI 2019/performance period 3 and LTI 2020/performance period 2 granted and owed in 2022, the following values have been achieved with regard to the performance target total shareholder return:

T48

Target attainment Total Shareholder Return

in %	2020	2021	2022
Total Shareholder Return p. a.	20.83	5.63	–46.31
Total Shareholder Return Performance Period 2 Ø p. a.		–6.62	

Target attainment for the sub-target total shareholder return is 0 %.

Performance against the EPRA Germany index in the relevant period under review from 2020 to 2022 was as follows:

T49

Target attainment EPRA Germany Index

in %	
Performance against EPRA Germany-Index	138.09

Target attainment for the sub-target "development of LEG Immobilien SE's share price compared to the EPRA Germany Index" is 120 %.

Target attainment is determined separately for each performance target independently of the other sub-targets. Where mathematically possible, offsetting is used within a tranche in such a way that the shortfall in one performance target can be offset by over-achievement in another performance target.

Overall, target attainment for the LTI 2019/performance period 3 and LTI 2020/performance period 2 is 60 %.

Transaction bonus

Management Board agreements also included a transaction bonus for financial years 2020 and 2021. Based on investor feedback, the Management Board agreements were revised in 2022 and the transaction bonus removed. In this context, all Management Board members opted out of the 2021 transaction bonus in the 2022 financial year. Therefore, only the second tranche of the transaction bonus for the 2020 financial year will be paid out in the 2022 financial year.

Payment of the transaction bonus is linked to the acquisition of at least 7,500 residential units per year (threshold value) and increases on a linear basis up to the acquisition of 30,000 residential units per year (maximum value). For the acquisition of residential units to be eligible, the transaction must close in the financial year in question. The calculation of the 2020 transaction bonus involves 11,224 residential units, the benefits and encumbrances for which were transferred to a LEG company in the 2020 financial year. The transaction bonus for the 2020 financial year was thus EUR 291,330.84 for Lars von Lackum, EUR 100,984.14 for Susanne Schröter-Crossan and EUR 200,870.63 for Dr Volker Wiegel. One third of this amount was paid out to members of the Management Board in 2021 in accordance with a Supervisory Board resolution and after approval of the consolidated financial statements. The remaining 2/3 of the transaction bonus ("deferral") is paid depending on performance. The amount of the payment was determined based on target attainment (maximum 100 %) which was determined by the Supervisory Board in an overall business plan that applies for multiple transactions and is in place for at least two years. The key figures for achieving the overall business plan are net operating income and FFO I, each weighted at 50 %. The target for the net operating income sub-target is EUR 72.3 million and the figure for FFO I is EUR 57.9 million. The actual figures achieved in the 2021 – 2022 assessment period were EUR 73.6 million for the net operating income sub-target is and EUR 60.9 million for FFO I.

The target attainment for the second tranche of the 2020 transaction bonus is therefore 102.35 %, but is contractually limited to 100%.

This results in the following amounts paid out for the members of the Management Board: Lars von Lackum is paid EUR 194,220.56, Susanne Schröter-Crossan EUR 67,322.76 and Dr Volker Wiegel EUR 133,913.75.

Malus and clawback provisions for variable remuneration

The Supervisory Board can withhold (malus) or recover (clawback) variable remuneration components in the following circumstances. If a member of the Management Board seriously breaches legal obligations, obligations under employment contracts or internal company codes of conduct (compliance violation) as a result of gross negligence, the Supervisory Board is entitled to reduce, in part or in full, and thus to withhold variable remuneration that has not yet been paid at its discretion. In addition, at its discretion the Supervisory Board can recover, in part or in full, the gross amount of variable remuneration that has already been paid.

The Supervisory Board can also recover variable remuneration that has already been paid, in part or in full, if it emerges after this remuneration has been paid that the consolidated financial statements audited by the auditor and approved by the Supervisory Board and that were used to calculate the payment amount were incorrect and if the corrected consolidated financial statements would have resulted in lower payable variable remuneration or none at all. This is not dependent on the members of the Management Board being responsible for this.

Remuneration cannot be recovered on the basis of clawback provisions if payment was made more than two years prior. This does not affect statutory repayment options, such as asserting damages, which continue to apply.

There was no malus or clawback in the 2022 financial year.

Share ownership obligation (Obligation according to Share Ownership Guidelines = SOG)

Regardless of the share purchase obligation under the LTI regulations, since 1 January 2021 all members of the Management Board have been required, within a four-year establishment phase, to acquire LEG Immobilien SE shares equal to one gross annual salary and hold these shares for the entire duration of their Management Board agreements. The SOG target is 100 % of the gross annual base salary. During the establishment phase, all members of the Management Board are obliged to acquire LEG Immobilien SE shares equal to 25 % of their gross annual salary in each of the four establishment years. The number of LEG Immobilien SE shares to be acquired in the establishment year is calculated by dividing gross annual salary at the start of the establishment year by the figure – rounded to whole shares in accordance with commercial practice – that is determined by calculating the arithmetic average of the LEG Immobilien SE share's closing price in XETRA trading on the Frankfurt Stock Exchange for the last 30 trading days prior to the first day of the establishment year in question. Shares already held by a member of the Management Board are taken into account.

The members of the Management Board achieved the SOG target for the 2021 and 2022 financial years.

The table below shows the number of LEG Immobilien SE shares held by members of the Management Board to comply with the share ownership.

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Attainment of the Share Ownership Guidelines

		Mandatory				Proven		
	Proven number of shares 31.12.2021	Percentage basic remuneration	Amount in € thousand	25 % of basic remuneration in € thousand	Mandatory number of shares[1] 31.12.2022	Amount in € thousand	Proven number of shares 31.12.2022	Actual number of shares 31.12.2022
Lars von Lackum	4,500	100	950	238	1,932	392	3,603	8,103
Susanne Schröter-Crossan	1,090	100	550	138	1,119	108	1,155	2,245
Dr Volker Wiegel	1,239	100	550	138	1,119	145	1,667	2,906

[1] Based on the average Xetra-closing share price of the last 30 trading days in the financial year 2021 of € 122.96.

Total remuneration of the Management Board

Granted and payable Management Board remuneration for the 2022 and 2021 financial years in accord-ance with section 162 (1) sentence 1 AktG is shown in the table below. The table shows the remuneration components for the work performed by members of the Management Board in the reporting year or for which the assessment period ended in the reporting year "remuneration granted"); there are no claims to remuneration that is legally due but that has not yet been paid ("payable remuneration").

T51

Remuneration and benefits earned

	Lars von Lackum CEO				Susanne Schröter-Crossan CFO				Dr Volker Wiegel COO			
	2022		2021		2022		2021		2022		2021	
€ thousand	€ thousand	in %	€ thousand	in%	€ thousand	in %	€ thousand	in%	€ thousand	in %	€ thousand	in %
Fixed remuneration	950	50	800	43	550	52	500	45	550	45	500	40
Additional benefits	30	2	26	1	27	3	27	2	41	3	34	3
Total fixed remuneration components	**980**	**52**	**826**	**44**	**577**	**55**	**527**	**47**	**591**	**48**	**534**	**43**
Total One-year variable remuneration (STI)	557	28	656	35	348	32	444	40	348	29	444	35
One-year variable remuneration (STI) (STI 2021)	–	–	656	35	–	–	444	40	–	–	444	35
One-year variable remuneration (STI) (STI 2022)	557	28	–	–	348	32	–	–	348	29	–	–
Total multi-year variable remuneration (LTI)	180	10	295	16	74	7	111	10	138	12	214	17
LTI 2019 Tranche 2 (2019 to 2021)	–	–	146	8	–	–	–	–	–	–	99	8
LTI 2019 Tranche 3 (2020 to 2022)	90	5	–	–	–	–	–	–	69	6	–	–
LTI 2020 Tranche 1 (2020 to 2021)	–	–	150	8	–	–	111	10	–	–	115	9
LTI 2020 Tranche 2 (2020 to 2022)	90	5	–	–	74	7	–	–	69	6	–	–
Transaction bonus (Deferral 2020)	194	10	97	5	67	6	34	3	134	11	67	5
Total variable remuneration components	**930**	**48**	**1,048**	**56**	**489**	**45**	**589**	**53**	**620**	**52**	**725**	**57**
Total remuneration granted and owed within the meaning of section 162 (1) sentence 1 AktG	**1,910**	**100**	**1,874**	**100**	**1,066**	**100**	**1,116**	**100**	**1,211**	**100**	**1,259**	**100**
Pension costs	**108**	**–**	**108**	**–**	**58**	**–**	**58**	**–**	**58**	**–**	**58**	**–**
Total remuneration	**2,018**	**–**	**1,982**	**–**	**1,124**	**–**	**1,174**	**–**	**1,269**	**–**	**1,317**	**–**

Fixed remuneration components, one-year variable remuneration (STI 2022) and multi-year variable remuneration (LTI 2019 tranche 3, LTI 2020 tranche 2 and transaction bonus 2020) are considered "remuneration granted" regardless of when they are actually paid out, as the relevant work had been performed by the end of the reporting period on 31 December 2022.

As well as the amount of remuneration, under section 162 (1) sentence 2 no. 1 AktG the relative share of all fixed and variable remuneration components in total remuneration must also be disclosed. The relative share relates to the remuneration components granted and payable in the financial year in accordance with section 162 (1) sentence 1 AktG. The relative share values given in the Management Board remuneration system refer solely to target remuneration. Accordingly, the relative share stated in the remuneration report for the 2022 financial year may differ significantly from the values given in the Management Board remuneration system. To ensure transparent reporting, the pension costs for the occupational pension must also be disclosed even if these are not classified as granted and payable remuneration in the reporting year.

Members of the Management Board were not granted or owed any benefits from third parties in accordance with section 162 (2) no. 1 AktG. Any remuneration is paid to LEG NRW GmbH for Supervisory Board mandates held by members of the Management Board at LEG Immobilien SE subsidiaries.

Maximum Management Board remuneration

The maximum total remuneration granted in return for the work of the respective member of the Management Board for one financial year – including basic remuneration, variable remuneration components, an occupational pension and benefits – is EUR 4,800 thousand for Lars von Lackum, EUR 3,100 thousand for Susanne Schröter-Crossan and EUR 3,100 thousand for Dr Volker Wiegel. If the maximum remuneration for a financial year is exceeded, the payout of the LTI tranches for the corresponding financial year will be reduced. Compliance with maximum remuneration for the 2022 financial year will be reported on after all remuneration components are granted for this financial year. Current maximum remuneration for Management Board members was checked against Management Board remuneration in the MDAX and DAX 50 ESG and is within the standard market range compared with the MDAX and the DAX 50 ESG.

Remuneration for former members of the Management Board

There were no remuneration obligations to former members of the Management Board in accordance with section 162 (1) AktG in the 2022 financial year.

Early termination benefits

If a member of the LEG Immobilien SE Management Board is dismissed, the employment agreement for both parties can be terminated with a notice period of six months to the end of a month. The notice period is extended if a longer notice period is stipulated in accordance with section 622 (2) BGB. This does not affect termination options in accordance with section 626 BGB.

Severance pay

Employment agreements do not entitle Management Board members to severance pay in the event of early termination, although they do provide the option for this payment.

In the event of the early termination of the activity of a member of the Management Board, the payments made to the respective member may not exceed the value of two years' remuneration ("severance cap") or the value of the remuneration payable for the remaining term of this employment agreement. The settlement cap is based on the total remuneration for the past financial year and, where applicable, the anticipated total remuneration for the current financial year.

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

Change of Control

In the event of a change of control of the company, the members of the Management Board have the right to resign as a member of the Management Board for cause, and to terminate their Management Board contract, within a period of three months from the date of the change of control, observing a notice period of a further three months to the end of a month (special right of termination).

The severance regulations that apply in the event of the special right of termination being exercised stipulate that payments in connection with the cessation of work as a member of the Management Board due to a change of control amount to two years' remuneration, albeit capped at the value of the remuneration for the remaining term of the member's contract.

Death benefits

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

Remuneration system of the Supervisory Board

With effect from the close of the Annual General Meeting on 19 May 2022, the terms of all Supervisory Board members in office at this time ended. Mr Stefan Jütte and Dr Johannes Ludewig were no longer eligible for another term in office on account of their age. Following a resolution by the Annual General Meeting on 19 May 2022, the Supervisory Board was reduced from seven to six members. In accordance with Article 9.1 of LEG Immobilien SE's Articles of Association, the Supervisory Board therefore comprises six members who are elected by the Annual General Meeting.

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

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

The Annual General Meeting on 19 May 2022 approved a new remuneration system for the members of the Supervisory Board with 97.34 % of the vote. Based on the results of the market comparison and the abolition of the meeting fee, the remuneration system of the Supervisory Board has been adjusted as follows in 2022:

T52

Compensation scheme for the Supervisory Board

Basic compensation	• Each supervisory board member receives annual compensation of EUR 90 thousand.
Differentiation	• The CSB receives 2.5 times the fixed remuneration of an OMSB and the DCSB 1.25 times the fixed remuneration of an OMSB. The fixed remuneration of an OMSB is EUR 90 thousand.[1]
Committee compensation	• Members of a Supervisory Board committee receive additional annual fixed remuneration of EUR 25 thousand, with the Chairman of the committee receiving twice this figure. For the membership and chairmanship of the Nomination Committee no compensation is paid.
Attendance fee	• No attendance fees are paid.

[1] CSB = Chairman of the Supervisory board; DCSB = Deputy Chairman of the Supervisory board; OMSB = Ordinary member of the Supervisory board

The function-related remuneration differentiation between the Chairman and the Deputy Chairman and the ordinary Supervisory Board members reflects the increased responsibility and variety of tasks and, in turn, the greater time commitment of the Supervisory Board Chairman and complies with Principle 25 as well with the recommendation G.17 of the German Corporate Governance Code. Differentiation at LEG Immobilien SE is in line with standard market levels. Companies in the MDAX and the DAX 50 ESG were used as comparisons to review Supervisory Board remuneration.

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

LEG Immobilien SE had also concluded D&O insurance for the members of the Supervisory Board with an appropriate insured amount and excluding a deductible.

Breakdown of Supervisory Board remuneration

Breakdown of Supervisory Board remuneration – remuneration granted and payable to members of the Supervisory Board for the 2022 and 2021 financial year under section 162 (1) sentence 1 AktG:

T53

Breakdown of Supervisory Board remuneration

	2022							2021						
	Fixes remuneration		Committee compensation		Attendance Fee		Total	Fixed remuneration		Committee compensation		Attendance Fee		Total
Name of member	€ thousand	in %	€ thousand	in %	€ thousand	in %		€ thousand	in %	€ thousand	in %	€ thousand	in %	
Michael Zimmer (chairman)	207.6	81.2	46.2	18.1	2.0	0.8	255.8	180.0	80.4	40.0	17.9	4.0	1.8	224.0
Stefan Jütte (Deputy Chairman until 19.05.2022)	34.8	78.2	7.7	17.3	2.0	4.5	44.5	90.0	74.1	27.4	22.6	4.0	3.3	121.4
Dr Johannes Ludewig (until 19.05.2022)	27.8	78.3	7.7	21.7	0.0	0.0	35.5	72.0	76.6	20.0	21.3	2.0	2.1	94.0
Dr Jochen Scharpe	83.0	75.4	23.1	21.0	4.0	3.6	110.1	72.0	75.0	20.0	20.8	4.0	4.2	96.0
Natalie Hayday (Member until 06.01.2021)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	76.9	0.3	23.1	0.0	0.0	1.3
Dr Claus Nolting (Deputy Chairman since 19.05.2022; Chairman of the Risk and Audit Committee)	96.9	59.7	61.5	37.9	4.0	2.5	162.4	72.0	62.2	35.8	30.9	8.0	6.9	115.8
Martin Wiesmann	83.0	58.9	53.8	38.2	4.0	2.8	140.8	72.0	74.8	16.3	16.9	8.0	8.3	96.3
Dr Sylvia Eichelberg (Member since 27.05.2021)	83.0	82.8	15.3	15.3	2.0	2.0	100.3	42.8	0.0	0.0	0.0	4.0	0.0	46.8
Dr Katrin Suder (Member since 19.05.2022, Chairwoman of the ESG Committee)	55.3	64.3	30.7	35.7	0.0	0.0	86.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**671.4**	**71.8**	**246.0**	**26.3**	**18.0**	**1.9**	**935.4**	**601.8**	**75.6**	**159.8**	**20.1**	**34.0**	**4.3**	**795.6**

The remuneration system for the Supervisory Board does not include any obligation for Supervisory Board members to buy and hold shares in LEG Immobilien SE.

Management Board remuneration system in the 2023 financial year

Preliminary remarks:
Management Board remuneration for the 2023 financial year is based on the remuneration model adopted in the 2022 financial year. As described above, LEG Immobilien SE no longer reports the key figure FFO I due to the continuation of its business strategy from the 2023 financial year in line with guidance, and instead reports FFO I adjusted for recurring capitalised expenditure measures consolidation effects resulting from self-produced services, known as AFFO. In order not to be limited in the use of subsidies for investments, the capex measures for 2023 and beyond are adjusted for non-recurring investments that benefit from government subsidies.

The related adjustments to the short-term variable remuneration components (STI plan conditions) for the 2023 financial year will be submitted to the Annual General Meeting on 17 May 2023 for approval as part of the presentation of the correspondingly adjusted Executive Board remuneration system. In connection with the change to the steering of the company as a whole due to the current market conditions, the Supervisory Board decided on 19 December 2022, on the recommendation of the Executive Committee, to use 40 % of the AFFO per share and 40 % of the adjusted EBITDA margin as new financial performance criteria for 2023, in deviation from the previous financial performance criteria; both financial performance criteria together account for a total of 80 % of the STI.

The amount of remuneration paid to the Management Board members is unchanged. Looking at the two comparative markets, the MDAX and the DAX 50 ESG, the current target remunerations of the Managenent Board members are, in the opinion of the Supervisory Board, within the usual market range.

Assuming 100 % attainment, the contractually agreed annual targets for the individual remuneration targets for each Management Board member are as follows:

T54

Remuneration components 2023

€ thousand	Lars von Lackum CEO	Susanne Schröter-Crossan CFO	Dr Volker Wiegel COO
Fixed remuneration	950	550	550
One-year variable remuneration (STI)	600	375	375
Multi-year variable remuneration (LTI)	1,000	650	650
Target remuneration	**2,550**	**1,575**	**1,575**

Only the financial performance targets (STI plan conditions) are adjusted in the remuneration system.

Variable remuneration component with a short-term incentive function (STI)
The STI 2023 consists of an annual payment measured on the basis of the following financial and non-financial performance targets:

- AFFO per share,
- Adjusted EBITDA margin
- Non-financial environmental, social and governance targets (ESG targets).

The two financial targets each account for 40 % of the STI target, while ESG targets account for 20 %, with each ESG sub-target equally weighted. The STI also has a criteria-based adjustment factor with a range of 0.8 to 1.2 for assessing the individual and collective performance of the Management Board. The Supervisory Board defined the criterion for assessing Management Board performance prior to the end of the 2022 financial year.

Target attainment for the performance targets is capped at 200 %.

Financial targets (Performance criteria)
The targets for AFFO per share and the adjusted EBITDA margin are based on the annual business plan. The business plan approved by the Supervisory Board for the respective financial year applies. The two financial performance criteria are each weighted at 40 %.

The following financial performance indicators were set for the 2023 financial year:

T55

Financial performance indicators 2023

Financial performance criterion	Target value
AFFO per share	€ 1,50
Adjusted EBITDA margin	77,7 %

If the target value AFFO per share is reached, the target attainment is 100 %. If the target value is exceeded by 20 %, the maximum value of 200 % target attainment is reached. If the target attainment remains 20 % below the target value, the target attainment level is set at 0 %. Target attainments between the defined target attainment points (0 %; 100 %; 200 %) are interpolated linearly.

If the adjusted EBITDA margin target value is reached, the target attainment level is 100 %. If the target value is exceeded by 5 % points, the maximum value of 200 % target attainment is reached. If the target attainment remains 5 percentage points below the target value, the target attainment level is set at 0 %. Target attainments between the defined target attainment points (0 %; 100 %; 200 %) are interpolated linearly.

When calculating the STI amounts to be paid out for the financial performance indicators, the actual figure per sub-target is to be compared with the figure in the business plan. Firstly, target attainment is calculated by taking the percentage deviation from the actual figure compared to the target using the contractually agreed weighting. The STI partial amount achieved is then calculated based on the target attainment.

Non-financial targets

ESG targets are based on LEG Immobilien SE's sustainability report and on strategic considerations and future projects. Environmental, social and governance criteria are defined for the ESG targets and are put into practice with specific targets. The targets are assigned quantitative or qualitative criteria so that a comparison of target and actual performance can be carried out at the end of the financial year to measure target attainment. The specific ESG targets and the minimum and maximum values are determined annual by the Supervisory Board in consultation with the members of the Management Board before the start of the financial year and are finally resolved. Non-financial targets are weighted at 20 % overall. All sub-targets (environmental, social and governance) were weighted equally.

The Supervisory Board set the following ESG targets for the 2023 financial year:

Definition of environmental target attainment:
The target is to reduce carbon dioxide (CO_2) by 4,000 tons in 2023. This includes refurbishment measures to improve energy efficiency that were completed in 2023 and classified as modernisation measures in accordance with section 555b no. 1 – 3 of the German Civil Code (BGB) based on the portfolio included in the annual report as at 31 December 2022. The saving is evidenced on the basis of energy savings calculations and the resulting reduction in CO_2 final energy emissions. All the CO_2 emission reductions in 2023 that demonstrably result from measures to change user behaviour are also included in determining target attainment. This can be evidenced by a study or report by acknowledged experts that has been specifically prepared for individual measures taken in 2023 or through the use of a well-known, scientifically quantified and verified method of influencing user behaviour in the context of space heating that has been published in a peer review journal.

The CO_2 savings must be achieved on a climate-adjusted basis, i. e. for an average year to be expected in the long term for Germany according to the German Meteorological Service.

T56

ESG targets LTI 2023

Environmental	Social	Governance
Target: Reduce CO_2 by 4,000 tons through modernisation work and changing customer behaviour	**Target:** Speed at which tenant inquiries in connection with outstanding receivables are resolved	**Target 1:** 85 % of active employees at LEG Nord FM, Biomasse Heizkraftwerk KG and TSP – TechnikServicePlus GmbH have completed compliance training **Target 2:** 99% of active employees at the other LEG Group companies (section 15 of the German Stock Corporation Act) have completed compliance training
Targets: 0 % minimum value: 3,600 tons CO_2 100 % target attainment: 4,000 tons CO_2 200 % maximum value: 4,400 tons CO_2	**Targets:** 0 % = 18 calendar days 100 % = 13 calendar days 200 % = 8 calendar days	**Targets:** 0 % minimum value: 80 % (target 1), 94 % (target 2) 100 % target attainment: 85 % (target 1), 99 % (target 2) 200 % maximum value: 100 % (target 1), 100 % (target 2)

Definition of social target attainment:
The target is to not exceed a period of 13 calendar days when resolving tenant inquiries in connection with outstanding receivables (based on the gross processing time for 2022). This is based on the time between the receipt and the closure of the respective ticket. In 2022, this was 12.9 calendar days. However, the volume of inquiries is set to increase considerably and, at the same time, processing by the public authorities is expected to take longer while the number of employees will remain unchanged. With this in mind, the aim is for the processing time to remain stable on a volume-weighted basis (i. e. the processing time may double if the volume of inquiries doubles, but there should be no disproportionate effects).

Definition of governance target attainment:
The rate of successfully completed compliance training forms the basis for this. A distinction is made between Group 1, the active employees of LEG Nord FM, Biomasse Heizkraftwerk KG and TSP-TechnikServicePlus GmbH, and Group 2, the active employees of the other companies in the LEG Group. The differentiation between the two groups is based on the one hand on the fact that it was not possible to introduce the electronic group training tool in some companies of the group at the same time as the group as a whole, and on the other hand that comprehensive training in companies whose employees are seldom in the office on site (e. g. craftsmen, green-care workers) poses additional challenges. In addition, only those employees who are in active employment (e. g. no employees in passive partial retirement, those on long-term sick leave, employees on parental leave or employees on leave) and who have had sufficient opportunity to complete the training due to their length of service with LEG (at least three months) should be part of the total.

Criteria-based adjustment factor

As in the remuneration system 2022, the provisions for the STI also stipulate a criteria-based adjustment factor with a range of 0.8 to 1.2. The criteria applied in assessing the level of the criteria-based adjustment factor must be defined prior to the start of the respective financial year. The Supervisory Board has defined the following performance criterion for the 2023 financial year:

- Successful management of LEG in a market characterised by the Ukraine war, the challenges of the climate crisis and an uncertain financial environment with high interest rates and high inflation.

LTI plan conditions from 2023 (2023 LTI)

The LTI plan conditions described in connection with the 2022 remuneration system apply unchanged for the 2023 financial year.

Management Board members will receive an LTI in the form of a virtual performance share plan for a four-year performance period for the 2023 financial year.

The 2023 LTI is determined on the basis of the following financial and non-financial performance targets:

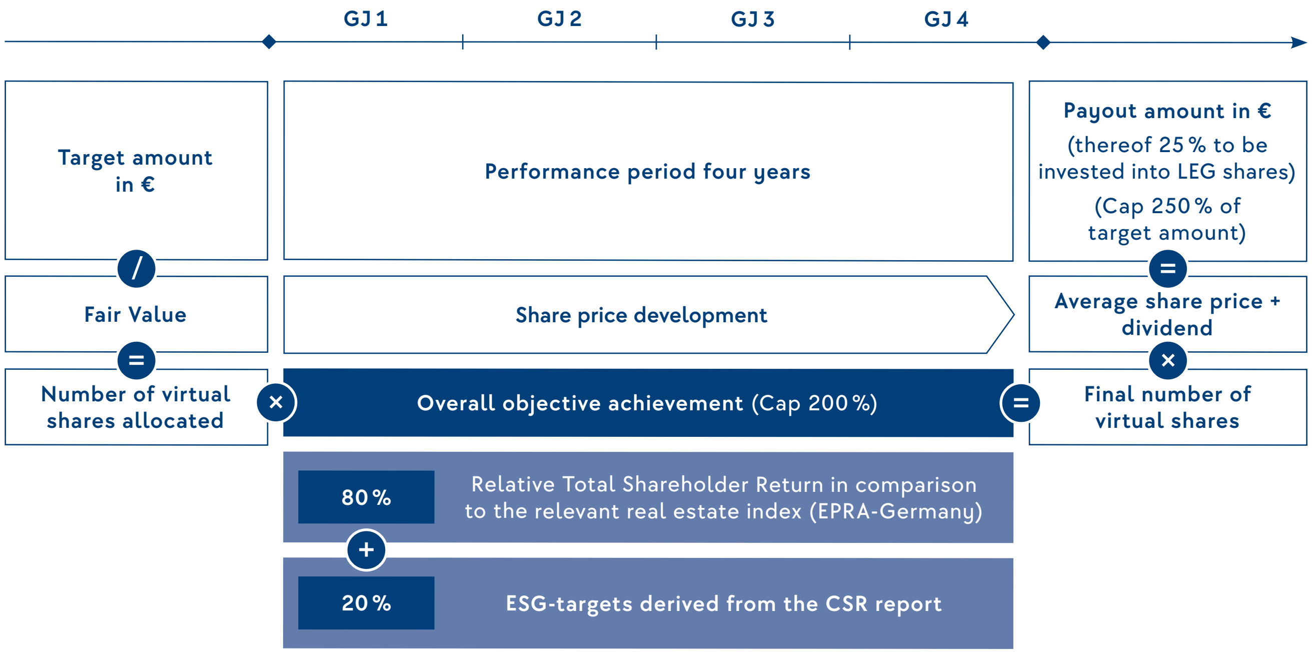
- Development of relative total shareholder return compared to the relevant property index (EPRA Germany) (80 %)
- Non-financial environmental, social and governance targets (ESG targets) (20 %)

The financial performance criterion used in the 2023 LTI is relative TSR compared to a relevant property index, with a weighting of 80 %. The Supervisory Board has decided using the EPRA Germany Index as the benchmark index. The EPRA Germany Index comprises LEG Immobilien SE's key national listed competitors and is thus a relevant peer group.

TSR describes changes in LEG Immobilien SE's share price for the performance periods, including notionally reinvested gross dividends per share. Relative TSR describes the percentage point difference between the price change of the LEG Immobilien SE share, including notionally reinvested gross dividends, and the change in EPRA Germany Index over the performance period.

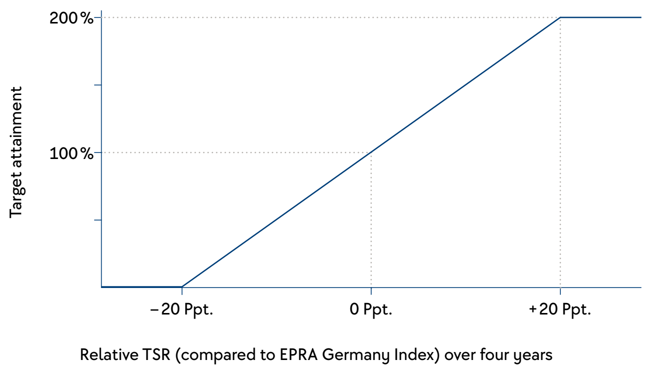
G15

LTI



G16

Target attainment curve relative TSR



Target attainment for relative TSR is 100 % if LEG Immobilien SE's relative TSR is 0 percentage points, i. e. LEG Immobilien SE's share price performance including reinvested gross dividends is the same as the performance of the EPRA Germany Index. If relative TSR is 20 percentage points or more below TSR in the benchmark index, target attainment is 0 %. Target attainment is 200 % if relative TSR is 20 percentage points or more above the benchmark index's TSR. Relative TSR higher than this does not further increase target attainment. Target attainments between the defined target attainment points are calculated by linear interpolation.

T57

LTI – Shareholder Return

	Target attainment 2026		
in %	**0**	**100**	**200 (maximum)**
Relative total shareholder return p. a.	≤ 20 %	0 %	≥ 20 %

In the same way as for the STI, specific ESG targets are set for the respective LTI tranche. Different ESG targets are used than for the STI in order to avoid duplicate incentives. The specific ESG targets for the tranche in question are set by the Supervisory Board before the start of the performance period. These targets are precisely defined and it is ensured that they can be clearly measured.

The following equally-weighted ESG targets apply to the 2023 LTI performance period from 2023 to 2026:

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ESG targets LTI 2023 (performance period 2023 – 2026)

Environmental	Social
Target: Permanent reduction in relative CO_2 emission saving costs in EUR/ton of 10 % due to permanent structural changes to LEG residential buildings.	**Target:** "Trust Index" measurement for the LEG Group of at least 70 % in the "Great Place to Work" employee survey con-ducted in 2026.
Targets: 0 % minimum value: – 6 % 100 % target attainment: – 10 % 200 % maximum value: – 14 %	**Targets:** 0 % minimum value: 60 % 100 % target attainment: 70 % 200 % maximum value: 80 %

Definition of environmental target
The target for the four-year period from 2023 to 2026 is a reduction in persistent relative CO_2 emission saving costs in EUR/ton of 10 % due to permanent structural changes to and in LEG residential buildings. The calculation of annual CO_2 reduction costs includes all measures completed in the respective year whose primary objective is to reduce the CO_2 emissions of a building and which are completed in the year under review. The financial resources required for the measures as a whole (in EUR) are compared with the CO_2 emission reduction achieved (in t). The CO_2 reduction is determined on the basis of relevant calculations of final energy consumption performed by qualified persons showing the resulting location-based CO_2 emissions before and after the measures were taken. An expected average year based on the long-term average for Germany according to the German Meteorological Service is applied. The reference year for 2026 is 2022.

Definition of social target
The target is a "Trust Index" measurement for the LEG Group of at least 70 % in the "Great Place to Work" employee survey conducted in 2026. The average of the percentage of employees agreeing with each of the core statements of the Great Place to Work questionnaire is referred to as the Trust Index. This illustrates the extent to which employees agree with the individual aspects of the questionnaire as an average. It shows how employees view the culture from a relatively objective perspective; we call the evaluation "measured temperature". Developing a culture of trust is the basis for sustainable success for every company. Together with team spirit and pride, trust is the quality that turns an organisation into a truly attractive employer.

Potential total amount
The total 2023 LTI available for a financial year calculated after the end of the performance period is capped at EUR 2,500 thousand for Lars von Lackum and EUR 1,625 thousand for both Susanne Schröter-Crossan and Dr Volker Wiegel.

If a 2023 LTI is to be paid, this must be settled for the last year of the tranche's performance period and paid to the respective Management Board member no later than 30 days after the approval of LEG Immobilien SE's consolidated financial statements. Management Board members are obliged to invest 25 % of the payment from the LTI in shares issued by LEG Immobilien SE and to hold these for the duration of their Management Board position.

Comparison of income trend and annual change in remuneration as per section 162 (1) sentence 2 no. 2 AktG

Section 162 (1)sentence 2 no. 2 AktG requires disclosure of LEG Immobilien SE's income trend, the annual change in remuneration for members of the Management Board and the Supervisory Board and the annual change in average employee remuneration on the basis of full-time equivalents over the last five financial years (known as a vertical comparison). LEG Immobilien SE applies the transitional relief in section 26j (2) sentence 2 of the German Introductory Act of the Stock Corporation Act (EGAktG) and will gradually establish the vertical comparison for all three comparative figures in the first five years.

The income trend is shown using the Group's key performance indicators FFO I, FFO I per share and total comprehensive income. Net annual profit is also disclosed in accordance with section 275 (3) no. 16 HGB.

For Management Board and Supervisory Board members, remuneration granted and payable for the respective financial year within the meaning of section 162 (1) sentence 1 AktG is listed.

Average employee remuneration comprises staff costs for wages and salaries, employer social security contributions, additional benefits and short-term variable remuneration component at all LEG Group companies, excluding TSP-TechnikServicePlus GmbH, Biomasse Heizkraftwerk Siegerland GmbH & Co. KG and LWS Plus GmbH. The average number of employees is calculated on the basis of section 267 (5) HGB.

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Comparative presentation of the development of earnings and the annual change in remuneration

	2022	2021	Change in %	2020	Change in %
Income trend					
Group AFFO in € million	108.8	92.2	18.0	92.8	–0.6
Group AFFO per share in €	1.48	1.27	16.5	1.32	–3.8
Group FFO I (group) in € million	482.0	423.1	13.9	383.2	10.4
Group FFO I per share in €	6.56	5.84	12.3	5.44	7.4
Net loss LEG Immobilien SE (Seperate Financial Statement) (in € m)	–307.6	–33.4	821.0	–17.6	89.6
Group net result LEG Immobilien SE (in € m)	315.6	1,750.1	–82.0	1,360.3	28.7
Average remuneration per employee[1] (in € thousand)	**72**	**72**	**–1.0**	**71**	**2.2**
Management Board remuneration in € thousand					
Lars von Lackum	1,910	1,874	1.9	1,346	39.2
Susanne Schröter-Crossan	1,066	1,116	–4.5	491	127.2
Dr Volker Wiegel	1,211	1,259	–3.8	966	30.3
Supervisory Board remuneration in € thousand					
Mr Michael Zimmer	256	224	14.2	226	–0.9
Mr Dr Jochen Scharpe	110	96	14.7	104	–7.7
Mr Dr Claus Nolting	162	116	40.2	74	56.5
Mr Martin Wiesmann (since 7.10.2020)	141	96	46.2	17	473.1
Mrs Dr Sylvia Eichelberg (since 27.05.2021)	100	47	114.3	–	–
Mrs Dr Katrin Suder (since 19.05.2022)	86	–	–	–	–
Members of the Supervisory Board who resigned during the financial year in € thousand					
Mr Stefan Jütte (until 19.05.2022)	45	121	–63.4	162	–25.0
Mr Dr Johannes Ludewig (until 19.05.2022)	36	94	–62.2	98	–4.1

[1] All LEG employees are included, with the exception of employees of the companies TSP-TechnikServicePlus GmbH, Biomasse Heizkraftwerk Siegerland GmbH & Co. KG and LWS Plus GmbH.

Combined corporate governance declaration in accordance with sections 289f and 315d HGB

In this combined corporate governance declaration in accordance with section 289f and 315d HGB, LEG Immobilien SE reports on the principles of corporate governance and corporate governance at the Group. This declaration includes (i) the declaration of compliance in accordance with section 161(1) of the German Stock Corporation Act (AktG), (ii) information on LEG's remuneration system, (iii) relevant information on corporate governance practices exceeding legal requirements, (iv) a description of the working methods of the Management Board and the Supervisory Board plus the composition and working methods of their committees, (v) targets for the participation of men and women in managerial positions and (vi) a description of the diversity concept for the Supervisory Board and Management Board.

Declaration of Conformity in accordance with section 161(1) AktG

The Management Board and Supervisory Board of LEG Immobilien SE issued the following declaration in November 2022 in accordance with section 161 of the German Stock Corporation Act (AktG):

"The Management Board and Supervisory Board of LEG Immobilien SE (the "company") declare in accordance with section 161 AktG that the company has complied with all recommendations of the German Corporate Governance Code dated 28 April 2022 ("2022 Code") in the version published by the German Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 27 June 2022 since the 2022 Code came into force and will continue to comply with these in the future.

The Management Board and Supervisory Board of LEG Immobilien SE also declare that, since issuing the last Declaration of Compliance in November 2021 and until the 2022 Code came into force on 27 June 2022, the company complied with all recommendations of the German Corporate Governance Code dated 16 December 2019, published by the German Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 20 March 2020.

Dusseldorf, November 2022

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

Remuneration system

The Management Board and Supervisory Board remuneration systems comply with the recommendations of the German Corporate Governance Code. In line with the regulations of the German Stock Corporation Act, they are submitted to the Annual General Meeting for resolution in the event of any material changes and at least every four years.

The Supervisory Board made changes to the system for Management Board remuneration with effect from the 2022 financial year. It observed all recommendations and suggestions of the German Corporate Governance Code. The new remuneration system was approved by the Annual General Meeting on 19 May 2022.

Regulations on Supervisory Board remuneration are set out in LEG Immobilien SE's Articles of Association. They were submitted to the Annual General Meeting for resolution on 19 May 2022 in accordance with section 113 (3) AktG and resolved accordingly.

The Management Board and Supervisory Board have produced a joint remuneration report in accordance with section 162 (2) AktG. This remuneration report provides detailed information on the design of the remuneration system at LEG and the amount and structure of Management Board and Supervisory Board remuneration. It will be submitted to the 2023 Annual General Meeting for approval in accordance with section 120 a (4) AktG.

The remuneration report and the auditor's report in accordance with section 162 AktG, the remuneration system in place in accordance with section 87a (1) and (2) AktG and the remuneration resolution in accordance with section 113 (3) AktG are available at the company's website.

Relevant disclosures on Corporate Governance Practices exceeding legal requirements

Compliance and value management

LEG is geared towards sustainable, successful portfolio management. The foundation for sustainable management is lawful, responsible and honest conduct. LEG's objective and strategy, as well as its values that are essential for working with customers, employees, investors, business partners and society, are set out in LEG's declaration of fundamental values. These values include integrity and fairness, commitment and professionalism, confidentiality, transparency and sustainability.

The LEG's Code of Conduct describes the guiding principle in more detail and puts the values set out here into practice for everyday business by way of standards of conduct for employees and executives. Details on these standards of conduct can be found in internal Group rules and guidelines. These guidelines are published on the company's website.

Executives and employees are made aware of these issues and advised on them in regular training sessions and through advisory services. All new employees receive comprehensive compliance and, in particular, data protection training in four annual sessions. Refresher training is provided for all employees once a year using an electronic training programme. An electronic whistle-blower system gives employees and third parties the opportunity to anonymously report compliance violations around the clock.

Details on LEG's compliance management system can be found in the > Risks, Opportunities and Forecast Report page 67f .

Responsibility and sustainability

LEG aims to act sustainably and responsibly. An understanding of sustainability and a sustainability strategy are outlined in its sustainability model. As part of a materiality analysis with all relevant stakeholders, LEG Immobilien SE identified five central areas of sustainability: business, tenants, employees, the environment and society. These cover the three dimensions of sustainability – environmental, social and governance (ESG).

In 2021, LEG made considerable progress on its sustainability and decarbonisation strategy, established a climate footprint based on current data, outlined its path to carbon neutrality and backed this up with actions. In addition, the requirements for social aspects and good corporate governance were further developed. Each year, the company sets specific short-term and long-term targets for all three dimensions that contribute to the implementation of the sustainability strategy and that are tracked and reviewed on an ongoing basis. These sustainability targets have been part of both variable Management Board and management remuneration since the 2021 financial year.

The sustainability committee acts as a body for strategic decisions and to pool activities, comprising heads of central areas and operations managers. ESG governance was stepped up in 2022 by establishing a separate ESG area in the Management Board Chairman's department, where ESG issues that were previously scattered across the company are pooled, monitored and improved. LEG's Supervisory Board formed a separate ESG Committee in 2022, further reinforcing the importance of the issue in LEG's monitoring and supervisory body.

LEG's sustainability report provides annual reporting on sustainability management and on targets, measures, activities and progress in this area.

Other corporate governance disclosures

Suggestions of the German Corporate Governance Code

LEG goes beyond simply complying with all recommendations of the Code. It also complies with the suggestions of the Code, which can be deviated from without disclosure in the Declaration of Compliance, with the following exception:

In accordance with suggestion A 8, in the event of a takeover bid, the Management Board should convene an extraordinary general meeting at which shareholders discuss the takeover bid and possibly decide on corporate action. It is questionable as to whether the organisational effort of convening a general meeting would be justified if no corporate action was to be resolved. Accordingly, the Management Board reserves the right to convene an extraordinary general meeting only if a resolution is planned.

Adequacy and effectiveness of the internal control system

There were no indications in the 2022 financial year that the internal control system may be inadequate or ineffective.[1]

Institute for Corporate Governance in the German Real Estate Industry

LEG is a member of the Corporate Governance Institute of the German Real Estate Industry Association (ICG). The ICG has a "Corporate Governance Code of the German Real Estate Industry" (as at October 2020, "ICGK"), which supplements the German Corporate Governance Code with industry-specific recommendations and is intended to bring about greater transparency, an improved reputation and stronger competitiveness of the property sector. The Supervisory Board and the Management Board of LEG Immobilien SE are committed to the key goals and principles of the ICG.

The ICG developed a certification system for compliance management systems at property companies. LEG had its compliance management system certified using this system in 2019. This certificate was confirmed in September 2021 as part of a second certification. It is valid for three years.

Description of the working methods of the Management Board and the Supervisory Board and the composition and working methods of their committees

LEG Immobilien SE has the legal form of a European Company (Societas Europaea, SE). As an SE based in Germany, the company is subject to European and German SE regulations as well as German stock corporation law. LEG Immobilien SE has a dual management system consisting of the Management Board and the Supervisory Board. Executive management and control are clearly separated in a dual management system.

Management Board

As per section 6.1 of the Articles of Association, the Management Board of LEG Immobilien SE comprises at least two members. As at 31 December 2022, there were three people on the Management Board. The Management Board manages the company on its own responsibility in accordance with the provisions of law, the Articles of Association and the Rules of Procedure for the Management Board. The Rules of Procedure for the Management Board were most recently amended by the Supervisory Board on 18 July 2022. Among other things, these stipulate that certain transactions of particular significance or that involve an exceptionally high economic risk require the prior approval of the Supervisory Board or one of its committees. They also state that transactions between the company or one of its Group companies on the one hand and a member of the Management Board and a related party on the other hand must meet the standards that are customary for transactions with outside third parties.

[1] Statement not inherent in management report

The Management Board performs its management duties as a collective body. Regardless of their overall responsibility, the individual members of the Management Board manage the departments assigned to them in the context of Management Board resolutions on their own responsibility. The allocation of duties among the members of the Management Board is based on the assignment plan.

The Management Board ensures that laws and internal company guidelines and regulations are observed and works to ensure that these are complied with by Group companies. To achieve this, it has established a comprehensive compliance management system designed for the company's risk situation. Its responsibilities include setting up an internal control system (ICS) and a risk management system that includes sustainability aspects.

The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all issues of strategy, planning, business performance, the risk situation, risk management and compliance relevant to the company.

Supervisory Board

The Supervisory Board has six members and monitors and advises the Management Board. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning. Its duties and rights are determined by the legal provisions, the Articles of Association and the Rules of Procedure for the Supervisory Board. The Supervisory Board most recently amended the Rules of Procedure at its ordinary meeting on 18 July 2022. The Supervisory Board regularly reviews the efficiency of its work and the work of its committees, most recently in the 2021 reporting year. The review was performed in the form of a self-evaluation using an anonymous questionnaire that is drawn up externally.

Cooperation between the Management Board and the Supervisory Board

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

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

Committees of the Supervisory Board

The Supervisory Board had four committees in the 2022 financial year: the Executive Committee, the Nomination Committee, the Risk and Audit Committee and the ESG Committee. Further committees can be formed if required.

Executive Committee of the Supervisory Board

The Executive Committee discusses key issues and prepares discussions and resolutions of the Supervisory Board, unless the Supervisory Board has assigned this to another committee. In particular, the Executive Committee discusses resolutions by the Supervisory Board on the following matters:

- The appointment and dismissal of members of the Management Board, the appointment and dismissal of the Chairman of the Management Board;
- The conclusion, amendment and termination of employment agreements with members of the Management Board;
- The Management Board remuneration system and determination of compensation paid to the individual members of the Management Board.

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

- Transactions with members of the Management Board in accordance with section 112 AktG;
- Approval of transactions with a value in excess of EUR 25,000 between the company or one of its Group companies on the one hand and a member of the Management Board or persons or undertakings related to a member of the Management Board on the other;
- Delayed disclosure of inside information in accordance with Article 17 (4) of the Regulation (EU) no. 596/2014 of 16 April 2014 (market abuse regulation), where the Supervisory Board is responsible for the subject of the insider information;
- Granting loans to the persons named under sections 89, 115 AktG;
- Approval of contracts with Supervisory Board members in accordance with section 114 AktG
- Any other approval required for measures by the Management Board in accordance with the Articles of Association of the company or the Rules of Procedure for the Management Board if the matter cannot be delayed and a resolution by the Supervisory Board cannot be passed in a timely manner.
- Consent to other activities by a member of the Management Board in accordance with section 88 AktG and approval of other additional employment, in particular holding supervisory board mandates and mandates in similar executives bodies of companies outside the Group

The members of the Executive Committee are Mr Michael Zimmer, Dr Claus Nolting, and Mr Martin Wiesmann. As the Chairman of the Supervisory Board, Mr Michael Zimmer is also the Chairman of the Executive Committee. Dr Jochen Scharpe has been elected deputy member (in the case of absence).

Nomination Committee

The Nomination Committee meets as required and suggests suitable candidates to the Supervisory Board for its nominations for the Annual General Meeting. The members of the Nomination Committee are the members of the Executive Committee (Mr Michael Zimmer, Dr Claus Nolting and Martin Wiesmann). As per the Articles of Association, the Chairman of the Supervisory Board is also the Chairman of the Nomination Committee.

Risk and Audit Committee

The work of the Risk and Audit Committee focuses on the following issues:

- Accounting audits, primarily of the consolidated financial statements and of the group management report (including CSR reporting);
- Monitoring the accounting process;
- Effectiveness of the internal control system and the internal audit system;
- Audit of the financial statements – in particular the independence of the auditor, the quality of the auditor, the other services performed by the auditor, the granting of the audit mandate to the auditor, the determination of the key areas of the audit and the fee agreement;
- Compliance.

The Risk and Audit Committee also deals with the non-financial declaration to be prepared in accordance with section 315b HGB. It prepares the resolutions by the Supervisory Board on the annual financial statements and the consolidated financial statements and the agreements with the auditor, in particular, the granting of the audit mandate to the auditor, the determination of the key areas of the audit and the fee agreement. The Risk and Audit Committee takes appropriate measures to determine and monitor the independence of the auditor. Thus, the Risk and Audit Committee released a white list of a limited number of non-audit services that can be provided by the auditor. If the auditor is commissioned to perform further tasks, the Risk and Audit Committee must approve the task. In addition, on the Risk and Audit Committee's behalf, the company has established a process to ensure that no prohibited non-audit services are contracted to the current auditor or potential future auditors. The work of the Risk and Audit Committee is based on particular Rules of Procedure that were most recently amended on 24 August 2021.

The Risk and Audit Committee has three members who are appointed by the Supervisory Board by a majority of votes cast. The members as of 31 December 2022 were Dr Claus Nolting (Chairman), Dr Jochen Scharpe and Mr Martin Wiesmann. Dr Katrin Suder has been elected deputy member (in the case of absence).

Dr Claus Nolting, the Chairman of the Risk and Audit Committee, is independent and has special expertise and experience in the application of accounting policies and internal control procedures, as well as in financial statement auditing. Dr Nolting gained his special expertise during his many years working as a senior executive/CEO in the banking sector, where he was responsible for areas including accounting and financial statement auditing. In addition, he served for several years as Chairman of the Risk and Audit Committee of a German bank and as a member and later Chairman of the Risk and Audit Committee, where he was involved in accounting and financial statement auditing as well as sustainability reporting and auditing.

Dr Jochen Scharpe developed his expertise in the fields of accounting and auditing during his many years as a commercial director, where his responsibilities included accounting. He also played an active role in numerous annual financial statement audits during his many years spent working for a leading German audit and consulting firm. Since 2004, he has also been a member and, in some cases, chair of the audit committees at several listed companies. As part of this role, he has supported audits of annual financial statements by various audit firms and has also been responsible for sustainability reporting and audits of these reports.

As a member of the executive management team at a major international bank, Mr Martin Wiesmann was responsible for annual financial statement audits for many years and so also has special expertise and experience in this area.

ESG Committee

The ESG Committee is responsible for all sustainability-related issues, in particular environmental, social and corporate governance ("ESG") topics. The ESG Committee's main responsibilities are:

- Advising and monitoring the Management Board when incorporating sustainability targets in the company strategy and planning and implementing these, as well as regarding other sustainability measures;
- At the request of the Risk and Audit Committee, providing support for sustainability-related statements as part of its preliminary audit of the separate non-financial reports of LEG Immobilien SE and the separate non-financial group reports of the LEG Group, as well as with its consideration of whether the internal control system and risk management system adequately and effectively cover sustainability objectives and include the processes and systems for recording and processing sustainability data;
- Preparing the discussions and resolutions of the Supervisory Board and, if requested, supporting the Executive Committee and Nomination Committee with sustainability issues.

The members of the ESG Committee are Dr Katrin Suder (Chairwoman), Dr Sylvia Eichelberg and Mr Martin Wiesmann.

Composition of the Boards

Targets for the participation of women

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

Supervisory Board

In a resolution dated 24 January 2022, the Supervisory Board agreed that women should make up 33.3 % of the Supervisory Board (two women in a six-person Supervisory Board) and set 31 December 2024 as the deadline for achieving this target. As at 31 December 2022, women accounted for 33.3 % of the Supervisory Board.

Management Board

In a resolution dated 24 January 2022, the Supervisory Board set the share of women on the Management Board at 33.3 % and gave 31 December 2024 as the deadline for achieving this goal. As at 31 December 2022, women accounted for 33.3 % of the Management Board.

Management levels below Management Board

LEG Immobilien SE itself has no employees and so no targets can be set for LEG Immobilien SE employees. However, the Management Board voluntarily set Group-wide targets for the appointment of women to management positions and, in a resolution dated 25 January 2022, set a target of 30 % for the first and second management levels below the Management Board which it must achieve by 31 December 2025.

Supervisory Board and Management Board composition (Diversity Concept)

Diversity Concept of the Supervisory Board

The Supervisory Board has stated targets for its composition and drawn up a competence profile. The targets and the competence profile include the following diversity targets as well as a diversity concept:

- With the overall composition of the Supervisory Board, the competence profile set should be met. On the basis of their knowledge, skills and professional experience, the members of the Supervisory Board should be able to perform the duties of a Supervisory Board member of a listed property company with a focus on residential properties. The Supervisory Board has stated that Group management, the housing industry, property transactions, bank and capital market financing, finances, accounting and auditing, management and regulation and sustainability are special areas of competence which should be met by the Supervisory Board as a whole.
- The members of the Supervisory Board should satisfy the requirements of the German Corporate Governance Code.
- At least five members of the Supervisory Board, including the Chairman of the Supervisory Board and the Chairman of the Risk and Audit Committee and the Executive Committee, must be independent as defined by the German Corporate Governance Code.
- In the interests of complementary cooperation, the members of the Supervisory Board should have sufficient diversity with regard to different professional backgrounds, specialist knowledge and experience when selecting candidates.
- At least one third of the Supervisory Board must be female and one third male.
- Only candidates younger than 75 at the time of the election should be proposed for the Supervisory Board.

Implementation status: attainment of targets set, the competence profile and the diversity concept

In its decision on candidates, the Supervisory Board takes into account not only the statutory requirements and the provisions of the Articles of Association, but in particular the above targets and the competence profile. The same applies to the Nomination Committee, which supports the Supervisory Board by providing assistance in its search for suitable candidates. The Supervisory Board most recently took account of the goals, including the competence profile, in its nomination of Dr Katrin Suder in connection with the 2022 Annual General Meeting.

With the current composition of the Supervisory Board all goals have been achieved and the current composition of the Supervisory Board is balanced. The Supervisory Board members have the professional and personal qualifications considered necessary. Diversity is adequately taken into account on the Supervisory Board, one third of which are women. The Supervisory Board believes that it has a sufficient number of independent members. At present, all members of the Supervisory Board are independent as defined by recommendation C.6 of the GCGC. The regulation on the age limit (75 years at the time of the election) is also taken into account.

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Composition of the Supervisory Board

	Age	Member since[1]	Appointed until (AGM)	Independence	Members of committees: Executive committee[2]	Members of committees: Risk and audit committee	Members of committees: ESG committee
Michael Zimmer (Chairman)	59	2021 (2013)	2025	X	O		
Dr Claus Nolting	71	2021 (2016)	2025	X	X	O	
Dr Sylvia Eichelberg	43	2021	2025	X			X
Dr Jochen Scharpe	63	2021 (2013)	2025	X		X	
Dr Katrin Suder	51	2022	2025	X			O
Martin Wiesmann	57	2021 (2020)	2025	X	X	X	X

X = member/fulfilled; O = Chairman
[1] In the Supervisory Board of LEG Immobilien SE (in brackets: in the Supervisory Board of LEG Immobilien AG)
[2] The composition of the Nomination Committee corresponds to the Executive Committee.

The current Supervisory Board composition also meets the competence profile.

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Competence profile

	Competencies: Group management	Housing industry	Property transactions	Bank and capital market financing	Finance, accounting and audit	Management and regulation	Sustainability
Michael Zimmer (Chairman)	●●	●●	●●	●	●	●	●
Dr Claus Nolting (Deputy Chairman)	●●	●	●●	●●	●●	●●	●
Dr Sylvia Eichelberg	●●	●	●	●	●	●●	●●
Dr Jochen Scharpe	●●	●●	●●	●	●●	●	●
Dr Katrin Suder	●●	●	●	●	●	●●	●●
Martin Wiesmann	●	●	●●	●●	●	●	●●

●● = Expert knowledge; ● = General knowledge

To allow for an evaluation of their skills and a comparison with the goals, the CVs of the Supervisory Board members are published on the company's website.

Management Board diversity concept and succession planning for the Management Board

There are the following targets for the composition of the Management Board:

- Each member of the Management Board must have not only his own fundamental qualification, but also must be suitable for the company in its current situation and in view of future tasks.
- The members of the Management Board should supplement each other in respect to competence and knowledge. Here the Management Board should be composed in a way that the Board as a whole not only has entrepreneurial and managerial competence but also knowledge of property management and extensive expertise concerning regional housing markets.
- Moreover, the composition of the Management Board should allow it to have financial markets expertise as well as social competence, e. g. in the area of social and neighbourhood management.
- The Supervisory Board defined a goal for the share of women on the Management Board of 33.3 %.

Together with the Management Board, the Supervisory Board ensures long-term succession planning. The Supervisory Board and its Executive Committee ensure that the composition of the Management Board takes place taking due account of the targets set. In addition, account is taken of the relevant legislation and the recommendations of the German Corporate Governance Code. The Management Board as it stands at presents meets all targets.

The CVs of the Management Board members are published on the company's website so that these can be compared against the diversity concept.

Takeover disclosures in accordance with section 315a HGB

Composition of issued capital

74,109,276 ordinary shares without par value are admitted to trading on the Frankfurt Stock Exchange. The shares are registered shares and do not differ in terms of the securitised rights and obligations.

The Authorised Capital amounts to EUR 19,400,617.00. The Contingent Capital amounts to EUR 35,689,918.00.

Restrictions relating to voting rights and transfers of shares

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

Interests in capital with shares of voting rights exceeding 10 %

As of 31 December 2022, Massachusetts Financial Services Company (Boston, Massachusetts, USA) held 10.46 % of the share capital of the company, and hence also of the voting rights. Massachusetts Financial Services Company notified LEG according to section 33 et seq. of the German Securities Trading Act (WpHG) on 15 October 2019. LEG published this notification on 16 October 2019.

Bearers of shares with special rights granting powers of control

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

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

Members of the Executive Board are appointed and dismissed in accordance with the provisions of section 84 of the German Stock Corporation Act. There are no significant supplementary or deviating provisions in the Articles of Association or Rules of Procedure.

Amendments to the Articles of Association are made in accordance with the provisions of the German Stock Corporation Act. There are no significant, supplementary or deviating provisions in the Articles of Association or Rules of Procedure.

Authority of the Management Board to issue shares

The Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company by up to a total of EUR 19,400,617.00 by issuing up to 19,400,617 new shares until 18 August 2025 (Authorised Capital 2020).

The share capital is contingently increased by up to EUR 35,689,918.00 through the issue of up to 35,689,918 new shares (Contingent Capital 2013/2017/2018/2020). The contingent capital increase is subject to the proviso that the conditions for the conversion rights issued in 2017 or 2020 or in future are exercised and serviced by way of the corresponding utilisation of contingent capital.

By way of resolution dated 29 July 2020, the Management Board issued a voluntary commitment declaring that it would not raise the share capital from Contingent Capital 2013/2017/2018/2020 and from Authorised Capital 2020 by more than 50 % in total of the share capital in place as at the time of the resolution (EUR 71,379,836.00), i. e. not by more than a total of EUR 35,689,918.00.

The Management Board also declared that the sum of shares issued on the basis of Contingent Capital 2013/2017/2018/2020 and Authorised Capital 2020 with shareholders' pre-emption rights disapplied – taking into account other shares that are sold/issued after 19 August 2020 with pre-emption rights disapplied or that are to be issued on the basis of bonds after 19 August 2020 with pre-emption rights disapplied – will not exceed 10 % of the share capital at the time it becomes effective or at the time of utilising the Contingent Capital 2013/2017/2018/2020 or Approved Capital 2020. Shares that are to be issued on the basis of convertible bonds issued by the company in September 2017 or June 2020 are not included in this.

This voluntary commitment is published on the company's website at https://ir.leg-se.com/fileadmin/user_upload/Investor_Relations/Hauptversammlung/HV_2020/en/No_06_and_07_Voluntary_Commitment_Contingent_and_Authorized_Capital.pdf and can be accessed for the duration of the term of Contingent Capital 2013/2017/2018/2020 and Authorised Capital 2020.

Authorisation on the acquisition and utilisation of treasury shares

On 19 May 2022, the Annual General Meeting authorised the Management Board in accordance with section 71(1) no. 8 AktG to acquire treasury shares up to a total of 10 % of the share capital in place as at the time of the authorisation. The shares acquired on the basis of this authorisation, together with other shares of the company that the company has already acquired and still holds or that are attributable to it according to sections 71d and 71e AktG, cannot account for more than 10 % of the share capital at any time. The authorisation applies until 18 May 2027 and can be exercised in full or in part on one or more occasions. At the discretion of the Management Board, the shares must be acquired in accordance with the principle of equal treatment (section 53a AktG) on the stock exchange or by means of a public invitation to all shareholders to submit offers to sell, in which case the principle of equal treatment of shareholders must also be upheld, unless the disapplication of the right to tender is permitted, (section 53a AktG), or by granting tender rights.

If the shares are purchased on the stock exchange, the purchase price (excluding incidental costs) may not exceed or fall below the price determined on the trading day by the opening auction in Xetra trading on the Frankfurt Stock Exchange by more than 5 %.

If the acquisition is made on the basis of a public purchase offer to all shareholders or on the basis of a public invitation to the shareholders of the Company to submit offers for sale, the purchase price paid to the shareholders (excluding incidental costs) may not exceed or fall short of the arithmetic mean of the share prices on the Frankfurt Stock Exchange on the last three trading days prior to the final decision of the Management Board on the offer or, in the case of an acquisition by other means, prior to the acquisition by more than 10 %.

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

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

The statutory provisions also apply.

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

LEG issued a convertible bond with a volume of EUR 400 million in August 2017 and a convertible bond with a volume of EUR 550 million in June 2020. In the event of a change of control, the terms and conditions of the convertible bonds state that the bondholders shall be entitled to receive an increased number of shares at a correspondingly adjusted conversion price if the conversion is exercised within a defined period following the change of control. Prior to a change of control taking place, bondholders may submit their convertible bonds for conversion when a corresponding takeover bid is published subject to the condition precedent of the change of control taking place. The extent of the adjustment to the conversion price shall fall during the term of the convertible bonds; this is defined in greater detail in the terms and conditions of the convertible bonds.

In January 2017, LEG issued a corporate bond with a total nominal amount of EUR 500 million. Under the bond conditions, the creditors have the right to demand the full or partial redemption or, at LEG's discretion, the purchase of their bonds in the event of a change of control.

In November 2019, LEG also issued two corporate bonds with a total nominal amount of EUR 300 million and EUR 500 million respectively under the existing debt issuance programme.

In March 2021, June 2021 and November 2021, LEG also issued three additional corporate bonds with total nominal amounts of EUR 500 million, EUR 600 million and EUR 500 million respectively under the existing debt issuance programme. The bond issued in March was increased through a tap by EUR 100 million to EUR 600 million.

In January 2022, LEG also issued three corporate bonds, each with a total nominal amount of EUR 500 million, under the existing debt issuance programme.

The creditors of these corporate bonds have the right to demand the redemption of their bonds if a change of control occurs and the credit rating deteriorates within 90 days of the change of control.

A change of control in accordance with the conditions of the financial instruments described above is considered to have taken place if a person or persons acting in concert hold 30 % or more of the shares in LEG or are otherwise able to exercise control over the company.

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

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

The contracts of employment of the Management Board members contain provisions with respect to the event of a change of control. In case of an early Management Board contract termination in the event of a change of control, members of the Management Board receive payments. This agreement complies with recommendation G 13 of the German Corporate Governance Code by limiting the compensation in accordance with the suggested compensation cap. In accordance with the recommendation G 14 of the German Corporate Governance Code, no agreements have been made for compensation in the event of early termination of the employment agreement by the member of the Management Board following a change of control.

Non-financial report in accordance with section 315b HGB

Instead of a non-financial declaration in accordance with section 315b HGB LEG Immobilien SE prepared a separate non-financial report 2022 which is published in the annual report 2022. The report is also available on the company's website at https://www.leg-wohnen.de/en/corporation/sustainability/sustainability-reports from the date and time of the release of the annual report 2022.

Dusseldorf, 8 March 2023

LEG Immobilien SE, Dusseldorf
The Management Board

LARS VON LACKUM
SUSANNE SCHRÖTER-CROSSAN
DR VOLKER WIEGEL

NON-FINANCIAL INFORMATION

4

EU Taxonomy

In accordance with the EU Taxonomy (Regulation (EU) 2020/852), companies subject to reporting obligations in conjunction with the Non-Financial Reporting Directive (NFRD)[1] must also include Taxonomy disclosures in their non-financial reporting. As a listed company with more than 500 employees, LEG Immobilien SE is also subject to these reporting requirements. The EU Taxonomy is the first "green" classification system for defining whether or not an economic activity is sustainable. The main objective of the EU Taxonomy is to help achieve the goals of the Paris Agreement through improved transparency on the capital market. The comparability of sustainability data across different industries is an essential part of this. The companies concerned must therefore disclose the shares of their revenue, capital expenditure (Capex) and operating expenditure (Opex) that relates to environmentally sustainable economic activities. The EU Taxonomy has defined the six following environmental objectives:

I. Climate change mitigation
II. Climate change adaptation
III. Sustainable use and protection of water and marine resources
IV. Transition to a circular economy
V. Pollution prevention and control
VI. Protection and restoration of biodiversity and ecosystems

The first two of these EU environmental objectives, "climate change mitigation" and "climate change adaptation", are to be reported on for the 2022 financial year. For 2023, the reporting is to be expanded to cover environmental objectives III to VI as well. The EU Taxonomy has defined economic activities that are potentially environmentally sustainable and consistent with all its environmental objectives.

Taxonomy eligibility

In the context of Taxonomy eligibility, the revenue, Capex and Opex of all economic activities for which the EU has issued technical screening criteria must be reported. It is not yet necessary to indicate whether the economic activity satisfied the technical screening criteria stipulated in the Delegated Acts (cf. Delegated Regulation supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council, Annex 1 & 2).

For the housing industry, for example, this includes all revenue from the rental and letting of residential buildings, regardless of whether the building in question is a low-energy house or is in the lowest energy efficiency class (H). To begin with, what matters is that these activities essentially have a direct link to EU environmental objective I (climate change mitigation).

Identification of Taxonomy-eligible economic activities

For the 2021 financial year[2], LEG conducted a review of its Taxonomy-eligible economic activities, i.e. it identified those activities of the company for which the EU Taxonomy has defined technical screening criteria. The results of the analysis shows that selected economic activities in section 7 "Construction and real estate activities", which relate to our core business, and section 4 "Energy" are considered Taxonomy-eligible. Regarding section 4, besides its obvious energy-related economic activities, such as PV electricity generation on the roofs of our properties, LEG also operates its own biomass combined heat and power station. In the following section, we report on the economic activities in numerical order.

In the 2022 financial year, LEG validated these results and determined their Taxonomy alignment. The company did this using the technical screening criteria published by the EU Commission and currently applicable, including the "do no significant harm" (DNSH) and "minimum safeguards" criteria (MS) as well as the FAQ documents from February and December 2022[3]. Furthermore, various current best practices of listed German companies were taken into account. The exact procedure is described under "Identification of Taxonomy-aligned economic activities".

As LEG's business model has not changed fundamentally, the Taxonomy-eligible economic activities determined in the 2022 reporting year are essentially the same as in the presentation, with the exception of the economic activities of sections 7.2 and 7.3, which we report on in relation to our primary business activities under section 7.7. We are also able to use the European Commission's FAQs already referred to above for the first time this year. The following note is also important: All revenue, Capex and Opex from economic activities for which there are technical screening criteria are Taxonomy-eligible. To avoid raising false expectations, the technical screening criteria were already taken into account in our reporting of Taxonomy eligibility in the 2021 financial year, though without a full review of alignment. For this reason, the shares of Taxonomy-eligible KPIs are only between 11.3 % and 18.7 %. In the 2021 financial year – as in the reporting for the 2022 financial year as well – the inclusion of the technical screening criteria primarily affected economy activity 7.7 "Acquisition and ownership of buildings", which generates almost all of the consolidated revenue by LEG, though it also had implications for the disclosures for other economic activities. Although we merely reported Taxonomy eligibility for the 2021 financial year, we deliberately chose the above procedure in order to limit the transition differences from Taxonomy eligibility on first-time reporting to Taxonomy alignment in the reporting on the 2022 financial year.

The results of this year's analysis and central changes are as follows.

Results of the qualitative analysis of Taxonomy eligibility

LEG has identified three Taxonomy-eligible economic activities with which the company generates revenue. These include (i) 4.1 "Electricity generation using solar photovoltaic technology", (ii) 4.20 "Cogeneration of heat/cool and power from bioenergy" in the "Energy" sector and (iii) 7.7 "Acquisition and ownership of buildings" in the "Construction and real estate activities" sector.

[1] In accordance with the CSR Directive Implementation Act in Germany.
[2] LEG's reporting period is from 1 January to 31 December.
[3] The > FAQ documents are published by the European Commission.

In addition to the revenue from these three economic activities, relevant Capex was identified in the following economic activities: (i) 4.1 "Electricity generation using solar photovoltaic technology", (ii) 4.16 "Installation and operation of electric heat pumps" and (iii) 7.7 "Acquisition and ownership of buildings". This also included investments that could lead to future revenue.

On Opex: For the purposes of the EU Taxonomy, the denominator for calculating the share of Opex includes direct costs relating to research and development, short-term lease, maintenance and minor repairs as well as all other direct expenditures relating to day-to-day servicing. The numerator equals to the part of the operating expenditure included in the denominator that relates to Taxonomy-eligible economic activities. Taxonomy-eligible Opex was assigned to the following economic activities: (i) 4.1 "Electricity generation using solar photovoltaic technology", (ii) 4.20 "Cogeneration of heat/cool and power from bioenergy" in the "Energy" sector, (iii) 7.7 "Acquisition and ownership of buildings" and (iv) 9.1 "Close to market research, development and innovation".

The identification of Taxonomy-eligible economic activities is followed by the analysis of Taxonomy alignment, as a result of which Taxonomy-eligible revenue, Capex and Opex could be found to be non-Taxonomy-aligned.

Taxonomy alignment

From the 2022 reporting year onwards, LEG is required to report the Taxonomy alignment of relevant economic activities in addition to their Taxonomy eligibility. Revenue, Capex and Opex are deemed Taxonomy-aligned if they satisfy the technical screening criteria defined by the EU. Based on these criteria, it must be indicated whether an economic activity is Taxonomy-aligned for achieving the environmental objectives I "climate change mitigation" and II "climate change adaptation" for the 2022 reporting year. Given its business operations, only environmental objective I (climate change mitigation) is relevant to LEG. It also has to be ensured that these economic activities do no significant harm (DNSH) to any of the other environmental objectives and that they satisfy certain minimum social safeguards.

Identification of Taxonomy-aligned economic activities

To determine Taxonomy alignment, LEG has analysed the above economic activities according to the technical screening criteria. As stated above, these include criteria from the "Construction and real estate activities" sector in section 7 and economic activities from the "Energy" sector in section 4.

A structured approach was used to analyse the Taxonomy alignment of revenue, Capex and Opex as follows: Capex and Opex that contribute to Taxonomy-aligned buildings follow the revenue-generating activity 7.7 "Acquisition and ownership of buildings" and are generally considered Taxonomy-aligned. They do not require a review of the technical screening criteria (Delegated Regulation 2021/2178; cat. a)).

The majority of the Taxonomy-eligible revenue, Capex and Opex relates to activity 7.7. According to the European Commission's FAQ document of December 2022, the date for assessing Taxonomy alignment is the date of the construction permit. Revenue, Capex and Opex from or in buildings for which a construction permit was issued before 31 December 2020 must satisfy the technical screening criteria for economic activity 7.7 – all those buildings for which a construction permit was issued after 31 December 2020 must satisfy the criteria for economic activity 7.1 "Construction of new buildings" in order to qualify as Taxonomy-aligned.

All KPIs are calculated and published using the principles applied in preparing the consolidated financial statements. As LEG Immobilien SE prepares its financial statements in accordance with IFRS, "environmentally sustainable" revenue, Capex and Opex are therefore also calculated in accordance with IFRS, whereby Opex only comprises maintenance and repairs in conjunction with the Taxonomy Regulation. This also applies to our subsidiaries whose single-entity financial statements are incorporated into LEG's consolidated financial statements.

Substantial contribution

In order to determine Taxonomy alignment, on the basis of the above technical screening criteria, LEG analyses the extent to which the economic activity makes a contribution to the environmental objective "climate change mitigation". The technical screening criteria have to be applied to all material economic activities, though at LEG this primarily relates to economic activity 7.7 "Acquisition and ownership of buildings" as rental and lease revenue accounts for almost all of LEG's consolidated revenue. A majority of LEG's business model thus falls within the scope of the Taxonomy.

The technical screening criterion relevant to economic activity 7.7 "Acquisition and ownership of buildings" states that only the revenue generated with buildings in Energy Performance Certificate (EPC) class A (+) or buildings within the top 15 % of the regional or national building stock expressed can be reported.

The room for interpretation stems from the reporting requirement in relation to the "national or regional building stock" without further reference to a database that could be used for this purpose. Also, the Delegated Acts do not provide any further definition of "regional" or differentiate between residential property types (e. g. between detached houses and apartment buildings). The definition thresholds for the individual EPC classes also differ considerably throughout Europe and thus cannot be compared, which minimises the information value of the Taxonomy disclosures in a pan-European context. As the basis for calculating the top 15 % of the regional building stock for the current reporting of Taxonomy alignment, we therefore used the study by the German Ministry for Economic Affairs and Energy[1] (BMWi) for 2021 in the previous year.

[1] Since 2022: German Federal Ministry for Economic Affairs and Climate Action

The BMWi analysis indicates that buildings up to EPC class B satisfy the material screening criteria as they are among most efficient 14 % of the housing stock in Germany. The corresponding share of especially energy-efficient EPC C buildings with a final energy demand of around 77 kWh per square metre per year was used as a reference for one percent of the top 15 %. Based on the current values for our portfolio as a whole, there is an average primary energy factor of 1.18 and thus a threshold for primary energy demand of 90.8 kWh per square metre per year.

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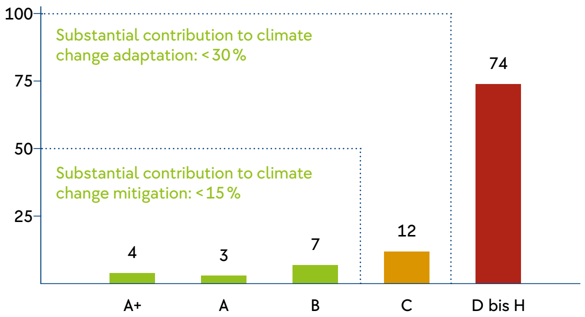
Frequency distribution of EPC classes of German residential buildings (in %)



Source: Sven Bienert/Irebs, German Ministry for Economic Affairs and Energy (BMWi), 2021

In our interpretation and specification of the wording concerning Taxonomy eligibility, we had already assessed the content of the technical screening criteria for environmental objectives I and II in 2021. Taking the European Commission's second FAQ document from February 2022 into account, the share of Taxonomy-eligible revenue for the 2022 reporting year is significantly higher than the amount disclosed for the previous year. This FAQ states that an economic activity is Taxonomy-eligible regardless of whether it satisfies one or all of the technical criteria stipulated in the Delegated Act, while in the previous year the technical screening criteria for the reporting of Taxonomy eligibility was already taken into account in part for economic activity 7.7 (see above).

Do no significant harm

Compliance with the DNSH criteria for environmental objective I and the other five environmental objectives in the 2022 reporting year was assessed on the basis of the specific Taxonomy requirements for the respective economic activities. LEG has applied its best judgment to any possible scope for interpretation.

In order to counteract the significant harm in relation to **environmental objective II ("climate change adaptation")**, all identified economic activities must undergo a climate risk and vulnerability assessment according to the Taxonomy. This was performed at the level of LEG as a whole and the result was taken into account in the reporting of Taxonomy alignment > page 119 ff.

No further DNSH criteria apply to economic activity 7.7 "Acquisition and ownership of buildings".

As the percentage share of the KPIs for other Taxonomy-eligible and -aligned economic activities is in the per thousand range for the 2022 reporting year, a more detailed description of the DNSH criteria associated with these activities and any compliance by LEG has been dispensed with and this is also indicated in the table below and the associated footnotes. For economic activity 4.20 "Cogeneration of heat/cool and power from bioenergy", it must be pointed out that the associated revenue and Opex account for more than 1 % of the reportable KPIs.

To prevent activity 4.20 from causing significant harm to **environmental objective III ("Sustainable use and protection of water and marine resources")**, risks to water quality and in connection with water shortages are calculated and surveyed. This necessitates disclosures on the water consumption of the **equipment installed. A risk analysis is also required for environmental objective VI ("Protection and restoration of biodiversity and ecosystems")**. The priority here is the conservation and protection of environmental resources. In Germany, the conservation and protection of environmental resources is ensured by regulatory standards without which a facility will not be granted an operating permit. As for the fuel used, the environmental objective is taken into account by the fact that only certified scrap wood is burned in our biomass cogeneration plant.

For compliance with the DNSH criterion for **environmental objective V ("Pollution prevention and control")**, various statutory parameters and targets concerning emissions, air quality and digestate must be adhered to for activity 4.20. An environmental impact assessment is required to determine noise, dust and pollutant emissions, though in Germany this is a requirement for an operating permit under the German Pollution Protection Act and thus can be taken as given.

Compliance with Minimum Safeguards

Another criterion for the Taxonomy alignment of individual economic activities is ensuring that companies comply with the minimum social safeguards. These include due diligence within the company and in outsourced value chains by implementing suitable processes. Besides the issues of bribery and corruption, taxation and fair competition, human rights are essentially also addressed.

LEG uses a Group-wide approach to ensure that the MS criteria are fulfilled, which is also reflected in the corresponding reporting and further external documentation, such as the Code of Conduct and the Anti-Corruption Policy.

Results of the qualitative analysis of Taxonomy alignment

The following section presents and explains the material findings of the alignment analysis. Taxonomy-eligible und -aligned economic activities must be analysed with regards to the development of revenue and of Capex and Opex for the 2022 reporting year.

LEG reports an aggregate percentage value pro rata for the Taxonomy-eligible and -aligned share of economic activities in revenue, Capex and Opex. Only Taxonomy-eligible and -aligned revenue, Capex and Opex relevant to the environmental objective I "climate change mitigation" are shown. The Taxonomy-eligible and -aligned revenue, Capex and Opex for environmental objective II "climate change adaptation" are a subset of the values under environmental objective I "climate change mitigation". This prevents revenue, Capex and Opex from being counted more than once in the numerator for multiple economic activities in calculating the KPIs.

In total, the share of consolidated revenue generated by letting buildings with a primary energy use of less than 90.8 kWh/m²/a was around 10.5 %.

If possible, the KPIs were allocated directly to the respective economic activities. If this was not possible, an allocation mechanism was used instead.

An allocation mechanism was used for Opex as typically it is not possible to calculate the costs of building maintenance and repair (see above) at the level of individual buildings. At the same time, these expenses are distributed relatively evenly across the entire LEG property portfolio. To determine the Taxonomy-aligned Opex in conjunction with letting buildings (activity 7.7), we therefore multiplied the total operating expenses by the percentage share of Taxonomy-aligned revenue from letting.

For the minor part of the LEG portfolio for which EPC certificates were not necessary/available (821 out of 25,471 residential units), it is assumed that the consumption and usage data break down in line with the rest of the portfolio.

A Capex plan has to be prepared for Capex and Opex that lead to an increase in Taxonomy-aligned economic activities or contribute to a transfer from Taxonomy-eligible to Taxonomy-aligned economic activities. There is no Capex plan as referred to by the EU Taxonomy and thus is not taken into account.

Reporting of the quantitative results of the EU Taxonomy analysis > page 119 ff.

Excursus: Establishment and financing of a joint venture as a solution provider for serial refurbishment

The faster and more effective energy-efficiency improvement of existing buildings will be a key factor in achieving the climate objectives. LEG has therefore made it its mission to promote "serial energy-efficiency improvement" throughout the DACH region. At the end of 2021/start of 2022, the company thus founded a joint venture, Renowate GmbH, with the Rhomberg Group, Austria. LEG's initial investment for strategic preparation, formation and establishment of the new company amounted to more than EUR 5 million and is the biggest single "green" investment in the history of the company to date. However, reporting in conjunction with the EU Taxonomy is not possible at this point as Renowate is not included in LEG's consolidated group. Instead, only the expenses for the implementation of energy-efficiency improvements in LEG properties by Renowate has been and will be included in the Taxonomy reporting in the coming years. The company is planning to carry out Taxonomy-aligned energy-efficiency improvements in around 14 LEG buildings by 2023. Also, in the 2022 reporting year, the company already received the first planning contract from an external housing company, for which it will perform energy-efficiency improvements in 2023. Further external contracts are expected to follow. The associated Taxonomy-aligned Capex will then be reported by the respective contractor. LEG Immobilien SE's efforts to promote climate change mitigation throughout the property sector are therefore not included in its EU Taxonomy reporting.

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Environmentally sustainable revenue related to taxonomy-aliged economic activities – disclosure for the 2022 financial year

			Criteria pertaining to a substantial contribution (in %)						"Do no significant harm" (DNSH) criteria									
Economic activities (1)	Absolute revenue (€ thousand)	Share of revenue (in %)	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiver-sity and ecosys-tems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiver-sity and ecosys-tems	Minimum social standards	Taxonomy-aligned share of revenue	Category "enabling activities"	Category "transition activities"
A. Taxonomy-eligible activities																		
A.1 Environmentally sustainable activities (Taxonomy-aligned)																		
4.1 - Electricity generation using solar photovoltaic technology	70.88	0.0	100	0	0	0	0	0	n.a.	Yes	n.a.	Yes	n.a.	n.a.	Yes			
4.20 - Cogeneration of heat/cool and power from bioenergy	20,842.29	1.7	100	0	0	0	0	0	n.a.	Yes	Yes	n.a.	Yes	Yes	Yes			
7.7 - Acquisition and ownership of buildings	123,938.61	10.1	100	0	0	0	0	0	n.a.	Yes	n.a.	n.a.	n.a.	n.a.	Yes			
Revenue from environmentally sustainable activities (Taxonomy-aligned)	144,851.78	11.8	100	0	0	0	0	0										
A.2 Taxonomy-eligible, but not environmentally sustainable activities (non-Taxonomy-aligned activities)																		
4.1 - Electricity generation using solar photovoltaic technology	0.00	0.0																
4.20 - Cogeneration of heat/cool and power from bioenergy	0.00	0.0																
7.7 - Acquisition and ownership of buildings	1,070,458.77	87.6																
Revenue from Taxonomy-eligible, but not environmentally sustainable activities (non-Taxonomy-aligned activities)	1,070,458.77	87.6																
Total (A.1 + A.2)	1,215,310.55	99.4																
B. Non-Taxonomy-eligible activities																		
Revenue from non-Taxonomy-eligible activities (B)	7,170.60	0.6																
Total (A+B)	1,222,481.15	100.0																

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Environmentally sustainable Capex related to taxonomy-aliged economic activities – disclosure for the 2022 financial year

			Criteria pertaining to a substantial contribution (in %)						"Do no significant harm" (DNSH) criteria									
Economic activities (1)	Absolute Capex (€ thousand)	Share of Capex (in %)	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum social standards	Taxonomy -aligned share of Capex	Category "enabling activities"	Category "transition activities"
A. Taxonomy-eligible activities																		
A.1 Environmentally sustainable activities (Taxonomy-aligned)																		
4.1 - Electricity generation using solar photovoltaic technology	544.12	0.1	100	0	0	0	0	0	n.a.	Yes	n.a.	Yes	n.a.	n.a.	Yes			
4.16 - Installation and operation of electric heat pumps	56.57	0.0	100	0	0	0	0	0	n.a.	Yes	Yes	Yes	Yes	n.a.	Yes			
7.7 - Acquisition and ownership of buildings	100,426.56	11.5	100	0	0	0	0	0	n.a.	Yes	n.a.	n.a.	n.a.	n.a.	Yes			
Capex from environmentally sustainable activities (Taxonomy-aligned)	101,027.25	11.6	100	0	0	0	0	0										
A.2 Taxonomy-eligible, but not environmentally sustainable activities (non-Taxonomy-aligned activities)																		
4.1 - Electricity generation using solar photovoltaic technology	0.00	0.0																
4.16 - Installation and operation of electric heat pumps	0.00	0.0																
7.7 - Acquisition and ownership of buildings	763,560.58	87.4																
Capex from Taxonomy-eligible, but not environmentally sustainable activities (non-Taxonomy-aligned activities)	763,560.58	87.4																
Total (A.1 + A.2)	864,587.83	99.0																
B. Non-Taxonomy-eligible activities																		
Capex from non-Taxonomy-eligible activities (B)	8,829.95	1.0																
Total (A+B)	873,417.78	100.0																

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Environmentally sustainable Opex related to taxonomy-aliged economic activities – disclosure for the 2022 financial year

			Criteria pertaining to a substantial contribution (in %)						"Do no significant harm" (DNSH) criteria									
Economic activities (1)	Absolute Opex (€ thousand)	Share of Opex (in %)	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum social standards	Taxonomy-aligned share of Opex	Category "enabling activities"	Category "transition activities"
A. Taxonomy-eligible activities																		
A.1 Environmentally sustainable activities (Taxonomy-aligned)																		
4.1 - Electricity generation using solar photovoltaic technology	13.95	0.0	100	0	0	0	0	0	n.a.	Yes	n.a.	Yes	n.a.	n.a.	Yes			
4.20 - Cogeneration of heat/cool and power from bioenergy	1,617.85	2.0	100	0	0	0	0	0	n.a.	Yes	Yes	Yes	Yes	n.a.	Yes			
7.7 - Acquisition and ownership of buildings	4,848.50	5.9	100	0	0	0	0	0	n.a.	Yes	n.a.	n.a.	n.a.	n.a.	Yes			
9.1 - Close to market research, development and innovation	1,771.56	2.2	100	0	0	0	0	0	n.a.	Yes	n.a.	n.a.	n.a.	n.a.	Yes			
Opex from environmentally sustainable activities (Taxonomy-aligned)	8,251.86	10.1	100	0	0	0	0	0										
A.2 Taxonomy-eligible, but not environmentally sustainable activities (non-Taxonomy-aligned activities)																		
4.1 - Electricity generation using solar photovoltaic technology	0.00	0.0																
4.20 - Cogeneration of heat/cool and power from bioenergy	0.00	0.0																
7.7 - Acquisition and ownership of buildings	52,198.35	63.7																
9.1 - Close to market research, development and innovation	0.00	0.0																
Opex from Taxonomy-eligible, but not environmentally sustainable activities (non-Taxonomy-aligned activities)	52,198.35	63.7																
Total (A.1 + A.2)	60,450.20	73.7																
B. Non-Taxonomy-eligible activities																		
Opex from non-Taxonomy-eligible activities (B)	21,545.74	26.3																
Total (A+B)	81,995.94	100.0																

Non-financial report

Notes on contents of report and framework

LEG Immobilien SE is publishing a separate non-financial consolidated report in accordance with section 315b HGB for the 2022 financial year (hereinafter referred to as the "non-financial report"). It comprises key non-financial aspects that have a significant impact on the HGB aspects environmental, social, employee, combating corruption and bribery and human rights issues and that are relevant to LEG Immobilien SE's net assets, financial position and results of operations for the 2022 financial year.

The non-financial report provides information on key non-financial performance indicators, individual targets and the concepts, initiatives and objectives underpinning these. Account should be taken of the impact of the ongoing pandemic and the flooding disaster in 2021, as well as the measures taken in 2022 to reduce energy consumption and costs, in assessing the non-financial performance indicators, especially in comparison to the previous year. The standard of the Global Reporting Initiative (GRI) served as the general framework for the structure of the materiality analysis and the description of concepts. More information can be found in > section "GRI key figures" on page 135. This is not the subject of the company audit.

With the exception of the disclosures marked as "not audited", the non-financial report was subject to a voluntary limited assurance audit by the audit firm Deloitte. The recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) expand the reporting standards listed. References to disclosures not included in the Group management report or the consolidated financial statements constitute additional information and are not part of the non-financial report. EPRA key performance figures for sustainability and SASB reporting will be published online in May 2023.

Business model

With around 167,000 rental properties, approximately 500,000 tenants and 2,040 employees (as at 31 December 2022), Dusseldorf-based LEG is one of Germany's leading listed housing companies. The company is listed on the MDAX and generated rental and lease income of around EUR 1,149 million in the 2022 financial year.

As the biggest landlord in Germany's most federal state, North Rhine-Westphalia, as well as operating in other states in Germany, LEG helps meet rising demand for affordable housing. A consistently value-driven business model with a focus on resilience and customers combines the interests of shareholders and tenants. Customer satisfaction is especially important to LEG. It is therefore constantly striving to further improve the quality of its service and expand its value-added services through target group orientation, social and neighbourhood management and personal service through a variety of channels.

Further information on LEG's business model can be found in the Group management report starting on > page 38.

Below, we report on key issues for the LEG Group. The non-financial report is structured in line with the aspects determined as part of the materiality analysis.

Material aspects

The LEG Group conducted a materiality analysis in 2020 to identify material non-financial aspects in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) and taking into account the requirements of the GRI standards. For the 2020 materiality analysis, non-financial aspects that may be relevant to the LEG Group were initially identified on the basis of a field analysis, which took account of capital market requirements and various industry and reporting standards.

These aspects were then assessed regarding the LEG Group's potential impact on the matters, their business relevance and with regard to the associated expectations of internal and external stakeholders. Tenants, employees and executives at the LEG Group were involved in the assessment, as well as external experts, providing perspectives from civil society, academia, the capital market and politics.

The results were consolidated and translated into a materiality matrix. The following report sets out our position on the six aspects that were identified as high or very high regarding their business relevant to the LEG Group and the company's potential impact:

1. Sustainable growth and resilience
2. Customer satisfaction and participation
3. Corporate culture and values
4. Reduction of energy use and emissions
5. Fair and affordable rent
6. Neighbourhood development

We have not identified any other material aspects within the meaning of HGB. We did not add or remove any additional topics in the 2022 reporting year. Our analysis determined that the aspects of the law "respect for human rights" and "combating corruption and bribery" are not material for the LEG Group in the strict sense of the law and so these are not discussed in detail here. They are nonetheless key issues for the industry and so we address them briefly under "Sustainable growth and resilience". The LEG sustainability strategy also considers respect for human rights. We also signed the United Nations Global Compact in 2021 and support the ten principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption. In May 2022 we published our first progress report, which can also be viewed on the UN Global Compact website.

This non-financial report is structured in line with the five key areas set out in our sustainability strategy, to which we have assigned the material aspects detailed above. These five key areas are "business", "tenants", "employees", "environment" and "society". They form the structural basis of our sustainability strategy and the targets identified by way of this.

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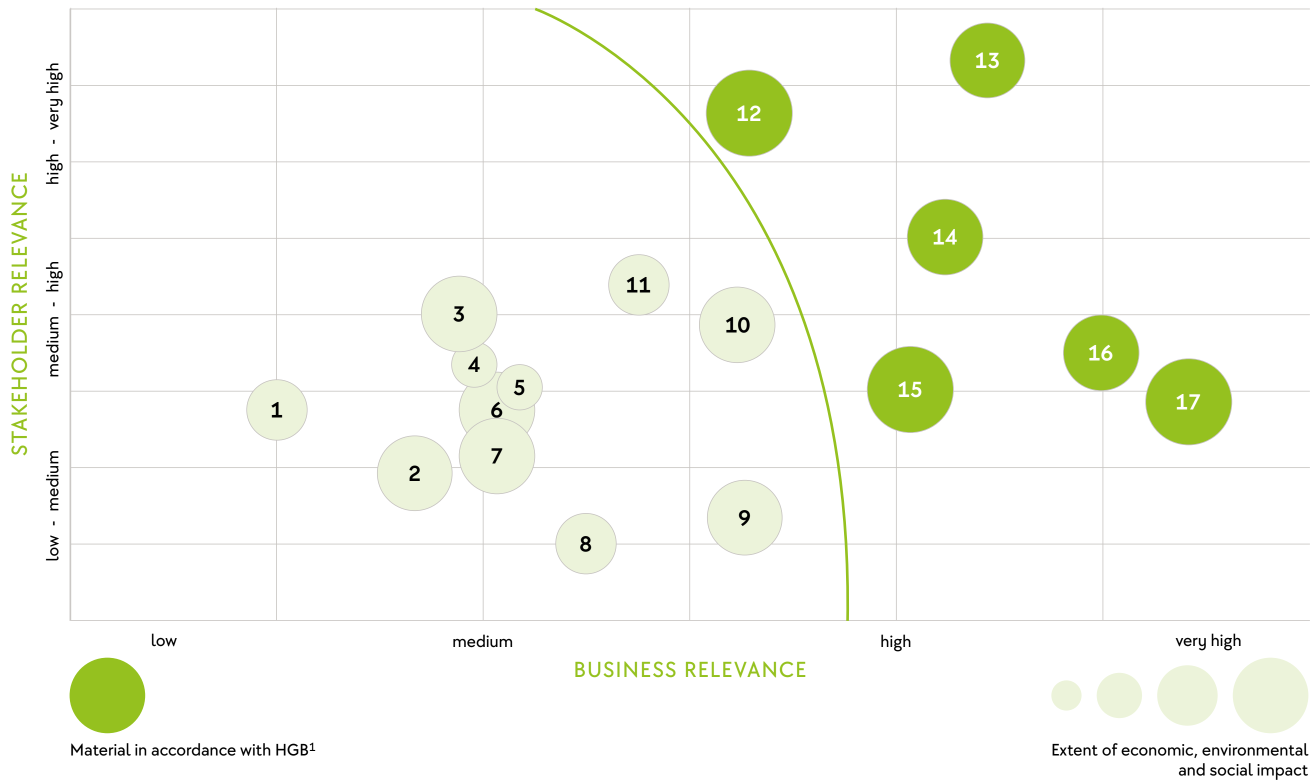
Materiality analysis



1 Human rights standards in the supply chain
2 Social commitment
3 Land use and nature conservation
4 Health protection and occupational safety
5 Diversity and equality of opportunity
6 Training and professional development
7 Local social dialogue
8 Transparent financing and liquidity strategy
9 Good governance and compliance
10 Sustainable construction materials and environmental management
11 Work-life-balance and family friendly policies
12 Fair and affordable rent
13 Customer satisfaction and participation
14 Reduction of energy use and emissions
15 Neighbourhood development
16 Corporate culture and values
17 Sustainable growth and resilience

[1] Materiality threshold (very) high business relevance and (very) high impact

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List of key areas

HGB aspects	Key areas	Issue
Environmental issues	Key area: environment	Reduction of energy use and emissions
Employee matters	Key area: employees	Corporate culture and values
Social issues	Key area: tenants, key area: society	Customer satisfaction and participation, fair and affordable rent, neighbourhood development
Respect for human rights	Not material for LEG according to 2020 materiality analysis, but nonetheless included in the LEG sustainability strategy	Not material for LEG according to 2020 materiality analysis, but nonetheless included in the LEG sustainability strategy
Tackling corruption and bribery	Key area: business	Sustainable growth and resilience

Risk assessment

Under HGB, non-financial risks associated with the company's business operations and that would very likely have a severe negative impact on the aspects stated if they occurred are to be reported along with concepts and efforts.

As part of our comprehensive risk management, we also assess potential risks in our key areas. Since 2020, sustainability risks recorded in the risk inventory report have no longer included a monetary valuation, as the impact of LEG's actions on external third parties, the environment and its surroundings cannot be quantified. The aspects and risks subject to reporting requirements cover the areas of respect for human rights, employee and social issues, environmental issues and combating corruption and bribery, together with relevant sub-areas. Since the 2021 reporting year, the TCFD risks have also been integrated in the risk inventory report together with a monetary valuation, as the risks that climate change poses to LEG can be estimated and could affect LEG's financial result. Managing climate-related risks covers risks posed by climate change, i.e. physical risks, and risks resulting from the transition to a green economy, i. e. transitional risks. The existing Audit Committee of the Supervisory Board became the Risk and Audit Committee of the Supervisory Board in the 2021 reporting year to further highlight the ever increasing significance of risk management.

The LEG Group management has not identified any non-financial risks that meet materiality criteria under section 289c (3) no. 3 and 4 HGB after taking account of risk mitigation measures.

Further information on risk management is included in the Risks, opportunities and forecast report of the Group management report starting on > pages 66 ff.

Key area: business

Sustainable growth and resilience

LEG defines sustainable growth and resilience as taking environmental and social criteria, as well as aspects of good corporate governance, into consideration in the company's long-term business strategy, while remaining flexible in responding to changes in the general environment and challenges. The LEG Management Board and Supervisory Board are committed to corporate governance that is based on sustainability.

This is also reflected in corresponding organisational structures, processes and documentation. LEG has been steadily working on implementing its sustainability strategy, sustainability roadmap and ESG targets since 2018. The sustainability strategy has undergone constant development since this time. The company published its full ESG strategy in June 2021, including long-term and short-term ESG targets for the first time, which are incorporated into the compensation of the Management Board and second-level management. To enshrine sustainability in the remuneration system for the Management Board and the second management level, LEG has set specific short-term and long-term sustainability targets (STIs and LTIs) since the 2021 reporting year, which can all be measured and verified. These targets cover all three aspects of sustainability (E, S and G) and must be achieved individually. ESG targets for 2023 and beyond were communicated when the business figures were published for the third quarter of 2022. You can find further information in the remuneration report on > page 83.

Governance structures were expanded further compared to the previous year in the 2022 reporting year, starting with the Supervisory Board. In recent years it has become increasingly vital to have an overview of the strategy, identify risks and opportunities and make optimal use of capital in terms of sustainability aspects. To account for this development, the LEG Immobilien SE Supervisory Board established a ESG Committee in mid-2022. The three-person body is headed by Dr Katrin Suder.

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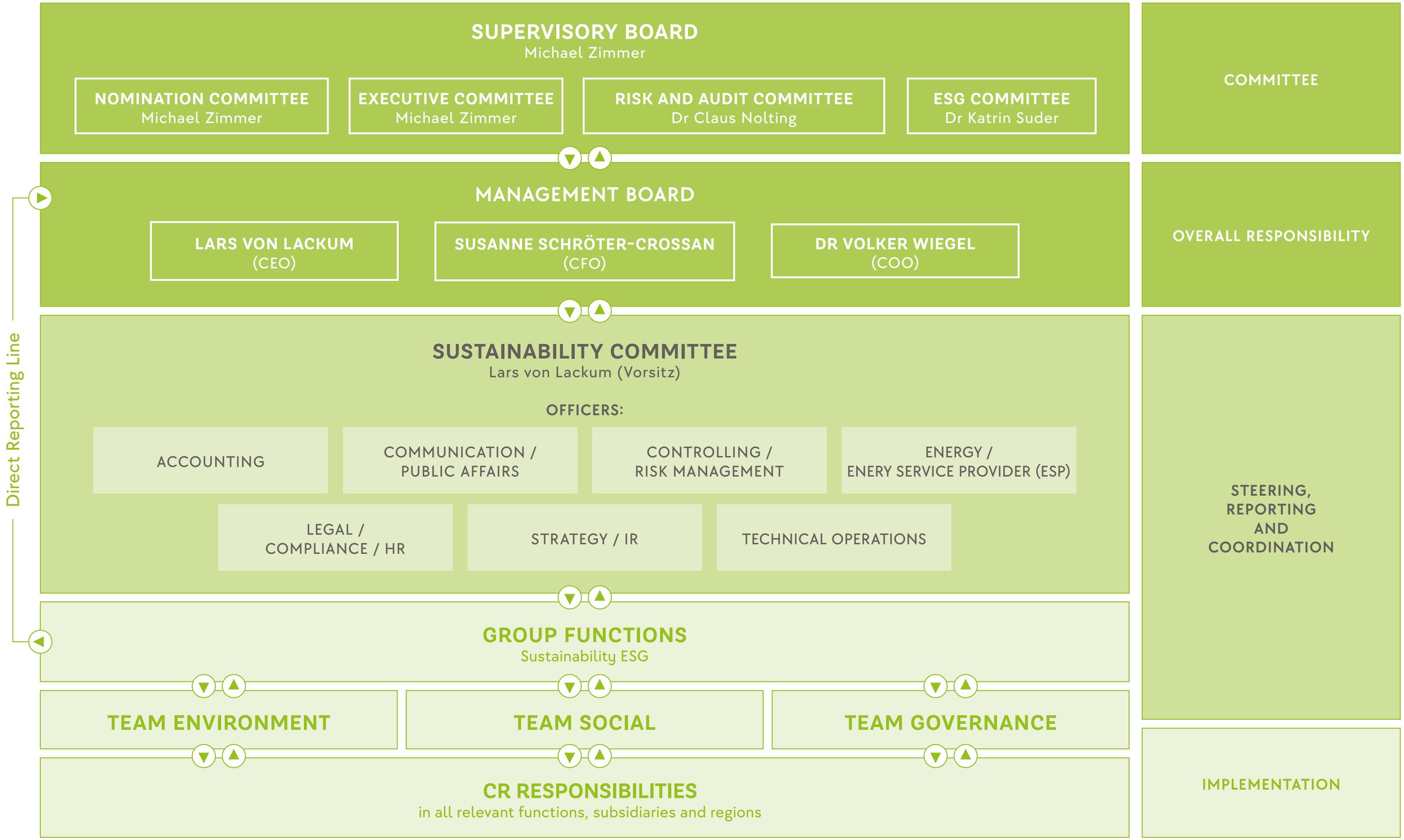
Our ESG governance structure



The Supervisory Board's existing Audit Committee had already become the Risk and Audit Committee in the 2021 reporting year in order to further highlight the ever-increasing significance of risk management and discuss in detail key changes in the assessment of relevant individual risks. The Management Board reports to this committee on the LEG Group's risk assessment each quarter and discusses the current risk situation. This explicitly includes sustainability risks and climate-related physical and transitional risks as part of the Task Force on Climate-related Financial Disclosures (TCFD). In turn, the Risk and Audit Committee reports on this to the Supervisory Board as a whole.

The three-member LEG Management Board still bears management responsibility for sustainability. The primary decision maker for sustainability issues on the Management Board is CEO Lars von Lackum. The Sustainable Finance Committee was also established in 2021 to manage sustainable financing. The Chairwoman is the CFO, Susanne Schröter-Crossan. The Sustainable Finance Committee prepared the Sustainable Finance Framework, which LEG issued for sustainable financing. This framework sets out investment in the areas of affordable housing/social housing, certified environmentally friendly buildings, high standards for energy efficiency upgrades of existing buildings, community engagement, the use of renewable energy and low-emission transport options, and helped LEG issue its first sustainable bond in 2021.

Since July 2022, the new Sustainability ESG department has been the central interface between the departments and is responsible for strategic decisions and brings together sustainability activities. This also includes regularly reviewing our sustainability model, determining sustainability targets and following up on the implementation of these. The head of department reports directly to the CEO. He convenes the Sustainability Committee and liaises across the departments with all other ESG stakeholders and operations managers.

The "Environment", "Social" and "Governance" teams in the Organisation of Sustainability Management are responsible for the relevant issues and work on refining these. These three teams represent a transparent network group at LEG that looks at the diversity of sustainability issues across departments. Furthermore, additional Corporate Responsibility responsibles (data owners) from the various areas of LEG are involved. They put specific issues into practice and provide data.

Relevant non-financial key figures are regularly collected in line with recognised reporting standards to review our sustainability strategy and targets. The Corporate Responsibility responsibles in the areas listed above are in charge of this. They also ensure that necessary operating measures are taken to meet the sustainability targets.

Data was reported from the new ESG database for the first time in the 2021 reporting year. The database has an automated data collection system, which makes it far easier to collect and archive all relevant non-financial key figures. The data owners enter their data into the ESG cube, which is then reviewed by the ESG department or Controlling to ensure consistency. This guarantees compliance with the dual control principle. The cube is the basis for enhanced ESG key figures reporting. It gives ESG key figures equal importance in the reporting as financial key figures.

The capital market has also recognised the progress we have made with implementing our sustainability strategy. We are frequently rated by international ratings agencies specialised in assessing efforts related to environmental, social and responsible corporate governance. For example, the ESG risk rating agency Sustainalytics reassessed our low ESG risk profile at the end of 2022 and, with an updated rating of 6.7, again placed us in the lowest risk category of "negligible". As a result, the short-term governance target of the Management Board and second management level for the 2022 financial year of remaining in the "negligible" risk category in the Sustainalytics rating was achieved. LEG was rated B ("management level") in this year's CDP rating, which essentially assesses environmental issues. In addition, LEG was also awarded Prime status in the ISS sustainability rating for the first time in the 2022 financial year. Progress made and milestones achieved in ESG in the 2021 financial year also play a role here. MSCI upgraded our ESG rating in December 2022 from AA to AAA, giving us the maximum rating in the "Leader" category.

In our materiality analysis, our stakeholders determined that the aspects "Respect for human rights" and "Combating corruption and bribery" are not material for the LEG Group. Nonetheless, we place great value on these important aspects:

The LEG Group maintains a Compliance Management System (CMS) that brings together extensive measures to comply with legal requirements and in-house rules and guidelines, especially in the areas of anti-corruption, competition, taxation, housing, data protection, diversity and the capital market. The Management Board, which sets the compliance targets, is responsible for the CMS. The compliance targets are reviewed on a regular basis and the Management Board receives reports on the extent to which they have been achieved. LEG's governance target for 2023 is for 85 % of employees at the subsidiaries Nord FM (facility management), TSP (minor repairs) and Biomasse Heizkraftwerk Siegerland and 99 % of all other employees at LEG Group companies to have completed online compliance training.

The LEG CMS was certificated by the Corporate Governance Institute of the German Real Estate Industry Association in 2019. The certification was confirmed after another audit in the 2021 reporting year and is valid until 2024.

LEG is committed to respecting human rights as defined by the United Nations (UN Guiding Principles on Business and Human Rights) and signed the United Nations Global Compact in 2021.

The principles of this compact and internationally recognised agreements such as the United Nations Universal Declaration of Human Rights and the eight fundamental Conventions of the International Labour Organization (ILO) form the core of our corporate culture and all our activities.

The values and standards established in these agreements are also reflected in internal Group documents, such as in the LEG declaration of fundamental values, the Code of Conduct and the Business Partner Code.

To ensure that business partners comply with the Business Partner Code and its regulations on social responsibility, LEG has carried out spot checks on its business partners using questionnaires and in-person talks since 2021. In response to the future requirements under the German Act on Corporate Due Diligence in Supply Chains, LEG also intends to introduce a software system for 2023 to further expand these business partner checks.

It is very much in LEG's interest to identify compliance breaches in order to avert losses for the company. To this end, in the 2021 financial year it established a secure whistleblowing portal to report compliance breaches that allows employees, customers and third parties to report potential white-collar crimes and conduct harmful to the company round the clock. If they wish, the whistle-blower can remain anonymous. Confirmed compliance breaches are penalised regardless of the position of the person's position at the company, for example with disciplinary measures or criminal charges.

Key area: tenants

Customer satisfaction and participation

Customer satisfaction and participation are key performance indicators for LEG's economic performance. Both require active, open communication with our tenants and taking customer requests into account in portfolio management and other services.

One of LEG's key targets is to ensure satisfied tenants in stable neighbourhoods where they can enjoy good, secure, and fair rent conditions. High customer satisfaction reduces costs by ensuring lower tenant turnover, guarantees income and improves the company's reputation. LEG's objective is thus to ensure sustained customer satisfaction. We aim to achieve this by offering fair value for money, continually improving LEG services and consistently focusing on our tenants' needs.

All LEG functions are responsible for ensuring high customer satisfaction, in particular those with direct customer contact such as employees at our central customer service and the eight branches. The Management Board and management also play a vital role in direct customer contact and are actively committed to increasing customer satisfaction. As an indicator of customer satisfaction, LEG regularly carries out customer satisfaction surveys using a recognised institution. The four aspects of service, product, image and price/performance ratio are assessed in order to calculate the Customer Satisfaction Index (CSI). Our goal is to increase the CSI to 70 % in the period from 2022 to 2025. The recent figure at the time the report was completed was around 60 %. We began with a baseline figure of about 54 % at the end of 2020 and so we have improved by around six percentage points since we began taking measurements in 2020. The current development indicates that we can achieve our long-term target for the CSI. Many of our measures to improve the customer experience are already showing signs of success. In particular, satisfaction with customer service in terms of service times and availability by phone increased.

It should also be noted that we increased the frequency of our customer satisfaction survey in 2022 and now conduct it quarterly, as opposed to annually as was the case until 2021. 5,000 tenants are now invited to provide their feedback once a quarter. The responses provide further key indicators for additional improvement potential that will allow us to increase customer satisfaction in the years ahead. The results of the customer satisfaction survey are discussed with those responsible in numerous relevant areas of the company and corresponding measures are drawn up and put into place. For example, our customers requested better safety concepts at some locations and so we installed new window and door locks. Tenants at some sites also wanted more space to meet with neighbours outside. Additional benches encourage people to sit down and spend some time in the area.

As well as these regular customer satisfaction surveys, LEG also measures the effectiveness of all measures to improve customer satisfaction using direct interviews with points of contact at the central customer service. At the end of 2021, this was expanded to the Rental Management, Receivables Management and Operating Costs departments. The analysis of customer needs is complemented by opportunities to give feedback on neighbourhood support measures, the assessment of safety inspections and analyses of callers who make multiple calls about an issue.

The CEO of LEG meets with new and existing tenants and residents face-to-face multiple times a year at customer talks, e. g. to introduce new projects and listen to customer concerns, or with representatives from towns, cities and municipalities, for example at roofing ceremonies. Ten of these customer talks were held in the reporting year, in line with Covid-19 regulations. The "Customer talk" format clearly shows that LEG, with the CEO, has a clear management responsibility for this type of community relations. In addition, the Management Board is closely involved in the decision-making process and development steps as well as consultation, from the early stages of the projects to completion.

One established institution for regular, face-to-face customer contact is our Customer Advisory Council, which was founded at the end of 2019 and meets once per quarter. It brings together dedicated tenant representatives from all branches and helps them play an active role in neighbourhood development decision processes and in developing and improving services. Key issues are discussed with the company COO and joint solutions are developed. The Customer Advisory Council met four times in the 2022 reporting year – three times virtually on account of the pandemic, for which LEG provided participants with their own tablets in 2021, and once as an in-person event. Information on various types of heating, energy saving, the energy crisis and environmental protection accounted for a large share of discussions in 2022.

High customer satisfaction requires that tenants can approach us with their specific needs and problems. LEG offers its customers a wide range of ways and channels to get in touch. For example, they can contact LEG by telephone, e-mail, letter, in person or online via the tenants portal or tenants app if they have any problems or queries. At selected locations, branches and departments such as Operating Costs and Construction Project Management offered consultation hours on a range of topics with no appointment needed. Issues and complaints are processed on a standardised basis using a ticket system and passed on to the person responsible. Smaller necessary repairs are usually carried out by the subsidiary TechnikServicePlus GmbH (TSP). The company can be contacted 24/7 in emergencies.

As well as providing a quick solution to their concerns, the health and safety of our customers in their homes is central to their satisfaction. LEG puts systematic and comprehensive safety precautions in place to guarantee this as best possible. These are provided by the company's own employees as part of inspections and checks on buildings and facilities, as well as by service providers. Tradespeople are promptly hired if any shortcomings or accident risks are identified. After completion, the repair work is checked and documented.

The Management Board delegates responsibility for risk prevention to the regional branch. Twice a year, the Property Management department carries out spot checks in line with the dual control principle to ensure work is of a high quality and complete.

Thanks to its systematic safety precautions process, in the 2022 financial year LEG ensured that 99.1 % (2021: 99.8 %) of its own buildings were thoroughly tested for potential hazards and defects in common areas were identified at an early stage so that they could be promptly remedied. Safety precautions checks for the remaining buildings will be completed at the start of 2023.

We also implemented additional measures to increase customer satisfaction in the current reporting year, for example in customer correspondence and communication. For example, we made changes to our tenant manual and published extensive information on energy saving. Letters to tenants and notices are continually updated and digital communication improved on an ongoing basis. Additional features are offered in the tenants portal. We also optimised our processes for the call-back service at the central customer service and further expanded contactless letting.

The start-up Youtilly GmbH, established in Dusseldorf in 2021 as a LEG subsidiary, is also intended to help further improve customer satisfaction and communication. Youtilly is the first digital platform that unites the interests of tenants, home-owners and service providers across Germany and for everyone. The new business model ensures transparency when awarding contracts in the areas of gardening and landscaping, building cleaning and winter maintenance for the property sector as a whole. Youtilly improves services and gives tenants a say in decision-making. It provides them with a new channel to give direct, actionable feedback. Through the platform, they can rate services directly, actively help design their living environment and gain a better understanding of their utilities costs thanks to the transparent digital format. With this, LEG is solving one of the greatest challenges facing the housing industry: the fact that the contracting authority (landlord) and beneficiary (tenant) tend to diverge when it comes to these services.

Tenant turnover and average length of occupancy are key performance indicators for tenant satisfaction. Tenant turnover improved to 9.5 %, below the comparable figure from 2021. The average length of occupancy (in years) remained largely constant against the previous year.

T66

Tenant turnover and average length of occupancy

	2022	2021
Tenant turnover (as %)	9.5	9.8
Average length of occupancy (in years)	11.5	11.5

Fair and affordable rent

By providing affordable and diverse housing including in urban areas, LEG plays a role in addressing pressing social challenges such as demographic change and migration.

Our focus on affordable housing and our units helps meet rising demand by the rapidly growing number of smaller households that are characteristic of our market. We want to offer all tenants long-term home prospects. At the end of 2022, our portfolio contained around 167,000 rental properties with an average size of 63 square metres and around 1,600 commercial units.

We provide homes to average earners and to those eligible for social housing at affordable prices and create a home worth living in for people who simply want to live well. At the end of the reporting year, about 20 % of our properties were social housing, with an average rent of EUR 5.05 (previous year: EUR 5.00) per square metre.

Upgrading existing properties is a key driver of rent costs. LEG takes a careful approach to modernisation work. Measures that reduce energy consumption and emissions create a better and more environmentally friendly living environment for tenants. However, the modernisation work must also be economically viable for the tenants, i. e. reducing their utilities costs and still ensuring affordable housing. Bringing environmental protection into line with economic viability for tenants opens up a whole array of opportunities. It increases the sustainability and value of the housing portfolio, makes the rental property more attractive and improves both customer satisfaction and tenancy duration.

Serial energy upgrades are increasingly important. In line with this objective, LEG and the Austrian construction Rhomberg founded the joint venture Renowate. Serial refurbishment makes environmental, social, labour and business sense. CO_2 emissions are lower, tenants reduce their heating costs, fewer highly in-demand skilled workers are required and work during the construction phase is less time-consuming and has less of an impact on residents and the neighbourhood compared to conventional modernisation work. This is a win-win situation for everyone involved, from tenants to landlords, residents and society. Serial refurbishment thus not only makes a vital contribution to protecting the climate, it also has social benefits as it makes rent and bills affordable in the long term. The first Renowate project on Zeppelinstrasse in Mönchengladbach was successfully completed in mid-December 2022. Overall, eight buildings with 47 apartments there were upgraded for maximum energy efficiency, meaning that they require 95 % less energy. The remaining energy needed is generated from highly efficient heat pumps powered by green electricity. In a total of 14 consecutive projects in LEG neighbourhoods, Renowate is developing and optimising a holistic, scalable and efficient process to decarbonise existing properties.

LEG also offers hardship schemes that come into effect if tenants demonstrate that they can no longer afford the higher rent after modernisation work. As a general rule, the company then offers a more affordable apartment. LEG aims to retain its loyal customers, prevent the gentrification of stable neighbourhoods that have developed over time and, in turn, offer customers not just a house but a reliable home.

As part of the LEG new construction programme launched in 2018, in 2022 we invested a total of around EUR 268 million in new construction and completed projects with a total of 243 residential units. About one third of these are publicly subsidised or rent-restricted, benefiting tenants on lower incomes. At the end of the reporting period, seven projects with a total of 552 apartments – about 21 % of which are publicly subsidised – were under construction. Construction is scheduled to begin within three months of the end of the reporting period for another three projects with a total of 396 apartments – about 27 % of which are publicly subsidised. We currently intend to invest a total of up to EUR 263 million in new construction that has already been planned between 2023 and 2025. Where possible, these will meet the Efficiency House 55 or 40 standard in accordance with the German Building Energy Saving Ordinance (Gebäudeenergiegesetz) (BEG), which requires primary energy requirements to be 45 % or 60 % lower than those of a reference building under the German Building Energy Saving Ordinance (Gebäudeenergiegesetz) (GEG). Unfortunately, it is not possible to build affordable housing under the current market and subsidy conditions and so it is to our deep regret that we have decided to end our new construction programme once the projects described above are complete.

Working together to overcome the energy crisis

To minimise the financial strain on our tenants as much as possible, we have instigated many measures to cope with the energy crisis. For example, the Management Board sent out a letter to all tenants discussing how to reduce energy consumption, how tenants can prepare for higher costs and what specific assistance LEG offers, from the option to pay in instalments to help with applying for housing benefit. Detailed information for our tenants and interested members of the general public can also be found online at https://leg-wohnen.de/leben-bei-der-leg/energie. Social managers at the "Your Home Helps" foundation also advise on financial strain caused by the energy crisis and give information on suitable assistance so that tenants can still afford their homes.

Key area: employees

Corporate culture and values

LEG's corporate culture is based on the values of integrity, fairness, commitment and professionalism, confidentiality, transparency and sustainability that characterise our collaboration and promotes an open, respectful and productive way of working with all company employees.

We aim to further consolidate our leadership, feedback and collaboration culture that puts team development at its heart. Through our occupational health management, we offer our employees a wide range of benefits that are constantly being optimised. We also offer a wide range of employment contracts and flexible working hours. An employee share program was also launched in 2022 and was well received by employees. We particularly value the trusting and constructive partnership between employee and employer representatives.

The Human Resources department provides a framework for responsible, values-driven human resources work, translating social megatrends such as demographic and technological change, digitalisation and the challenges of modern society into measures and concepts that serve our company's performance aspirations.

The objectives are to attract suitable talents to LEG, optimise training, professional development and succession processes, strengthen employee loyalty and reduce turnover. Our overarching goal is to continually improve our image and appeal as an employer. LEG is committed to diverse teams, promotes talented employees and encourages networks through the mentoring programme introduced at the end of 2020 with a focus on female and other employees. This programme was continued in the 2022 reporting year. 16 traineeships were again offered in the 2022 reporting period in view of the shortage of skilled labour. In addition, the number of study places (dual study programs) was raised from four (2019) to a total of ten in 2021/2022. Three additional dual study programme students are also to be taken on in 2023. In a study by the business magazine Capital, LEG was also named "Germany's best training company 2022".

LEG's Human Resources department manages and is responsible for all central and decentralised personnel-related processes and tasks. The unit comprises the areas of HR Management, Staff Recruitment, Staff Development, Staff Controlling and the person in charge of training. It is responsible for maintaining close dialogue with the workforce, who – as company partners – are actively informed of upcoming changes and involved in the decision-making process.

The Management Board is closely involved in discussions and approves the related concepts and programmes. Detailed HR key figures are also regularly reported to the Management Board.

The Human Resources department helps implement the LEG strategy through its new HR strategy launched at the end of 2022 by focusing on the core elements of worker participation, employer branding, recruiting and the company's social objectives. Worker participation is key to our company. The HR department thus actively encourages collaboration with all management bodies, for example by implementing a key issues paper agreed with the participation of employees and by engaging in open dialogue through regular trusting communication at fixed dates. To tackle the shortage of skilled and executive personnel, we are committed to recruiting suitable talented employees to LEG by expanding and/or adapting our recruiting activities to strengthen our employer brand. As part of this, we will revise our job advertisements, better target the needs of potential applicants and redesign our careers page. To expand our employer brand, we will also actively promote collaboration with universities through university marketing in order to raise awareness of LEG and recruit suitable talented employees.

The Covid-19 pandemic and the restrictions on team work and social contact that this entailed were addressed through the use of flexible and remote working solutions, hybrid (learning) methods, online training and other digital content. Health management measures in the 2022 reporting period included sending out invitations for flu vaccinations and eye tests or to take part in company runs, implementing various preventative measures and providing fruit boxes in the winter.

In order to maintain an open and transparent corporate culture, the Management Board conducted a digital phone call with all employees each quarter in 2022. In the webcasts, which are streamed at the same time in audio format only, the Management Board initially provided information on the situation of the company. Participants were invited to vote on certain issues online. One integral part of the webcasts includes an open Q&A round where employees can ask questions to the Management Board.

Thanks to these measures, our employee satisfaction was again very high even in years dominated by crises. In the 2022 "Great Place to Work" employee survey (GPtW), 84 % (preliminary survey from 2020: 78 %) of our staff agreed that our company is a "very good place to work". This was 14 percentage points higher than the average score by employees surveyed at all participating companies in Germany (70 %). The Trust Index – an average of all core aspects of employee satisfaction measured by "Great Place to Work" – was 73 % (2020: 66 %), 11 percentage points higher than the average for the GPtW model (62 %). The international research and consultancy institution thus named LEG an "attractive employer". Employee satisfaction is a vital factor in lasting company success, both in the short term and in the long term, and so it is an integral part of LEG's sustainability targets. Remuneration for the Management Board and the second management level are tied to this benchmark. Back in 2021, the company set the long-term target of maintaining employee satisfaction of at least 66 % until 2024, in line with the result of the 2020 survey.

This target also applied as a short-term target for the 2022 reporting year and, as shown by the results of the survey described above, was exceeded. LEG again made employee satisfaction a long-term sustainability target for the period from 2023 to 2026, increasing the goal to 70 % for the Trust Index.

Turnover in the 2022 reporting year was around 13.5 %, higher than the very low figure in 2021. By contrast, the hiring rate in 2022 increased to around 15.3 %.

T67

Employee turnover

in %	2022	2021	2020	2019
Employee turnover	13.5	6.2	7.5	11.6

We have reported the number of applications for each advertised vacancy increase since the start of 2021 as an indicator of our appeal as an employer to new employees. In 2021 there were 10 applicants per position, rising to around 15 per position in 2022. Despite the ever-increasing labour shortage in Germany, our goal is to stabilise this figure.

Respect for employee diversity is a factor in LEG's success. To further underscore these guiding principles of diversity management, an employee survey on diversity and equality of opportunity was carried out in mid-2022. Shortly after this, the HR department invited staff to discuss diversity issues at diversity dinners. Each dinner focuses on one topic. All employees had the opportunity to volunteer their opinions on issues they found interesting. The aim of the events is to identify any areas where LEG needs to take action and put specific measures into place. One measure, for example, involved setting up a LBGTQIA+ network.

To ease the burden on employees, LEG paid out the federal government's flat-rate energy payment (EPP) of EUR 300 already in September 2022. Together, employees also adapted to energy saving requirements, including switching taps to cold water in LEG offices and reducing energy usage.

In December 2022, employees who were particularly badly affected by the price increases due to lower incomes and/or their family circumstances also received an "inflation compensation premium" – measured by their individual tax parameters – that is exempt from tax and social security contributions. Part-time trainees, working students, dual study programme students and casual workers received a pro rata inflation compensation premium of EUR 250.

Key area: environment

Reduction of energy use and emissions

Reducing buildings' direct and indirect energy consumption and the greenhouse gases that they emit has become essential to success in the housing industry.

The German federal government's climate package embedded sector-specific environmental targets and CO_2 pricing in law for the first time. For the building sector, this means reducing greenhouse gas emissions in Germany to 67 million tonnes by 2030 (2020: 118 million tonnes). LEG supports the federal government's target of making building stock in Germany virtually carbon-neutral by 2045. To this end, for example, it is modernising its portfolio in terms of energy efficiency. Last year's review of the target for the building sector in Germany found that it fell short from the target achievement path by 2 million tonnes, evidence of how challenging this goal is. The result once again highlighted the importance of being innovative and open to technology when identifying the most efficient ways of reducing CO_2.

We began preparing a climate strategy in the 2020 reporting year and developed this further in the two following years. To accurately measure the effects of our measures, we prepared a CO_2 footprint for 2019 for the first time in the 2020 reporting year. 80 % of this was current data and 20 % extrapolated data and so it represented LEG's total portfolio. The figures for 2020 were extrapolated based on this data, adjusted to account for portfolio changes in the reporting year. We took the same approach in the 2021 and 2022 reporting years. This ensures that we are always working with reliable underlying data > see GRI table, page 145.

In 2020, we began setting up a team of experts so that we can better assess and manage the environmental risks and opportunities for LEG. This team is responsible for monitoring CO_2, working out ways to reduce our CO_2 emissions and conducting research related to CO_2 reduction. A separate ESG Supervisory Board committee and a new ESG department that reports directly to the CEO were established in the 2022 reporting year, further underscoring the high value the company places on sustainability.

To mitigate potential future climate-related physical and transitional risks, in 2021 LEG began integrating risks in the risk management system in line with the TCFD recommendations. The corresponding risks have been integrated into the risk management system. In addition, we continuously evaluate the completeness of the risks recorded. > See page 78, Risks, opportunities and forecast report.

The continuation of our modernisation programme also helped reduce specific CO_2 emissions produced by our portfolio in 2021/2022. LEG had set a target for the 2022 reporting year of reducing CO_2 emissions by 4,000 tonnes through own modernisation projects without taking external drivers into account. This target was achieved in full, at 4,028 tonnes.

In 2023 LEG aims to reduce CO_2 emissions by a total of 4,000 tonnes through own modernisation projects and changes to customer behaviour. It also has a long-term CO_2 emissions reduction target. These environmental targets are included in the remuneration system for the Management Board as well as second management level and are explained in detail in the remuneration report > see page 89, remuneration report.

The targets are ambitious, especially as the company will significantly cut back its investment volume per square metre on account of the challenging market environment. Nevertheless, LEG firmly believes that it remains on track when it comes to climate protection. Its focus on particularly climate-efficient projects is what makes this possible. Overall, these helped considerably lower CO_2 reduction costs per tonne of CO_2 equivalent.

Measures to alter user behaviour are extremely effective, low-cost and customer-oriented here. In 2021/2022, for example, LEG ran a project supported by the Hasso Plattner Institute, Potsdam, and the University of St. Gallen that aimed to encourage tenants to make changes to their heating and air conditioning so that they are more energy efficient. The result? Customer energy consumption was reduced by up to 9 % in the pilot project through the use of “green nudging”, e. g. putting up posters with the words “Don’t burn your money” and regularly writing to tenants to inform them of their own heating usage and how this compares to others. LEG will continue to roll out and expand this nudging approach. Under our ESG strategy, we still intend to reduce carbon emissions by up to 5 % by influencing customer behaviour.

The future will also see an increased focus on serial modernisation of portfolio properties, for example with the joint venture Renowate established at the end of 2021/start of 2022. Here, LEG and the Austrian construction company Rhomberg have combined forces to make modernisation quicker, more affordable, socially more acceptable and more resident-friendly > see page 127, Key area: tenants. Serial refurbishment plays a key role in protecting the climate, in addition to many other benefits. In 2022, for example, CO_2 emissions were reduced by about 94 % in a pilot project in Mönchengladbach-Lürrip, Zeppelinstrasse, thanks to energy efficiency upgrades in eight buildings with 47 apartments. CO_2 emissions were cut by up to 98 % in 2022 as part of the EnergieSprong project in Mönchengladbach-Hardt, where several companies carried out serial refurbishment in a neighbourhood with 111 apartments. Germany also recognises the importance of serial refurbishment: starting in 2023 subsidy programs will include a serial subsidy bonus of 15 % of the investment volume, massively increasing the appeal of this type of renovation.

In the case of energetic modernisations in neighbourhoods in Osnabrück, Dortmund, Essen, Dusseldorf, Langenfeld, Hamm, Oberhausen and Bielefeld – a total of around 549 residential units – we achieved on average calculated energy savings of around 34 to 66 % through comprehensive insulation, replacement of windows and roof renewals. We are also aiming to receive DGNB gold certification for our new LEG headquarters in Dusseldorf, which we moved into in spring 2022. This is issued by the German Sustainable Building Council.

However, it is the energy transition that offers the biggest lever for climate protection in the building sector. LEG’s portfolio features numerous projects that support this, for expample with Green district heating. This reduces the need to invest in new heating systems and is efficient. In the 2022 reporting year, for example, the company had public utility companies connect 298 homes in Herne-Horsthausen to the green heating grid. Tenants now heat their homes using mine gas from the old “Friedrich der Große” mine, reducing annual CO_2 consumption by about 600 tonnes. The “Tenant power” pilot project managed by LEG and Monheimer Elektrizitäts- und Gasversorgung GmbH (MEGA) was launched in July 2022 in the Berliner Viertel area of Monheim. 12 photovoltaic systems with a total capacity of 207 kWp were installed. Residents in the 96 LEG homes can now be supplied with the tenant power generated by the systems. The cooperation partners’ aim is to assess the experiences of the pilot project, expand the concept and in the future offer the affordable, environmentally friendly tenant power to all 2,700 residents in the neighbourhood.

LEG set up an “Energy” project group in connection with the invasion of Ukraine and the resulting energy crisis. The group meets regularly to discuss short-term energy saving measures. It keeps employees updated on the latest energy issues and government assistance for LEG customers. It also arranged for the water taps at LEG offices to be switched to cold water and helped further reduce electricity/light usage. For LEG tenants, we have created an energy page on our website with a video explaining how tenants can help save energy and what we, as the landlord, are doing to minimise increases in utilities costs as a result of higher energy prices. Tenants can also receive support, for example if they have questions about applying for housing benefit or agreeing instalment payments if they are worried about their energy costs www.leg-wohnen.de/energie. The project group is also building a network of relevant points of contact at regional energy supply companies and municipalities.

Together with the Fraunhofer institutes UMSICHT and FIT, we are initiating a research cluster through the Cluster Future iQ project. The project centres around implementing and testing innovative energy supply concepts in practice in two archetypal neighbourhoods in Gelsenkirchen and Cologne, whose building and ownership structure allows for rapid, broad implementation and offers considerable potential for expanding the concept to the housing industry as a whole. The first four-year project phase will lay the foundations for developing and testing innovative solutions to reduce CO_2 in existing neighbourhoods of apartment buildings quickly, broadly and fairly.

In addition, LEG is a founding member of "Initiative Wohnen.2050", a cooperative association set up by housing companies to support a carbon-neutral future. LEG also supports studies, advises and comments on various publications by a range of institutes on climate protection and maintains dialogue with politicians at federal and state level to actively contribute its expertise to the discussion and develop viable solutions.

We also paved the way for carbon-neutrality in new builds in the 2022 reporting year: All current projects must meet the Efficiency House 55 or 40 standard in accordance with the German Federal Funding for Efficient Buildings (Bundesförderung für effiziente Gebäude) (BEG), which requires primary energy requirements to be 45 % or 60 % lower than those of a reference building under the German Building Energy Saving Ordinance (Gebäudeenergiegesetz) (GEG). Our new builds are thus fitted with an environmentally friendly source of heating, good insulation, energy saving windows and the option to install green roofing. For some of our new construction projects, we are planning certification through the Quality Certificate for Sustainable Buildings (QNG) and the Sustainable Residential Construction Rating System (NahWoh). By doing this, we are bringing environmental, economic, social and cultural aspects into line in a transparent manner and ensuring long-term quality for our new-build projects.

In 2022 LEG thus helped to gradually increase the availability of affordable housing right where it is needed, without losing sight of economic viability for tenants. Given the massive rise in construction costs and interests combined with poorer subsidy conditions, however, new construction at affordable rents is no longer feasible. After weighing up climate aspects and the social and economic environment, in November 2022 the company therefore reluctantly made the decision to suspend its project development business after completing projects that are already underway.

SBTi submission

In the summer of 2021, we informed the Science Based Target Initiative (SBTi) that we would submit Science Based Targets (SBTs) under the 2005 Climate Agreement for validation by the Initiative within 24 months. We did this in the 2022 reporting year. SBTs are a way of setting clear and reliable emission reduction targets on the basis of scientific findings. We expect the Initiative to validate the targets in summer 2023. By establishing science-based targets to reduce greenhouse gas emissions, the SBTi helps companies develop a clear roadmap to improving sustainability or, in our case, to further underscore this roadmap. This shows which measures need to be implemented and at what speed to limit global warming to below the target of 1.5°C.

Further KPIs for key area environment > page 142 ff. , see GRI key figures.

Key area: society

Neighbourhood development

In addition to the condition of one's own four walls, people's living environment is vital to their quality of life. As a responsible landlord, LEG is thus committed to systematic neighbourhood development to maintain and constantly improve an environment worth living in for our tenants. As well as creating stable neighbourhoods, one of LEG's objectives is to help solve social challenges in the long term. In addition to the supply of homes and provision of services with regard to changing living conditions, this also includes providing affordable housing wherever it is needed. Satisfied residents and full structural occupancy in almost all of our properties are proof of stable and attractive neighbourhoods. At the same time, in the long term LEG relies on strategic management combined with targeted, moderate investments in modern living standards and in safety, order, cleanliness and environmental responsibility. With its approach to neighbourhood management, LEG also aims to strengthen its reputation as a reliable property company and partner to local communities.

We attach great value to individual neighbourhood management and development approaches that address the specific challenges faced by the particular residential areas, develop properties' specific potential and boost management efficiency. This requires a broad range of measures that strengthen social cohesion, improve quality of life and housing and create infrastructure for the future, including sensitive occupancy management and providing housing to people who would otherwise struggle to find affordable housing on the free housing market. For example, people who have experienced being refugees, have lost their home, vulnerable social groups and single parents often face considerable challenges in finding suitable permanent housing. To help provide these people with a home, LEG has a policy commitment to consult with various municipalities, associations and initiatives.

As a former state holding, LEG has always maintained close ties with municipalities and this continued after LEG was privatised in 2008. Dialogue with local governments is part of the company's DNA. For this reason, LEG launched a systematic programme at the beginning of 2020 to engage in dialogue or develop joint projects with relevant representatives at the municipal level. In 2022, LEG maintained dialogue with municipalities where it is has more than 250 residential units or manages new locations. LEG's COO, Dr Volker Wiegel, is responsible for this programme. Numerous corresponding meetings were held again in 2022.

Given how relevant the "residential" product is to society, ongoing consultation with local municipalities is extremely important. Maintaining close dialogue is particularly important to us when it comes to involving cities and communities in the early stage of projects, modernisation work and climate measures or providing targeted support for urban development work. Neighbourhood initiatives and meeting places, listening to complaints and working with municipal service companies are also part of discussions with local authorities, as well as with representatives at other levels. In addition to this programme, LEG's branches also arrange continuous dialogue with the administrative bodies of towns, cities and communities. This allows LEG to ensure ongoing consultation mechanisms with local governments and administrative bodies in a variety of ways. As well as regularly meeting with the most important municipalities, on 1 March 2022, immediately after Russia's invasion of Ukraine, LEG set up a coordination centre to house people who had fled from the war and immediately informed the major municipalities of this. In addition, following the energy crisis in autumn 2022 the company also exchanged contact details with the relevant points of contact at municipalities and with regional energy providers to ensure that information could be provided rapidly in the event of local gas shortages. LEG's Management Board wrote to all our tenants before the start of winter to discuss changes on the energy market. Information is provided on a separate energy website with regularly updated tips and information about energy and reducing energy consumption.

By establishing the foundation "Your Home Helps" at the end of 2019, which now has endowment assets of EUR 21 million, LEG also created a basis to make an even stronger commitment to social responsibility and to significantly step up its efforts to create stabler neighbourhoods worth living in and a good environment for people who live in LEG apartments or in the neighbourhood.

The foundation supports the expansion of existing social projects, while also helping launch new projects needed in the neighbourhoods together with charitable and municipal network partners. For example, these may be community, education or advisory centres that act as a point of contact for all residents. One example of this is the "Treffpunkt Bergmannshütte" centre that LEG opened in Essen-Bergmannsfeld in the reporting year. The new centre is now also home to the district office, with debt counselling services and district social work. One new addition was a mother and child group from the new KidsMobil project, which offers flexible childcare. Renovation of the centre's premises and its financing for the next five years are ensured by cooperation between the foundation, Caritas-SkF-Essen gGmbH, LEG, another housing company and the youth welfare office of the city of Essen. Again, with the support of the foundation, LEG opened the new "Sempers Seniorentreff" in Hagen-Eilpe in May 2022, a cooperation with Sempers e.V. Senioren mit Perspektive. Here, a communication and meeting place for senior citizens was created in the neighbourhood, providing advice and support for various problems and a wide range of leisure and educational activities.

To consolidate its approach of helping where it is really needed, the foundation is building up its own team of social managers in addition to the points of contact. Four social managers worked in the 2022 reporting year to systematically localise problem areas, identify emergency situations facing tenants and help guide them to local support networks. This sustainable, structural support offers prospects to neighbourhood residents in need. Top priorities include help for children living in challenging circumstances, educational support, day-to-day living assistance for seniors, support services for families, and support with illnesses such as addiction. Tenants can also contact the foundation's social managers at any time to receive advice and support in connection with the energy crisis and related financial challenges.

Our foundation's social responsibility is also demonstrated by the ad-hoc assistance it provides in times of crisis. With a EUR 850,000 Ukraine relief fund, the foundation has supported Ukrainian refugees since the end of February 2022 as an accompaniment to the provision of housing by LEG. About 250 homes have given basic furnishings for those seeking help.

Neighbourhood and intercultural exchange are also promoted by holding joint events, and so tenant parties are an integral part of LEG's neighbourhood management. Tenant parties are organised professionally using a neighbourhood database – LEG has a formal system for identifying local communities of interest in the neighbourhoods. Each year, LEG tenant parties normally bring together thousands of people with different national backgrounds, with trained LEG event managers arranging a wide range of event formats. As in the previous year, the focus in the reporting year was on summer holiday activities for families in line with Covid-19 regulations, such as the circus and environmental campaign days. Once again, all LEG branches benefited from the events.

In the financial year, the LEG NRW Tenant Foundation established in 2009 set up 39 (previous year: 40) charitable and 100 non-profit projects (previous year: 86), providing around EUR 182,200 (previous year: EUR 166,000) in funding for social cohesion in our neighbourhoods and the welfare of our tenants.

Not audited by Deloitte

GRI key figures

In order to manage the topics identified as highly material, we gauge our sustainability performance on the basis of specific key performance indicators. These – and also the key performance indicators from the non-financial report – are shown in the following tables. Unless indicated otherwise, the key performance indicators relate to the financial year in question and the entire LEG Group (i.e. all consolidated companies as per the consolidated annual financial statements). The figures shown here are typically rounded to one decimal place, which can cause minor deviations in totals.

T68

Key area: business

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Scale of the organisation					
Total number of employees[1]	Number	1,599	1,770	2,040	102–07
Total number of operations	Number	7	7	8	
Net sales[2]	€ million	429.8	522.1	413.5	
Total capitalisation broken down in terms of debt and equity[3]	%	37.6	42.8	43.9	
Quantity of products or services provided[4]	Number of residential units	144,530	166,189	167,040	
Direct economic value generated and distributed					
Direct economic value generated: revenues[5]	€ million	627.3	683.9	799.1	201–01
Economic value distributed[6]	€ million	284.0	252.5	510.8	
CRE sector supplement: payments to government[7]	€ million	5.8	4.0	10.5	
Economic value retained[8]	€ million	343.3	431.4	288.3	
Confirmed incidents of corruption and actions taken					
Total number and nature of confirmed incidents of corruption[9]	Number	0	1	0	205–03
Total number of confirmed incidents in which employees were dismissed or disciplined for corruption[10]	Number	0	1	0	
Total number of confirmed incidents when contracts with business partners were terminated or not renewed due to viola-tions related to corruption[11]	Number	0	0	0	
Public legal cases regarding corruption brought against the organisation or its employees during the reporting period and the outcomes of such cases	Number	–	–	–	

[1] Average number of employees.
[2] Equates to the revenue from renting and leasing.
[3] The figures equate to the loan to value ratio, i.e. net debt in relation to the real estate assets.
[4] Equates to the number of residential units within the LEG portfolio.
[5] Equates to the net rent (excl. utilities and services costs) from renting and leasing.
[6] Equates to the expenses from renting and leasing.
[7] Equates to net income tax payments in accordance with the statement of cash flows.
[8] Equates to the difference between net rent (excl. utilities and service costs) and expenses.
[9] Relates to all confirmed cases of corruption, bribery and the granting or receiving of advantages.
[10] The number of confirmed cases of corruption, bribery and the granting or receiving of advantages on the basis of which employees were terminated or warned.
[11] The number of confirmed cases of corruption, bribery and the granting or receiving of advantages on the basis of which contracts with business partners were terminated or not renewed is disclosed.

T68

Key area: business

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices					
Total number of legal actions pending or completed during the reporting period regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organisation has been identified as a participant [1]	Number	0	0	0	206–01
Important events of concluded legal actions, including all decisions and judgements [2]	Number	–	–	–	
Non-compliance with laws and regulations in the social and economic area					
Total monetary value of significant fines [3]	€	0	0	0	307–01; 419–01
Total number of non-monetary sanctions [4]	Number	0	0	0	
Cases brought through dispute resolution mechanisms [5]	Number	0	0	0	
Non-compliance with environmental laws and regulations					
Total monetary value of significant fines [3]	€	0	0	0	307–01
Total number of non-monetary sanctions [4]	Number	0	0	0	
Cases brought through dispute resolution mechanisms [5]	Number	0	0	0	

1 Number of pending and concluded legal actions and cases is disclosed.
2 There were no legal proceedings on the basis of violations of competition law.
3 Fines of EUR 100,000 or more are considered significant.
4 Repressive, i.e. punitive, measures for past misconduct not consisting of a monetary sanction are reported.
5 Dispute resolution mechanisms are reported, i.e. judicial proceedings and out-of-court dispute resolution based on mediation or conciliation.

T69

Key area: tenants

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Assessment of the health and safety impacts of product and service categories					
Percentage of significant product and service categories for which health and safety impacts are assessed for improvement [1]	%	9.8	99.8	99.1	416–01
Substantiated complaints concerning breaches of customer privacy and losses of customer data					
Complaints received from outside parties [2] and substantiated by the organization	Number	0	10	0	418–01
Complaints from regulatory bodies	Number	2	3	1	
Total number of identified leaks, thefts, or losses of customer data [3]	Number	15	1	2	

1 Percentage of LEG portfolio buildings for which safety checks were performed in the year under review is reported.
2 "Outside parties" refers to any external party.
3 Reported is the number of reportable breaches of personal data in line with Article 33 EU General Data Protection Regulation.

T70

Key area: employees

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Information on employees and other workers					
Total number of employees by employment contract (permanent and temporary) and gender [1]					102–08
Total number of employees	Number	1,599	1,770	2,040	
Of which women	Number	568	625	711	
Of which men	Number	1,031	1,145	1,329	
Of which temporary	Number	124	139	172	
Of which women	Number	48	68	79	
Of which men	Number	76	71	93	
Total number of employees by employment type (full-time and part-time) and gender [2]					
Full-time	Number	950	1,018	1,750	
Of which women	Number	374	403	497	
Of which men	Number	576	615	1,253	
Part-time	Number	183	252	290	
Of which women	Number	144	172	215	
Of which men	Number	39	80	75	
Collective agreements					
Percentage of employees covered by LEG collective agreements [3]	%	64.9	64.2	63.4	102–41

[1] The figures do not include employees in the passive stage of partial retirement, employees on parental leave at the reporting date, employees with no further claim to insurance benefits and trainees. The temporary employment figures do not include trainees.
[2] The figures do not include employees in the passive stage of partial retirement, employees on parental leave at the reporting date, employees with no further claim to insurance benefits and trainees.
[3] LEG employees covered by the LEG collective agreements. Managerial employees and employees not covered by collective agreements are not included in LEG collective agreements. Employees with no further claim to insurance benefits, trainees and students are not included in the calculation.

T70

Key area: employees

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
New employee hires and employee turnover					
Total number and rate of new employee hires during the reporting period by age group gender and region					401–01
Total[1]	Number	176	175	311	
Rate[1]	%	15.5	14.0	15.3	
Of which women[2]	%	–	42.9	31.6	
Of which men[2]	%	–	57.1	68.4	
Under 30 years old[2]	%	–	35.7	34.7	
30–50 years old[2]	%	–	50.0	47.1	
Over 50 years old[2]	%	–	14.3	18.2	
Total number and rate of employee turnover during the reporting period by age group gender and region					
Total[3]	Number	85	79	263	
Rate[3]	%	7.5	6.2	13.5	
Of which women[2]	%	–	40.3	32.9	
Of which men[2]	%	–	59.7	67.1	
Under 30 years old[2]	%	–	16.1	19.6	
30–50 years old[2]	%	–	48.4	40.8	
Over 50 years old[2]	%	–	32.3	39.6	
Work-related illnesses					
Absence rate[4]	%	4.9	4.5	6.8	403–10

[1] Not including trainees, casual workers or students.
[2] Not including trainees, casual workers, students or employees of LWS Plus GmbH.
[3] Not including the departure of trainees, casual workers or students.
[4] An absence rate for LEG is determined. This excludes TechnikServicePlus GmbH and LWS Plus GmbH as they are not settled using the SAP system. Casual workers, trainees and students are not included in the calculation. Days absent is divided by total possible days.

T70

Key area: employees

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Work-related injuries					
Number of employees					403–09
Deaths resulting from work-related injuries					
Number	Number	0	0	0	
Rate	%	0	0	0	
Work-related injuries with severe consequences (excluding deaths)					
Number	Number	0	0	0	
Rate	%	0	0	0	
Documented work-related injuries					
Number[1]	Number	28	27	28	
Rate[2]	%	4.02	3.55	2.99	
Most important types of work-related injuries[3]					
Hours worked[4]	Number	1,391,850	1,522,337	1,870,927	
Staff who are not employees but whose work and/or working place is controlled by the organisation		–	–	–	
Average hours of training per year per employee[5]					
Number of employees who participated in a seminar or other training measure during the reporting period	Number	750	888	1,449	404–01
Cumulative number of seminar days in the reporting period	Number	2,750	2,133	2,715	
Percentage of employees receiving regular performance and career development reviews					
Percentage of total employees who received a regular performance and career development review in the reporting period	%	82.8	83.1	86.8	404–03
Women[6]	%	–	35.0	44.5	
Men[6]	%	–	65.0	55.5	

[1] According to first aid log entries (not including TSP, Biomasse Heizkraftwerk Siegerland or Renowate).
[2] Based on 200,000 hours (excluding TSP, Biomasse Heizkraftwerk Siegerland and Renowate).
[3] 2022: 8x cuts, 6x accidents due to tripping/falls, 3x impact injuries, 3x cases of psychological stress, 2x uncontrolled moving parts (excluding TSP, biomass CHP plant Siegerland and Renowate)
[4] As at 6 January 2023 (not including TSP, Biomasse Heizkraftwerk Siegerland or Renowate).
[5] The employees of TechnikServicePlus GmbH and Biomasse Heizkraftwerk Siegerland GmbH & Co. KG are not included. A breakdown by gender and type of employee is not possible at this time.
[6] The employees of TechnikServicePlus GmbH, EnergieServicePlus, Biomasse Heizkraftwerk Siegerland GmbH & Co. KG and LWS Plus GmbH as well as apprentices, casual workers, students, employees with no further claim to insurance benefits, trainees, employees on parental leave and in the passive stage of partial retirement are not included. Owing to the organisational situation, reviews were postponed in the 2017 reporting year, which is why only 452 employee reviews took place. A breakdown by type of employee is not possible at this time.

T70

Key area: employees

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Diversity of governance bodies and employees					
Percentage breakdown of people in governance bodies by:					405–01
Gender[1]					
Women	%	16.7	14.3	33.3	
Men	%	83.3	85.7	66.7	
Age[1]					
Under 30 years old	%	0.0	0.0	0.0	
30–50 years old	%	16.7	14.3	16.7	
Over 50 years old	%	83.3	85.7	83.3	
Percentage of employees per employee category by:					
LEG (total)[2]					
Gender					
Women	%	45.7	45.0	34.9	
Men	%	54.3	55.0	65.2	
Age					
Under 30 years old	%	12.3	14.0	18.4	
30–50 years old	%	49.5	48.0	48.6	
Over 50 years old	%	38.3	38.0	33.0	
LEG Wohnen[2]					
Gender					
Women	%	43.8	44.0	43.4	
Men	%	56.2	56.0	56.7	
Age					
Under 30 years old	%	13.6	15.0	15.9	
30–50 years old	%	48.5	47.0	48.2	
Over 50 years old	%	37.9	38.0	35.8	

[1] The figures relate to the seven members of the Supervisory Board.
[2] The figures do not include employees in the passive stage of partial retirement, employees on parental leave at the reporting date (31 December), employees with no further claim to insurance benefits and trainees.

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Key area: employees

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Diversity of governance bodies and employees					
Percentage of employees per employee category by:					405–01
LEG management [1]					
Gender					
Women	%	60.2	58.0	57.6	
Men	%	39.8	42.0	42.4	
Age					
Under 30 years old	%	8.2	8.0	32.1	
30–50 years old	%	51.5	51.0	38.6	
Over 50 years old	%	40.4	41.0	29.4	
Special companies [1]					
Gender					
Women	%	28.6	30.0	16.7	
Men	%	71.4	70.0	83.3	
Age					
Under 30 years old	%	7.3	12.0	17.0	
30–50 years old	%	53.7	53.0	52.3	
Over 50 years old	%	39.0	35.0	30.8	

[1] The figures do not include employees in the passive stage of partial retirement, employees on parental leave at the reporting date (31 December), employees with no further claim to insurance benefits and trainees.

T71

Key area: environment

Key performance indicator(s)	Unit	2020	2021	2022	2020 lfl	2021 lfl	GRI standards
Energy consumption within the organisation (administrative offices)							
Fuel consumption from non-renewable sources[1]							302–01
Diesel	MWh	670	614	1,935			
Heating oil	MWh	7,414	1,044	1,044			
Regular petrol	MWh	5.6	0	0			
Premium petrol	MWh	506	711	887			
Fuel consumption from renewable sources[2]	MWh	433,688	478,275	448,489			
Electricity consumption[3]	MWh	1,279	382	1,153			
Heating energy consumption[3]	MWh	1,852	2,265	4,341			
Heating sold[4]	MWh	2,495	1,982	2,198			
Electricity sold[5]	MWh	100,908	100,650	86,853			
Energy consumption outside the organisation (housing portfolio)							
Total electricity consumption (communal areas)	MWh	23,453	25,282	–	23,444	22,860	302–02
Bergkamen	MWh	2,813	2,793	–	2,813	2,793	
Dortmund	MWh	3,341	2,766	–	3,341	2,765	
Duisburg	MWh	2,186	1,931	–	2,040	1,910	
Dusseldorf	MWh	5,024	6,955	–	6,597	6,899	
Gelsenkirchen	MWh	1,827	1,811	–	1,826	1,806	
Cologne	MWh	4,290	2,648	–	2,716	2,465	
North	MWh	–	2,089	–	497	588	
Westphalia	MWh	3,973	4,289	–	3,614	3,634	

[1] The figures relate to LEG's vehicle fleet and company cars with the exception of TechnikServicePlus GmbH and the heating oil consumption of Biomasse Heizkraftwerk Siegerland. Energy consumption was calculated on the basis of the respective fuel consumption levels. Not included: Business trips taken by LEG employees in their own vehicles. Vehicle charging outside the internal charging infrastructure. Regular petrol is no longer used.
[2] As the proportion of total diesel/premium-grade fuel attributable to biodiesel/bioethanol cannot be determined, this is not reported separately here. Therefore, only the waste wood consumption of Biomasse Heizkraftwerk Siegerland is disclosed here.
[3] All administrative buildings are reported from the 2020 calendar year onwards. Information was provided from 13 locations, both internally and externally rented properties for 2022. Only consumption at headquarters in Dusseldorf was reported in previous years.
[4] This figure relates exclusively to the district heating supplied by Biomasse Heizkraftwerk Siegerland.
[5] This figure relates exclusively to the electricity fed into the public grid by Biomasse Heizkraftwerk Siegerland. In 2019, the co-generation plant was not in operation for almost three months due to a major overhaul of the turbines. As a result, electricity fed into the public grid in 2019 was considerably lower.

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Key area: environment

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Energy consumption outside the organisation (housing portfolio)					
Total heating energy consumption (rental units)[1]		1,318,866	1,554,682	1,562,244	302–02
Of which natural gas	MWh	843,620	1,038,037	1,041,654	
Bergkamen	MWh	123,268	140,103	139,468	
Dortmund	MWh	100,077	102,593	103,559	
Duisburg	MWh	94,230	98,705	99,987	
Dusseldorf	MWh	99,849	203,214	204,468	
External management	MWh	1,627	2,658	2,793	
Gelsenkirchen	MWh	64,954	73,611	73,592	
Cologne	MWh	175,474	115,817	116,302	
North	MWh	–	46,477	47,867	
Westphalia	MWh	184,141	254,860	253,617	
Of which heating oil	MWh	49,468	55,235	55,638	
Bergkamen	MWh	10,077	10,275	10,333	
Dortmund	MWh	1,164	1,387	1,366	
Duisburg	MWh	1,887	2,069	2,147	
Dusseldorf	MWh	14,437	17,531	17,607	
External management	MWh	0	102	110	
Gelsenkirchen	MWh	339	243	243	
Cologne	MWh	7,215	2,906	2,932	
North	MWh	0	9,554	9,628	
Westphalia	MWh	14,349	11,169	11,273	
Of which district heating	MWh	379,015	409,816	413,210	
Bergkamen	MWh	51,167	48,652	48,969	
Dortmund	MWh	72,340	72,945	73,336	
Duisburg	MWh	32,658	27,338	27,920	
Dusseldorf	MWh	68,166	72,800	73,364	
External management	MWh	635	660	713	
Gelsenkirchen	MWh	59,613	60,664	60,667	
Cologne	MWh	25,255	27,761	27,952	
North	MWh	–	37,742	38,291	
Westphalia	MWh	69,182	61,252	61,997	
Of which other energy sources	MWh	46,763	51,594	51,742	

[1] The extrapolated figure for the 2022 reporting year is based on the reported consumption data for 2021. All the portfolio properties of the consolidated portfolio companies as at 31 December 2022 were included.

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Key area: environment

Key performance indicator(s)	Unit	2020	2021	2022	2020 lfl	2021 lfl	GRI standards
Energy consumption outside the organisation (housing portfolio)							
Building energy intensity [1]	kWh/m² a	147	147	156			302–03
Type and number of sustainability certification							
Percentage of residential buildings by energy efficiency certificates [2]							302–05
Energy efficiency level A+	%	0.1	0.4	0.3			
Energy efficiency level A	%	0.2	0.3	0.3			
Energy efficiency level B	%	2.7	2.6	2.5			
Energy efficiency level C	%	10.4	10.6	10.2			
Energy efficiency level D	%	25.1	25.8	25.1			
Energy efficiency level E	%	20.5	20.3	19.9			
Energy efficiency level F	%	16.9	17.7	17.5			
Energy efficiency level G	%	11.6	11.3	13.8			
Energy efficiency level H	%	12.5	11.2	10.5			
Water withdrawal by source (housing portfolio)							
Total volume of water withdrawn [3]	m³	5,192,183.2	5,511,320.5	–	5,161,016.2	5,011,745.0	303-03
Building water intensity	m³/m²	1.2	1.1	–	1.2	1.1	

[1] Includes the heating energy consumption from the projection for all portfolio properties of the consolidated portfolio companies as at 31 December 2022 based on the lettable space.

[2] Included are buildings with sustainability certificates and residential building energy clustering in line with the classification specifications of the legislator. Regarding sustainability certificates, reference is made to the energy efficiency certificates required pursuant to Germany's Energy Conservation Ordinance (EnEV) and the classification information applicable in this respect. All energy efficiency certificates for LEG's let property portfolio are included. Properties for which no energy efficiency certificate is required pursuant to EnEV (e. g. properties under heritage protection) and which are therefore not available, are not included. As in the previous year, non-residential buildings and properties sold are not included. The changes compared with the previous year relate to acquisitions and energy efficiency upgrades to portfolio properties.

[3] Only water withdrawal (fresh water consumption) by municipal water supply companies and other public or private waterworks is presented here, as other sources are not relevant. The water consumption volumes are based on consolidated rental properties (commercial, residential) as at 31 December 2021 and 31 December 2020 for which the item cold or hot water was recorded or allocated to the tenants separately from waste water on the basis of their consumption, as part of integrated billing. This related to 75,623 residential and commercial properties in 2021 and thus around 45 % of the portfolio (2020: 67,788 residential and commercial properties or 46 % of the portfolio). Volumes consumed in billing periods during the year are not taken into account. The figures additionally do not include the volumes of water consumed by economic units consisting of mixed-use tenant privatisation rental properties. The like-for-like analysis encompasses 67,174 rental properties. The volumes consumed in 2022 can be calculated only in the course of 2023 subsequent to the editorial deadline for this sustainability report.

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Key area: environment

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Total direct greenhouse gas (GHG) emissions (Scope 1)					
Administrative offices					305–01
Gross direct (Scope 1) GHG emissions in metric tons of CO2 equivalent [1]	t CO_2e	2,424	820	1,698	
Biogenic CO2 emissions in metric tons of CO2 equivalent [2]	t CO_2e	12,295	12,913	12,109	
Housing portfolio					
Biogenic CO2 emissions in metric tons of CO2 equivalent [3]	t CO_2e	–	–	–	
Gross direct (Scope 1) GHG emissions in metric tons of CO2 equivalent [4]	t CO_2e	189,621	236,859	237,724	
Energy indirect (Scope 2) GHG emissions					
Administrative offices					305–02
Gross location-based energy indirect (Scope 2) GHG emissions in metric tons of CO2 equivalent	t CO_2e	487	509	704	
Housing portfolio					
Gross location-based energy indirect (Scope 2) GHG emissions for communal areas (electricity only) in metric tons of CO2 equivalent [5]	t CO_2e	1,733	1,877	–	
Gross location-based energy indirect (Scope 2) GHG emissions for rental units (heating energy only) in metric tons of CO2 equivalent [6]	t CO_2e	91,901	115,414	116,393	
Gross location-based energy indirect GHG emissions for rental units (heating energy only) in metric tons of CO2 equiv-alent [7]	t CO_2e	–	62,505	62,881	
Energy indirect (Scope 3) GHG emissions					
Gross energy indirect (Scope 3) GHG emissions for rental units in metric tons of CO_2 equivalent	t CO_2e	–	–	228,546	305–03

[1] Figures relate exclusively to the aforementioned energy consumption volumes. Only CO2 emissions were considered in the calculation of GHG emissions. In general, publicly accessible sources were used for the conversion factors; as a rule, the publications of or information from the Germany Federal Environment Agency were used (in particular: BMU: in particular –"CO2-Emission Factors for Fossil Fuels" (15 April 2016); BMU: "Determining Specific Greenhouse Emission Factors for District Heat"; BMU: "Development of the Specific Carbon Dioxide Emissions of the German Electricity Mix between 1990 and 2017"). The CO2 emission figures for fleet vehicles and company cars were supplied directly by the billing company. Business trips taken for LEG by LEG employees in their own vehicles are not included. The increase compared to previous years is essentially on account of the substantially higher heating oil consumption at Biomasse Heizkraftwerk Siegerland. The prior-year figures were corrected for an arithmetical error.

[2] Includes the CO2 emissions equivalent for electricity generation and district heating less the indirect CO2 emissions caused by the combustion of heating oil for at Biomasse Heizkraftwerk Siegerland.

[3] Due to the selective use of renewable energies, there are no significant CO2 equivalents for biogenic CO2 emissions.

[4] Figures relate exclusively to the aforementioned energy consumption volumes. In general, publicly accessible sources were used for the conversion factors; as a rule, the publications of the German Federal Office of Economics and Export Control were used, especially the information leaflet on CO2 factors (11/2021).

[5] Figures relate exclusively to the aforementioned energy consumption volumes. In general, publicly accessible sources were used for the conversion factors; as a rule, the publications of or information from the Germany Federal Environment Agency were used (in particular: BMU: in par-ticular – "CO2-Emission Factors for Fossil Fuels" (excerpt, 15 April 2016); BMU: "Determining Specific Greenhouse Emission Factors for District Heat"; BMU: "Development of the Specific Carbon Dioxide Emissions of the German Electricity Mix between 1990 and 2017"). The conversion factors between electricity emissions and electricity consumption were calculated on the basis of samples of electricity bills from utility companies and the emissions for specific rates/utility companies indicated here in the individual financial years. The reduction in CO2 emissions for electricity is essentially due to the lower CO2 emissions caused by electricity generation by the main utility company.

[6] Figures relate exclusively to the aforementioned energy consumption volumes. In general, publicly accessible sources were used for the conversion factors; as a rule, the publications of the German Federal Office of Economics and Export Control were used, especially the information leaflet on CO2 factors (11/2021).

[7] Figures relate exclusively to the aforementioned energy consumption volumes. In general, publicly accessible sources were used for the conversion factors; as a rule, the publications of the German Federal Office of Economics and Export Control were used, especially the information leaflet on CO2 factors (11/2021). Utility-specific, certified figures were used for the district heating emission factors where available. District heating is currently valued according to the electricity credit method.

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Key area: environment

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Waste by type and disposal method					
Administrative offices					306-03
Total weight of hazardous waste [1]	t	–	–	–	
Total weight of non-hazardous waste [2]	t	1,349.2	1,628.8	1,982.2	
Housing portfolio					
Total weight of hazardous waste [3]	t	–	–	–	
Total weight of non-hazardous waste	t	29,540.7	29,809.3	30,900.6	
Residual waste	t	17,959.4	18,106.2	18,398.3	
Recyclable materials (lightweight packaging, Green Dot materials)	t	1,885.9	1,911.6	1,964.7	
Paper, card, cardboard packaging	t	8,585.9	8,656.9	9,214.5	
Biodegradable waste	t	1,109.5	1,134.6	1,323.1	
Total weight of hazardous and non-hazardous waste [4]	t	–	–	–	

[1] No hazardous waste is generated in the administrative offices.
[2] All administrative buildings are reported from the 2020 calendar year onwards. Information was provided from 13 locations, both internally and externally rented properties for 2022. Only consumption at headquarters in Dusseldorf was reported in previous years.
[3] Hazardous waste is generated in the course of renovating and modernising buildings and apartments. However, the exact volume is not recorded, as LEG has such little economic, legal, organisational or any other influence over the waste-generating activities of its contractor that LEG does not qualify as the waste generator within the meaning of waste legislation.
[4] N. a. as there are no data for hazardous waste.

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Key area: society

Key performance indicator(s)	Unit	2020	2021	2022	GRI standards
Operations with local community engagement, impact assessments, and development programs					
Branches that implemented neighbourhood measures in the reporting period	%	100	100	100	413–01
Neighbourhood measures implemented	Number	approx. 52	approx. 50	approx. 91	
Percentage of cooperation measures [1]	%	n. a.	n. a.	41	
Percentage of cooperations with local communities	%	n. a.	n. a.	11	

[1] All measures include the city as a partner.

Recommendations from the Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was founded by the Financial Stability Board to develop a common framework for reporting on environmental risks and opportunities, thereby promoting international financial stability. Its focus is disclosing financial risks to which the company sees itself exposed as a result of climate change. We regard the TCFD recommendation as a meaningful addition to our previous reporting, especially with its forward-looking elements.

As a supplement to reporting in line with GRI, we are establishing a reference to the TCFD recommendations.

This year's reporting also includes some information within the core areas of governance, strategy and risk management recommended by TCFD as well as key figures and targets. The table below refers to the relevant contents in the annual report 2022 – also in the separate non-financial report and on our website.

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TCFD requirements	Annual report 2022	Non-financial report 2022	Website
Governance: The company's organisational structure with regard to climate-related risks and opportunities	Chapter "Risks, opportunities and forecast report" (section "Governance, risk & compliance"), p. 66 ff. Chapter "Remuneration report", p. 83 ff.	Chapter "Key area: business", section "Sustainable growth and resilience", organisation of sustainability management at LEG, p. 124 ff. et seq.	LEG website "Sustainability" https://www.leg-wohnen.de/en/corporation/sustainability LEG website "Corporate governance" https://www.leg-wohnen.de/en/corporation/corporate-governance/risk-management-system LEG declaration of fundamental values https://www.leg-wohnen.de/en/corporation/corporate-governance/compliance-at-leg/declaration-of-fundamental-values-of-leg Compliance at LEG https://www.leg-wohnen.de/en/corporation/corporate-governance/compliance-at-leg Rules of Procedure for the Supervisory Board Rules of Procedure for the Management Board www.leg-wohnen.de/en/corporation/leg-group/members-of-the-management-and-supervisory-board Rules of Procedure for the Risk and Audit Committee www.leg-wohnen.de/en/corporation/leg-group/members-of-the-management-and-supervisory-board
Strategy: The present and potential impact of climate-related risks and opportunities on business, strategy and financial planning	Chapter "Risks, opportunities and forecast report", p. 66 ff.	Chapter "Notes on contents of report and framework", section "Material aspects, p. 122 ff.	LEG website "Sustainability" www.leg-wohnen.de/en/corporation/sustainability LEG website "ESG-Agenda" https://ir.leg-se.com/fileadmin/user_upload/Investor_Relations/Audiocasts/2021/ESG_Agenda2024.pdf

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TCFD requirements	Annual report 2022	Non-financial report 2022	Website
Risk management: The processes for identifying, assessing and managing climate-related risks	Chapter "Risks, opportunities and forecast report", section "Risk categorisation", p. 71 ff.[1]: "Barring a few exceptions, the risk situation is the same as in the previous year. There is no relevant individual risk within the accounting and sustainability risk main risk categories." Chapter "Non-financial report", section "Risk assessment", p. 124: "The LEG Group management does not believe that there are any non-financial risks that meet materiality criteria under section 289c (3) no. 3 and 4 HGB after taking account of risk mitigation measures." Chapter "Risks, opportunities and forecast report", p. 78 ff. et seq. "To mitigate future climate-related physical and transitional risks, in 2021 LEG began integrating risks in the risk management system in line with the TCFD recommendations. The Group's TCFD risk assessment covers all risks posed by climate change (physical risks) and risks resulting from the shift to a green economy (transitional risks). Risk potential is reported in monetary terms and shown in the R2C risk management tool. These are also reported to the LEG Management Board and Supervisory Board as part of quarterly risk reporting. Integration of these risk measures is being continuously expanded." Chapter "Risks, opportunities and forecast report", p. 79 et seq. "Sustainability risks are a main risk category, which does not contain any relevant individual risks or risks subject to reporting requirements according to the LEG risk assessment matrix."	Chapter "Notes on contents of report and framework", section "Risk assessment", p. 124	LEG website "Sustainability" http://www.leg-wohnen.de/fileadmin/dateien/02_Unternehmen/Nachhaltigkeit/Nachhaltigkeitsberichte/LEG_nonfinancial_Informationen_2022.pdf LEG website "Corporate Governance" www.leg-wohnen.de/en/corporation/corporategovernance/risk-management-system
Key figures and targets: The key figures and targets used to assess and manage relevant climate-related risks and opportunities		Chapter "Non-financial report", section "Risk assessment", p. 124: "The LEG Group management does not believe that there are any non-financial risks that meet materiality criteria under section 289c (3) no. 3 and 4 HGB after taking account of risk mitigation measures." Chapter "Key area: Environment", p. 131 f.	LEG website "Sustainability" www.leg-wohnen.de/en/corporation/sustainability http://www.leg-wohnen.de/fileadmin/dateien/02_Unternehmen/Nachhaltigkeit/Nachhaltigkeitsberichte/LEG_nonfinancial_Informationen_2022.pdf

[1] Presentation of general opportunities and risks from modernisation and regulations relating to environmental policy – a risk and opportunity report on the basis of various climate scenarios is currently being planned.

4

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

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Assets

€ million	Notes	31.12.2022	31.12.2021
Non-current assets		**20,783.4**	**19,716.7[1]**
Investment properties	E.1	20,204.4	19,178.4[1]
Prepayments on investment properties		60.8	23.4
Property, plant and equipment	E.2	147.6	86.3[1]
Intangible assets and goodwill	E.3	5.8	297.6[1]
Investments in associates		12.8	10.5
Other financial assets	E.4	337.9	111.2
Receivables and other assets	E.5	0.9	0.2
Deferred tax assets	E.13	13.2	9.1
Current assets		**541.7**	**842.7[1]**
Real estate inventory and other inventory		5.0	2.9
Receivables and other assets	E.5	163.8	154.7[1]
Income tax receivables	E.13	10.7	9.5
Cash and cash equivalents	E.6	362.2	675.6
Assets held for sale	E.7	**35.6**	**37.0**
Total assets		**21,360.7**	**20,596.4[1]**

Equity and liabilities

€ million	Notes	31.12.2022	31.12.2021
Equity	E.8	**9,083.9**	**8,952.9[1]**
Share capital		74.1	72.8
Capital reserves		1,751.1	1,639.2
Cumulative other reserves		7,233.4	7,215.9
Equity attributable to shareholders of the parent company		9,058.6	8,927.9
Non-controlling interests		25.3	25.0[1]
Non-current liabilities		**11,699.5**	**9,736.6[1]**
Pension provisions	E.9	100.4	142.9
Other provisions	E.10	3.8	6.7
Financing liabilities	E.11	9,208.4	7,366.2[1]
Other liabilities	E.12	67.2	200.0
Deferred tax liabilities	E.13	2,319.7	2,020.8[1]
Current liabilities		**577.3**	**1,906.9[1]**
Pension provisions	E.9	6.8	6.7
Other provisions	E.10	33.4	25.2
Provisions for taxes		0.2	0.2
Financing liabilities	E.11	252.4	1,518.1
Other liabilities	E.12	278.3	339.6[1]
Tax liabilities		6.2	17.1
Total equity and liabilities		**21,360.7**	**20,596.4[1]**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

Consolidated statement of comprehensive income

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€ million	Notes	01.01.–31.12.2022	01.01.–31.12.2021
Net operating income	F.2	413.5	522.1
Rental and lease income		1,149.4	960.4
Cost of sales in connection with rental and lease income		–735.9	–438.3
Net income from the disposal of investment properties	F.3	–1.5	–1.0
Income from the disposal of investment properties		51.0	31.8
Carrying amount of the disposal of investment properties		–51.3	–31.8
Cost of sales in connection with disposed investment properties		–1.2	–1.0
Net income from the remeasurement of investment properties	F.4	382.4	1,863.7
Net income from the disposal of real estate inventory		–0.2	0.5
Income from the real estate inventory disposed of		0.1	1.3
Carrying amount of the real estate inventory disposed of		–0.1	–1.1
Costs of sales of the real estate inventory disposed of		–0.2	0.3
Income from other services	F.5	16.4	5.7
Income from other services		28.4	13.6
Expenses in connection with other services		–12.0	–7.9
Administrative and other expenses	F.6	–182.6	–136.4
Other income		0.1	0.1
Operating earnings		628.1	2,254.7
Interest income		2.5	1.3
Interest expenses	F.7	–143.0	–121.7
Net income from investment securities and other equity investments	F.8	–101.4	6.4
Net income from associates		0.3	0.3
Net income from the fair value measurement of derivatives	F.9	121.5	–2.3
Earnings before income taxes		508.0	2,138.7
Income taxes	F.10	–270.6	–414.0
Net profit or loss for the period		237.4	1,724.7
Change in amounts recognised directly in equity		78.2	25.4
Thereof recycling			
Fair value adjustment of interest rate derivatives in hedges		51.5	18.4
Change in unrealised gains/(losses)		62.8	22.3
Income taxes on amounts recognised directly in equity		–11.3	–3.9
Thereof non-recycling			
Actuarial gains and losses from the measurement of pension obligations		26.7	7.0
Change in unrealised gains/losses		38.3	10.1
Income taxes on amounts recognised directly in equity		–11.6	–3.1
Total comprehensive income		315.6	1,750.1
Net profit or loss for the period attributable to:			
Non-controlling interests		3.4	3.1
Parent shareholders		234.0	1,721.6
Total comprehensive income attributable to:			
Non-controlling interests		3.4	3.1
Parent shareholders		312.2	1,747.0
Earnings per share (basic) in €	F.11	3.18	23.75
Earnings per share (diluted) in €	F.11	1.45	21.72

Statement of changes in consolidated equity

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€ million	Share capital	Capital reserves	Cumulative other reserves: Revenue reserves	Cumulative other reserves: Actuarial gains and losses from the measurement of pension obligations	Cumulative other reserves: Fair value adjustment of interest derivatives in hedges	Equity attributable to shareholders of the Group	Non controlling interests[1]	Consolidated equity
As of 01.01.2021	**72.1**	**1,553.1**	**5,824.8**	**–50.1**	**–34.3**	**7,365.6**	**24.3**	**7,389.9**
Net profit or loss for the period	–	–	1,721.6	–	–	1,721.6	3.1	1,724.7
Other comprehensive income	–	–	–	7.0	18.4	25.4	0.0	25.4
Total comprehensive income	**–**	**–**	**1,721.6**	**7.0**	**18.4**	**1,747.0**	**3.1**	**1,750.1**
Change in consolidated companies	–	–	–	–	–	–	0.4	0.4
Capital increase	0.7	86.1	–	–	–	86.8	–	86.8
Other	–	–	1.7	–	–	1.7	–	1.7
Withdrawals from reserves	–	–	–	–	–	–	–2.7	–2.7
Changes from put options	–	–	–0.7	–	–	–0.7	–	–0.7
Distributions	–	–	–272.5	–	–	–272.5	–0.1	–272.6
As of 31.12.2021	**72.8**	**1,639.2**	**7,274.9**	**–43.1**	**–15.9**	**8,927.9**	**25.0**	**8,952.9**
As of 01.01.2022	**72.8**	**1,639.2**	**7,274.9**	**–43.1**	**–15.9**	**8,927.9**	**25.0**	**8,952.9**
Net profit or loss for the period	–	–	234.0	–	–	234.0	3.4	237.4
Other comprehensive income	–	–	–	26.7	51.5	78.2	0.0	78.2
Total comprehensive income	**–**	**–**	**234.0**	**26.7**	**51.5**	**312.2**	**3.4**	**315.6**
Change in consolidated companies	–	–	–	–	–	–	–	–
Capital increase	1.3	111.9	–	–	–	113.2	–	113.2
Other	–	–	1.8	–	–	1.8	–	1.8
Withdrawals from reserves	–	–	–	–	–	–	–2.5	–2.5
Changes from put options	–	–	–	–	–	–	–	–
Distributions	–	–	–296.5	–	–	–296.5	–0.6	–297.1
As of 31.12.2022	**74.1**	**1,751.1**	**7,214.2**	**–16.4**	**35.6**	**9,058.6**	**25.3**	**9,083.9**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

See > section E.8 of the notes.

Consolidated statement of cash flows

T77

€ million	01.01.–31.12.2022	01.01.–31.12.2021
Operating earnings	628.1	2,254.7
Depreciation on property, plant and equipment and amortisation on intangible assets	314.4	18.1
(Gains)/Losses from the remeasurement of investment properties	–382.4	–1,863.7
(Gains)/Losses from the disposal of assets held for sale and investment properties	0.3	0.0
(Gains)/Losses from disposal of intangible assets and property, plant and equipment	0.1	0.0
(Decrease)/Increase in pension provisions and other non-current provisions	–7.0	–4.9
Other non-cash income and expenses	29.2	9.9
(Decrease)/Increase in receivables, inventories and other assets	–68.1	–30.7
Decrease/(Increase) in liabilities (not including financing liabilities) and provisions	–7.3	57.4
Interest paid	–114.0	–86.7
Interest received	0.7	0.0
Received income from investments	5.5	3.6
Income taxes received	3.7	2.4
Income taxes paid	–14.2	–6.4
Net cash from/(used in) operating activities	**389.0**	**353.7**
Cash flow from investing activities		
Investments in investment properties	–748.2	–1,348.7
Proceeds from disposals of non-current assets held for sale and investment properties	39.8	37.2
Investments in intangible assets and property, plant and equipment	–77.9	–11.3
Payments for investments in financial assets and other assets	–293.3	–100.7
Acquisition of shares in consolidated companies	–9.2	–1,283.7
Change of cash investment in securities	30.0	–44.7
Net cash from/(used in) investing activities	**–1,058.8**	**–2,751.9**

€ million	01.01.–31.12.2022	01.01.–31.12.2021
Cash flow from financing activities		
Borrowing of bank loans	511.0	1,498.2
Repayment of bank loans	–1,438.6	–238.9
Repayment of lease liabilities	–10.7	–11.6
Issue of corporate bonds/convertible bonds	1,482.4	1,678.0
Distribution to minorities	–2.4	–1.8
Distribution to shareholders	–183.3	–185.6
Other payments	–2.0	–
Other proceeds	–	0.1
Net cash from/(used in) financing activities	**356.4**	**2,738.4**
Change in cash and cash equivalents	**–313.4**	**340.2**
Cash and cash equivalents at beginning of period	675.6	335.4
Cash and cash equivalents at end of period	**362.2**	**675.6**
Composition of cash and cash equivalents		
Cash in hand, bank balances	362.2	675.6
Cash and cash equivalents at end of period	**362.2**	**675.6**

See > section G of the notes.

Notes

A. General information on the consolidated financial statements of LEG Immobilien SE

1 | Basic information on the Group

LEG Immobilien SE, Dusseldorf, its subsidiaries and second-tier subsidiaries, in particular LEG NRW GmbH, Dusseldorf, and the subsidiaries of the latter company, collectively referred to as "LEG") are among the largest residential companies in Germany. On 31 December 2022, LEG held a portfolio of 168,651 residential and commercial units (31 December 2021: 167,765), or 168,074 residential and commercial units not including IFRS 5 properties (31 December 2021: 167,524).

LEG has three core activities as an integrated property company: optimising the core business, expanding the value chain and consolidating the management platform.

These consolidated financial statements were approved for publication by LEG Immobilien SE's Management Board on 8 March 2023.

2 | Consolidated financial statements

The consolidated financial statements of LEG Immobilien SE as at 31 December 2022 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as applicable in the European Union. The consolidated financial statements have been prepared in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002, concerning the application of international accounting standards in conjunction with section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the additional provisions of commercial law.

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

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

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

The consolidated financial statements and the Group management report are published in the Unternehmensregister (Company Register).

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

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

The exemptions under section 264(3) HGB have been exercised for LEG Wohnen NRW GmbH, LEG Rheinland Cologne GmbH, LEG Wohnungsbau Rheinland GmbH, LEG Management GmbH, Ravensberger Heimstättengesellschaft mbH, WohnServicePlus GmbH, Wohnungsgesellschaft Münsterland GmbH, Ruhr-Lippe Wohnungsgesellschaft mbH, Gladbau Baubetreuungs- und Verwaltungs-Gesellschaft mbH, LEG Siebte Grundstücksverwaltungs GmbH, EnergieServicePlus GmbH, TSP-TechnikServicePlus GmbH, SW Westfalen Invest GmbH, LEG Achte Grundstücksverwaltungs GmbH, LEG Fünfte Grundstücksverwaltungs GmbH, LEG Neunte Grundstücksverwaltungs GmbH, GeWo Gesellschaft für Wohnungs- und Städtebau mbH, Grundstücksgesellschaft DuHa mbH, LWS Plus GmbH, LEG Niedersachsen GmbH, Rheinweg Grundstücksgesellschaft mbH, LEG Jade GmbH, LEG Niedersachsen Süd GmbH, LEG West VIII. GmbH, Gemeinnützige Eisenbahn-Wohnungsbau-Gesellschaft mbH and Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH. The exemption under section 264b HGB has been exercised for Biomasse Heizkraftwerk Siegerland GmbH & Co. KG.

B. New accounting standards

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

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

T78

Published IFRS and IFRIC that are not yet effective

	Content	Effective for reporting periods beginning on
Amendments to standards		
IAS 1	"Disclosure of Accounting Policies"	01.01.2023
IAS 8	"Definition of Accounting Estimates"	01.01.2023
IAS 12	"Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	01.01.2023
IAS 1	"Classification of Liabilities as Current or Non-current"	01.01.2024[1]
IFRS 16	"Lease Liability in a Sale and Leaseback"	01.01.2024[1]

[1] not yet endorsed

LEG Immobilien SE does not adopt new standards early. The amendments to the standards are not expected to have any significant impact on the accounting of LEG Immobilien SE.

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

T79

Published IFRS and IFRIC effective for the first time

	Content	Effective for reporting periods beginning on
Amendments to standards		
IFRS 16	"Covid-19-Related Rent Concessions beyond 30 June 2021"	01.04.2021
IFRS 3	"Reference to the framework"	01.01.2022
IAS 16	"Property, Plant and Equipment – Proceeds before Intended Use"	01.01.2022
IAS 37	"Onerous Contracts – Cost of Fulfilling a Contract"	01.01.2022
Various standards	"Improvements and amendments of selected IFRS standards 2018 – 2020"	01.01.2022

Only the IFRS and interpretations that affect LEG Immobilien SE's consolidated financial statements are explained in more detail below.

IFRS 16

The extension of the expedients for COVID-19-related rent concessions in accordance with IFRS 16 have no effect on LEG's lease accounting. The optional exemption from assessing whether a COVID-19-related rent concession is a lease modification was not applied at LEG. There were no cases of rent being deferred or waived as a direct result of the COVID-19 pandemic for leases in which LEG is the lessee.

C. Basis of consolidation and consolidation methods

1 | Consolidation methods

a) Subsidiaries
LEG Immobilien SE's consolidated financial statements contain all the material subsidiaries that LEG Immobilien SE controls within the meaning of IFRS 10.

Subsidiaries are included in consolidation from the date at which LEG Immobilien SE first obtains control. Subsidiaries are deconsolidated when LEG Immobilien SE no longer controls them.

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

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

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

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

A list of LEG Immobilien SE's shareholdings can be found in > section J.

2 | Changes in the Group

a) Subsidiaries
Changes in the companies included in LEG Immobilien SE's consolidated financial statements were as follows:

T80

Number of consolidated subsidiaries

	2022	2021
As of 01.01.	88	72
Additions	1	17
Disposals	0	–1
As of 31.12.	89	88

Youtilly GmbH was acquired on 14 December 2021 and included in consolidation for the first time as at 1 May 2022.

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

T81

Number of associates accounted for using the equity method

	2022	2021
As of 01.01.	2	2
Additions/Disposals	1	0
As of 31.12.	3	2

Renowate GmbH was included in the consolidated financial statements as an associate accounted for using the equity method as at 1 February 2022.

3 | Business combinations

To grow its portfolio, LEG signed a purchase agreement with the Adler Group to acquire 100 % of the shares in LEG II Germany GmbH (formerly: AFP II Germany GmbH), LEG Grundstücksverwaltungsgesellschaft mbH & Co. KG (formerly: HKA Grundstücksverwaltungsgesellschaft mbH & Co. KG), LEG Verwaltungsgesellschaft mbH (formerly: HKA Verwaltungsgesellschaft mbH), LEG JADE GmbH (formerly: Wohnungsbaugesellschaft Jade mbH), LEG 38. Wohnen GmbH (formerly: Relda 38. Wohnen GmbH), LEG 45. Wohnen GmbH (formerly: Relda 45. Wohnen GmbH), LEG Baltic GmbH (formerly: Resident Baltic GmbH), LEG West Immobilien GmbH (formerly: Westgrund Immobilien GmbH), LEG Niedersachsen Nord GmbH (formerly: Westgrund Niedersachsen Nord GmbH), LEG Niedersachsen Süd GmbH (Westgrund Niedersachsen Süd GmbH), LEG Wolfsburg GmbH (formerly: Westgrund Wolfsburg GmbH), LEG West VIII. GmbH (formerly: Westgrund VIII. GmbH) and Zweite LEG-Real Estate Opportunities GmbH (formerly: Zweite REO-Real Estate Opportunities GmbH) on 1 December 2021.

218 employees were taken on in the context of the transaction. Following antitrust approval, the transaction was closed as at 29 December 2021.

As at 29 December 2021, the acquisition of these companies is treated as a business combination as defined by IFRS 3 as significant business processes have been acquired.

The final consideration for the business combination breaks down as follows:

T82

Final consideration

€ million	29.12.2022 final	29.12.2021 provisional	Change
Cash consideration (net)	1,309.3	1,321.6	–12.3
Total consideration	**1,309.3**	**1,321.6**	**–12.3**

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

T83

Final purchase price allocation

€ million	29.12.2022 final	29.12.2021 provisional	Change
Investment properties	1,367.4	1,256.7	110.7
Property, plant and equipment – finance lease	1.7	4.2	–2.5
Deferred tax assets	0.2	0.2	0.0
Receivables from operating costs	2.2	2.1	0.1
Receivables and other assets	3.8	4.6	–0.8
Cash and cash equivalents	47.9	47.9	0.0
Total assets	**1,423.2**	**1,315.7**	**107.5**
Other financing liabilities	30.4	31.2	–0.8
Deferred tax liabilities	247.0	211.6	35.4
Other provisions	11.8	0.3	11.5
Liabilities from operating costs	–	0.0	–
Other liabilities	18.8	22.0	–3.2
Total liabilities	**308.0**	**265.1**	**42.9**
Net assets at fair value	1,115.2	1,050.6	64.6
Non-controlling interests	0.0	0.1	–0.1
Net assets at fair value without controlling interests	1,115.2	1,050.5	64.7
Total consideration	**1,309.3**	**1,321.6**	**–12.3**
Goodwill	**194.1**	**271.1**	**–77.0**

The fair value of the rent receivables acquired amounts to EUR 1.8 million in total. The gross amount of the rent receivables due is EUR 6.4 million with impairment of EUR 4.6 million recognised as at the time of acquisition.

The transaction costs of the business combination amount to EUR 82.9 million and essentially include legal and consulting expenses as well as real estate transfer tax. These were recognised as an expense.

The synergies anticipated from the business combination essentially consist of cost benefits and additional revenue potential.

The goodwill is not deductible for tax purposes.

4 | IFRS 12 disclosures

a) Disclosures on subsidiaries included in consolidation
An overview of the subsidiaries in which LEG Immobilien SE holds investments as at 31 December 2022 (IFRS 12.10 et seq.) can be found in > section J.

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

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

TSP-TechnikServicePlus GmbH is the only subsidiary with significant non-controlling interests as at 31 December 2022.

EUR 1.8 million of net profit for the period relates to the significant non-controlling interests of TSP-TechnikServicePlus GmbH in 2022. The carrying amount in the Group recognised for the non-controlling interests in TSP-TechnikServicePlus GmbH as at 31 December 2022 was EUR 0 million on account of the obligation to pay a guaranteed dividend.

T84

Statement of financial position TSP

	TSP-TechnikServicePlus GmbH	
€ million	2022	2021
Non-current		
Assets	4.0	4.9
Liabilities	–3.1	–3.1
Non-current net assets	0.9	1.8
Current		
Assets	23.7	15.5
Liabilities	–20.8	–14.5
Current net assets	2.9	1.0

T85

Statement of financial position TSP

	TSP-TechnikServicePlus GmbH	
€ million	2022	2021
Revenue/other operating income	78.5	63.2
Earnings before income taxes	3.1	0.4
Income taxes	0.8	0.6
Net profit from continued operations	2.3	–0.2
Net profit	2.3	–0.2
Total comprehensive income	2.3	–0.2
Attributable to: interests without significant influence	1.8	1.8
Paid dividend to owner without significant interest	1.8	1.8

T86

Statement of cash flows TSP

	TSP-TechnikServicePlus GmbH	
€ million	2022	2021
Net cash from/used in		
Operating activities	6.5	0.7
Investing activities	–0.2	–0.4
Financing activities	–2.3	–2.2
Change in cash and cash equivalents	**4.0**	**–1.9**

c) Disclosures on associates

Disclosures on significant associates

The investments in associates affect LEG's statement of financial position and its statement of comprehensive income as follows:

T87

Impact from associates

€ million	2022	2021
Recognition	12.8	10.5
Total comprehensive income	0.3	0.3

The disclosures on the equity investments in associates classified as material are listed below.

T88

Material associates accounted for using the equity method

€ million	Share of capital in %	Equity	Result
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	23.1	0.6
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	4.1	0.2
Renowate GmbH, Lindau	50.00	0.0	0.0[1]

[1] The company was accounted for using the equity method as at 1 February 2022.

Kommunale Haus und Wohnen GmbH and Beckumer Wohnungsgesellschaft mbH perform property management activities. Renowate GmbH performs serial refurbishment activities.

The relationships with the associates are of an operational nature. All the companies listed above are recognised in the consolidated financial statements using the equity method. There are no quoted market prices.

The summary financial information for the material associates of the Group is shown below. The financial information shown below is consistent with the amounts in the financial statements of the associates.

T89

Statement of financial position (associates)

€ million	Kommunale Haus und Wohnen GmbH 31.12.2022	Kommunale Haus und Wohnen GmbH 31.12.2021	Beckumer Wohnungs-gesellschaft mbH 31.12.2022	Beckumer Wohnungs-gesellschaft mbH 31.12.2021	Total 31.12.2022	Total 31.12.2021
Non-current assets	60.0	55.0	9.8	8.5	69.8	63.5
Current assets	2.4	2.1	0.4	0.5	2.8	2.6
Cash and cash equivalents	1.5	1.1	0.8	0.3	2.3	1.4
Other assets	–	–	–	–	–	–
Non-current liabilities	34.3	25.9	6.2	4.7	40.5	30.6
Current liabilities	6.5	9.7	0.7	0.7	7.2	10.4
Financing liabilities	–	–	–	–	–	–
Non-financing liabilities	–	–	–	–	–	–
Net assets	**23.1**	**22.6**	**4.1**	**3.9**	**27.2**	**26.5**

T90

Statement of profit or loss (associates)

€ million	Kommunale Haus und Wohnen GmbH 31.12.2022	Kommunale Haus und Wohnen GmbH 31.12.2021	Beckumer Wohnungs-gesellschaft mbH 31.12.2022	Beckumer Wohnungs-gesellschaft mbH 31.12.2021	Total 31.12.2022	Total 31.12.2021
Revenue	6.8	6.4	1.3	1.6	8.1	8.0
Depreciation	1.4	1.3	0.2	0.2	1.6	1.5
Interest income	–	–	–	–	–	–
Interest expense	0.3	0.3	0.1	0.1	0.4	0.4
Income taxes	–	–	–	–	–	–
Net profit from continued operations	0.6	0.7	0.2	0.2	0.8	0.9
Net profit after taxes from discontinued operations	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**0.6**	**0.7**	**0.2**	**0.2**	**0.8**	**0.9**

Statement of reconciliation from summary financial information to the carrying amount of the equity investments:

T91

Reconciliation (associates)

€ million	Kommunale Haus und Wohnen GmbH 31.12.2022	Kommunale Haus und Wohnen GmbH 31.12.2021	Beckumer Wohnungs-gesellschaft mbH 31.12.2022	Beckumer Wohnungs-gesellschaft mbH 31.12.2021	Total 31.12.2022	Total 31.12.2021
Net assets of associates as of 01.01.	22.6	22.0	3.9	3.7	26.5	25.7
Net profit/loss	0.6	0.7	0.2	0.2	0.8	0.9
Addition to reserves	-0.1	-0.1	–	–	-0.1	-0.1
Dividend	–	–	–	–	–	–
Net assets of associates as of 31.12.	23.1	22.6	4.1	3.9	27.2	26.5
Group share in %	40.62	40.62	33.37	33.37	–	–
Interest in net assets of associates	9.4	9.2	1.4	1.3	10.8	10.5
Carrying amount of the investment	**9.4**	**9.2**	**1.4**	**1.3**	**10.8**	**10.5**

The annual financial statements of both companies as at 31 December 2022 are not yet available and therefore the figures as at 31 December 2021 have also been used for 2022.

Renowate GmbH was included in the consolidated financial statements as an associate accounted for using the equity method as at 1 February 2022. The carrying amount of the equity investment is EUR 2.0 million.

d) Disclosures on other companies
Furthermore, LEG Immobilien SE holds an interest of 35.66 % (previous year: 7.95 %) in Brack Capital Properties N.V. (BCP), Amsterdam, the Netherlands. Owing to the shareholder structure, LEG does not have a significant influence on the financial and operating policies of BCP. BCP is therefore not included in LEG Immobilien SE's consolidated financial statements as an associate.

D. Accounting policies

1 | Investment property

Investment property consists of LEG's properties that are held to earn rentals or for capital appreciation or both, rather than for owner occupancy or sale in the ordinary course of business. Investment property includes land with residential and commercial buildings, undeveloped land, land with transferable leasehold land interests, parking spaces and garages.

In accordance with IFRS 5, investment property that is held for sale and that is highly likely to be sold within the next 12 months is recognised as an asset held for sale under current assets. Its measurement is consistent with the measurement of investment property.

Mixed-used properties are separated into the owner-occupied part and the part rented to third parties to the extent that it is legally possible to separate the property in question, and neither the owner-occupied portions nor the portions rented to third parties are immaterial. The portion rented to third parties is allocated to investment property, while the owner-occupied portion is recognised under property, plant and equipment. The ratio of the respective areas is used to allocate the components.

Property is transferred from investment property when there is a change in use evidenced by the commencement of owner-occupancy or development with a view to sale.

Unless acquired as part of a business combination, investment property is recognised at cost including incidental costs on acquisition. In accordance with the option provided by IAS 40 in conjunction with IFRS 13, investment property is subsequently recognised at fair value. IFRS 13.9 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value assumes the sale of an asset (exit price). It corresponds to the (theoretical) price to be paid to the seller in the event of a (hypothetical) sale of a property at the measurement date, regardless of an entity's specific intention or ability to sell. The concept of highest and best use of the property is assumed in calculating fair value (IFRS 13.27 et seq.). This implies the use or value maximisation of the asset as far as it is physically possible, legally permissible and financially feasible. Further details can be found in > section D.18. Changes in the fair value of property are recognised in profit or loss for the period in which they occur.

Prepayments for property acquisitions are presented as prepayments for investment property. Prepayments for investment property for which the economic transfer has not yet taken place are shown under prepayments for investment property.

Subsequent costs for extension, partial replacement or maintenance of properties (IAS 40.17) are capitalised if they constitute the replacement of parts of a unit in accordance with the component approach (IAS 40.19) and the costs can be reliably determined. In addition, such costs are capitalised if the activities will result in increased future benefits and the costs can be reliably determined. Capitalised costs are not depreciated, as depreciation is not generally recognised in connection with the fair value option provided by IAS 40.

Individual units are sold to tenants, owner-occupants and private investors as part of portfolio optimisation measures.

Fair values are calculated internally by LEG Immobilien SE. In addition to the fair values calculated internally by LEG, the property portfolio was valued by an independent, third-party expert as at 30 June 2022 and 31 December 2022. LEG Immobilien SE uses the third-party valuation to validate its own calculations and as a general confirmation of the value of the portfolio as a whole through a second opinion.

The properties are reviewed individually by LEG Immobilien SE at the level of individual building entrances in terms of their location, condition, fixtures and fittings, current contractual rent and potential for development. The fair values calculated are consistent with the IFRS market values, i.e. the amount for which the respective property could be exchanged between market participants under current market conditions on the measurement date in an orderly transaction (IAS 40.5 in conjunction with IFRS 13.15).

The fair values of investment property and properties held for sale are calculated on the basis of the forecast net cash flows from property management using the discounted cash flow (DCF) method. For properties with no positive net cash flow (generally vacant buildings), the fair value is calculated using a liquidation value method. Undeveloped land is usually valued on the basis of an indirect comparison of indicative land values.

A detailed planning period of ten years is used in DCF measurement. After the end of the tenth year, a sales value is applied, which is calculated by capitalising the forecast annual net income achievable in the long term, taking into account the finite remaining useful life of the property in the capitalisation rate. Based on the assumption of a finite remaining useful life, the land value discounted to the end of the remaining useful life and then discounted to the valuation date less demolition costs is added to the property value. At the beginning of the detailed planning period, the contractually agreed rental income of the respective property and other property-specific value parameters are assumed.

The average monthly in-place rent for the rented apartments in the property portfolio (referring here and hereinafter to both investment property and properties held for sale) used for the measurement of buildings predominantly used for residential purposes was EUR 6.25 per square metre as at the end of the reporting period (previous year: EUR 6.13 per square metre per month). These properties can also contain commercial units in some cases. The future development of annual rent is projected on the basis of individual assumptions for the planning period. A distinction is made between rental income from existing tenancies and new lettings due to forecast fluctuation. Market rent rises annually at an individually determined rate in the detailed planning period. For new lettings, rent in the amount of the assumed market rent is applied. The market rent increases applied range from 0.75 % to 1.94 % (previous year: 0.74 % to 1.88 %) based on specific market and property assessments. Rent from existing tenancies is projected on the basis of the statutory environment and the assessment of the respective market and property, and is assumed to converge with the overall market trend over time. The vacancy rate in terms of rental and usable space used for measurement is adjusted to a stabilised vacancy rate in line with market conditions, which also take location into account and the individual characteristics of the property where appropriate over a period of four years.

Publicly subsidised properties are treated differently depending on the existence and duration of potential rent control. If rent control is set to end within the ten-year detailed planning period, a rent adjustment towards the market rent is assumed for the subsequent year, taking the statutory requirements into account. For the remaining subsidised properties, a discount on the capitalisation rate is recognised depending on the remaining duration of rent control.

For maintenance and management costs of properties predominantly used for residential purposes, approaches were selected that are based on the II. Berechnungsverordnung (Second German Computation Ordinance, version in effect from 1 January 2020). The assumed reactive and periodic maintenance costs are derived on the basis of the technical assessment of the property and the year of construction, while standard amounts per residential unit and per parking space are used for administrative costs. Furthermore, the costs for carbon emission allowances are taken into account in cost assumptions on the basis of a price path, a distribution ratio between tenants and landlords and taking buildings’ energy performance classes as per their energy efficiency certificates into account.

For residential buildings with a commercial component or other type of use, administrative costs for the non-residential component are calculated at 1 % (previous year: 1 %) of gross commercial income.

Management costs under the Second German Computation Ordinance have been adjusted in relation to the change in the consumer price index every three years since 2005. For continuity, between the adjustment dates, the management model applies a standard annual increase in management costs distributed over three years, which is based on the expected development of the Second German Computation Ordinance.

In addition, the development of maintenance and management costs was dynamic in the period under review. Given the current market situation, the expected cost increase has been determined differently for each annual tranche and broken down by cost types. The change in the consumer price index is used for general cost increases. The basis for this is still the long-term inflation target (2 %) of the European Central Bank (ECB). Current trends were anticipated from publications by Deutsche Bundesbank, economic reports on behalf of the German Federal Ministry for Economic Affairs and Climate Action and the Federal Statistical Office.

In view of the current market dynamics, trends in construction prices have been separated out for the first time on account of the cost increase expected this year according to the Federal Statistical Office. The rise in administrative costs is still forecast on the basis of the core rate of the development of the consumer price index.

Around 1.26 % (previous year: 1.26 %) of the units in the portfolio are classified as commercial properties. These properties can contain residential units in some cases, but they are characterised by their predominantly commercial character. Owing to the differing rent terms and market conditions compared to the residential portfolio, these properties are also subject to different assumptions with regard to the key parameters affecting their value. The average rent of the predominantly commercial properties is EUR 7.76 per square metre (previous year: EUR 7.61 per square metre).

Cash flows are discounted using standard market discount rates with matching maturities of 3.70 % on average (previous year: 3.92 %) and standard market capitalisation rates of 5.20 % (previous year: 5.32 %); this takes into account the management cost ratio of the specific property and reflects the individual risk/opportunity profile of the property. The remaining useful lives of properties are taken into account in the capitalisation rates.

In addition to location criteria, an appropriate interest rate is determined taking into account the property type, property condition, age, potential rental growth, the forecast for the location and potential government subsidies in particular.

Owing to the limited availability of market data, i.e. data and measurement parameters not directly observable on the market, the complexity of property valuation and the degree of property specification, the fair value measurement of investment property is assigned to Level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). Further details can be found in > section D.18.

In measurement, investment property is broken down into categories defined by type of use:

- residential property;
- commercial property;
- garages, underground garages or parking spaces/other properties;
- leasehold and undeveloped land.

Commercial property is defined as property upwards of 1,000 square metres of usable space or in which 50 % of the building is used for commercial purposes. Other properties are essentially units with outside advertising media and wireless antennas.

Properties are also broken down according to three market clusters using a scoring system: growth markets (“orange”), stable markets (“green”) and higher yielding markets (“purple”).

The table below shows the measurement method used to determine the fair value of investment property as of 31 December 2022 and the material unobservable inputs used:

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Valuation parameters as at 31 December 2022

	GAV investment properties	Valuation technique[1]	Market rent residential/commercial €/sqm			Maintenance cost residential/commercial €/sqm			Administrative cost residential/commercial €/unit			Stabilised vacancy rate %		
	(€ million)		min	Ø	max	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets														
High-growth markets	8,203	DCF	3.85	8.83	14.53	8.96	13.01	18.41	201	344	522	1.0	1.7	6.0
Stable markets	7,000	DCF	1.92	7.52	13.84	9.18	13.04	17.92	210	342	522	1.5	2.8	9.0
Higher-yielding markets	3,740	DCF	0.03	6.42	9.62	8.22	13.24	18.27	196	346	522	1.5	4.4	12.5
Commercial assets	250	DCF	0.09	7.47	27.00	4.01	7.09	13.21	1	294	5,481	1.0	2.5	8.5
Leasehold	252	DCF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	–	–	–
Parking + other assets	403	DCF	0.00	0.00	0.00	38.72	82.24	100.88	44	44	45	–	–	–
Land values	33	Earnings/ reference value method	0.00	0.00	0.00	0.00	0.00	0.00	0	4	11	–	–	–
Total portfolio (IAS 40)[2]	**19,881**	**DCF**	**0.03**	**7.45**	**27.00**	**4.01**	**19.93**	**100.88**	**0**	**314**	**5,481**	**1.0**	**3.1**	**12.5**

	Discount rate %			Capitalisation rate %			Estimated rental development %		
	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets									
High-growth markets	2.3	3.7	7.0	1.8	4.4	11.2	1.1	1.6	1.9
Stable markets	2.3	3.7	7.5	1.3	5.0	11.6	0.9	1.3	1.9
Higher-yielding markets	2.20	3.50	7.00	2.50	5.40	11.90	0.8	1.1	1.8
Commercial assets	2.50	6.40	9.50	2.80	7.00	10.90	0.8	1.4	1.8
Leasehold	2.50	3.50	7.00	–	–	–	–	–	–
Parking + other assets	2.30	3.70	5.50	2.00	6.60	12.20	0.8	1.3	1.9
Land values	2.60	3.70	4.90	2.50	10.30	11.70	0.8	1.3	1.7
Total portfolio (IAS 40)[2]	**2.20**	**3.70**	**9.50**	**1.30**	**5.20**	**12.20**	**0.8**	**1.3**	**1.9**

[1] In addition, as at 31 December 2022, there are assets held for sale (IFRS 5) in the amount of EUR 35.6 million, which correspond to Level 2 of the fair value hierarchy.
[2] Property valuation with cut-off date as of 30 September 2022 and revaluation date as of 31 December 2022.

The table below shows the measurement method used to determine the fair value of investment property as at 31 December 2021:

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Valuation parameters as at 31 December 2021

	GAV investment properties	Valuation technique[1]	Market rent residential/commercial €/sqm			Maintenance cost residential/commercial €/sqm			Administrative cost residential/commercial €/unit			Stabilised vacancy rate %		
	(€ million)		min	Ø	max	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets														
High-growth markets	6,970	DCF	3.63	8.51	14.31	5.72	11.79	16.04	185	311	476	1.0	1.8	6.0
Stable markets	6,059	DCF	1.90	7.02	13.53	6.68	11.85	15.84	179	309	476	1.5	2.9	9.0
Higher-yielding markets	3,061	DCF	0.33	6.09	9.21	6.05	12.00	15.91	178	309	476	1.5	4.3	8.0
Commercial assets	222	DCF	0.50	7.45	27.00	4.01	7.25	15.61	6	271	5,481	1.0	2.5	8.0
Leasehold	181	DCF	–	–	–	–	–	–	2	25	75	–	–	–
Parking + other assets	340	DCF	–	–	–	34.95	75.96	91.05	40	40	41	–	–	–
Land values	28	Earnings/ reference value method	–	–	–	–	–	–	0	4	11	–	–	–
Total portfolio (IAS 40)[2]	**16,861**	**DCF**	**0.33**	**7.07**	**27.00**	**4.01**	**18.08**	**91.05**	**0**	**282**	**5,481**	**1.0**	**3.1**	**9.0**

	Discount rate %			Capitalisation rate %			Estimated rental development %		
	min	Ø	max	min	Ø	max	min	Ø	max
Residential assets									
High-growth markets	2.60	3.85	7.00	1.78	4.50	10.73	1.1	1.6	1.9
Stable markets	2.60	3.84	7.50	1.93	5.13	11.34	0.9	1.3	1.9
Higher-yielding markets	2.70	3.97	4.55	2.48	5.60	11.50	0.7	1.1	1.5
Commercial assets	2.50	6.44	9.00	2.75	7.05	10.98	0.9	1.4	1.8
Leasehold	2.75	3.93	6.00	10.08	10.80	11.36	1.0	1.4	1.7
Parking + other assets	2.50	3.91	4.90	2.26	6.47	12.28	0.7	1.3	1.9
Land values	3.60	3.90	4.50	2.66	10.76	12.10	0.9	1.3	1.8
Total portfolio (IAS 40)[2]	**2.50**	**3.92**	**9.00**	**1.78**	**5.32**	**12.28**	**0.7**	**1.3**	**1.9**

1 Property valuation with cut-off date as of 30 September 2021 and revaluation date as of 31 December 2021.
2 In addition, as at 31 December 2021, there are assets held for sale (IFRS 5) in the amount of EUR 37 million, which correspond to Level 2 of the fair value hierarchy.

2 | Property, plant and equipment

Property, plant and equipment is recognised at cost and depreciated on a straight-line basis over its expected useful life.

Any subsidies received are deducted in calculating cost.

Depreciation is recognised using the following useful lives, which are applied uniformly throughout the Group:

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Useful life of property, plant and equipment

in years	2022	2021
Owner-occupied residential properties	80	80
Owner-occupied commercial properties	50	50
Technical equipment and machinery/Other operating and office equipment	3 to 23	3 to 23

Low-value assets with a net value of up to EUR 250 recognised as an expense immediately in the year of their acquisition. Assets with a net value of between EUR 250.01 and EUR 800 are written off in full in the year of their acquisition. Deviations from the economic life of the respective assets are considered immaterial.

3 | Intangible assets and goodwill

Purchased intangible assets are capitalised at cost. Such assets are software licenses with a definite useful life. Software licenses are amortised on a straight-line basis over an expected economic life of between three and five years from the date on which they are provided.

The goodwill resulting from purchase price allocation (PPA) is allocated to the cash-generating units (CGUs) expected to benefit from the business combination. The partial goodwill method is applied in calculating goodwill.

There were six CGUs to which goodwill has been allocated within LEG in the reporting year. In addition to the CGU groups “Vitus” (acquired from Vonovia SE by way of purchase agreement dated 9 October 2014) and “Residential like-for-like” (other properties), the property portfolios “Bismarck” (acquired from Sahle Wohnen GmbH & Co. KG by way of purchase agreement dated 30 November 2015), “Charlie” (acquired from Vonovia SE by way of purchase agreement dated 22 December 2015), “Redwood” (acquired from the Baum Group by way of purchase agreement dated 8 November 2019) and “Transformer” (acquired from the Adler Group by way of purchase agreement dated 1 December 2021) also have goodwill. The portion of goodwill resulting from deferred tax liabilities is allocated to the respective CGU that holds the assets and liabilities.

Following final purchase price allocation as at 29 December 2022, goodwill of EUR 194.1 million has been allocated from the “Transformer” acquisition. The full goodwill arising from deferred tax liabilities is allocated to the “Transformer” CGU group. This acquisition does not contain goodwill from anticipated synergies.

An impairment test was performed as at 30 June 2022 for the five CGUs to which goodwill had been allocated at the time (all the above CGUs with the exception of the “Transformer” CGU). The sharp rise in interest rates in the first half of 2022 and the associated climb in average total capital costs has been defined as a triggering event in accordance with IAS 36. The impairment test performed resulted in an impairment requirement of EUR 99.6 million, which results in a full write-off of all the goodwill allocated to the CGUs.

The impairment test of the goodwill allocated to the “Transformer” CGU as at 31 December 2022 identified an impairment requirement of EUR 194.1 million, resulting in a complete write-off. Here, too, the main factor driving the impairment was the development of capital costs, which were impacted by a sharp rise in interest rates. The rapid climb in inflation also significantly increased the long-term investment rate. Higher net cold rent was unable to counteract these two factors.

Impairment in the reporting year has been recognised in the consolidated statement of comprehensive income at EUR 181.4 million under the costs of sales in connection with rental and lease income and at EUR 112.4 million under impairment in administrative and other expenses.

After impairment, the following amounts of goodwill therefore relate to the CGU groups as at 31 December 2022:

- "Vitus": EUR 0.0 million (previous year: EUR 34.8 million);
- "Residential like-for-like": EUR 0.0 million (previous year: EUR 35.5 million);
- "Bismarck": EUR 0.0 million (previous year: EUR 0.8 million);
- "Charlie": EUR 0.0 million (previous year: EUR 4.7 million);
- "Redwood": EUR 0.0 million (previous year: EUR 23.8 million);
- "Transformer": EUR 0.0 million.

In the goodwill impairment test, the recoverable amount is represented by the fair value less costs of disposal (FVLCOD). The FVLCOD is calculated as the present value of the free cash flows before interest and after taxes expected from continuing a CGU or a group of CGUs (fair value Level 3). A general tax rate of 31.2 % (previous year: 31.2 %) is applied to EBIT. The cash flow forecast reflects past experience and takes management expectations of future market developments into account. These cash flow forecasts are based on the resolved medium-term planning, which covers a horizon of five years (detailed planning period). The amounts for net cold rent and maintenance expenses are taken from the property valuation. There is a five-year extrapolation phase after the five-year detailed planning period. Administrative costs are accounted for appropriately. To account for leases, a replacement investment is recognised for right-of-use assets based on the assumption that the lease will be renewed at the end of its term. The carrying amount of the CGU groups include the right-of-use assets from leases.

There is also a cash flow forecast going beyond the five-year planning horizon and the five-year extrapolation phase. This is prepared by deriving a sustainable free cash flow from the detailed planning period and extrapolating this using a growth rate based on the specific market development.

A weighted average cost of capital that reflects the capital market's return requirements for debt and equity to LEG is used to discount the free cash flows. A cost of capital after taxes is also used on the basis of the calculated free cash flows after taxes. Risks of free cash flows are taken into account by a matching risk capitalisation rate.

The key assumptions used in the impairment test for the Transformer CGU group are net cold rent of EUR 64.3 million, the long-term investment rate of EUR 43.57 per square metre, the long-term EBITDA margin of 67.2 % and a capitalisation rate of 4.4 % (previous year: 3.5 %). The impairment test of the Transformer CGU group resulted in a recoverable amount of EUR 902.8 million.

The capitalisation rate used for goodwill impairment testing represents a corresponding pre-tax capitalisation rate of 5.8 % (previous year: 3.7 %), taking into account a typical tax rate on EBIT of 31.2 %. A long-term growth rate of 2.0 % p. a. is assumed for all CGUs (previous year: 2.0 %) as LEG is able to pass on cost increases in full through rent increases.

4 | Impairment of assets

LEG tests intangible assets and property, plant and equipment for impairment in accordance with IAS 36 at least once per year. Impairment testing is performed at the level of individual assets. If largely independent future cash flows cannot be determined for individual assets, cash-generating units (CGUs) are formed as groups of assets whose future cash flows are interdependent.

Investment property is not subject to impairment testing in accordance with IAS 36 as it is recognised at fair value.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised immediately in profit or loss.

5 | Other financial assets

LEG recognises financial assets as at the trade date.

LEG holds equity investments without control or significant influence as well as very small equity investments that are classified as fair value through profit and loss in accordance with IFRS 9. They are measured at fair value on acquisition. Gains and losses on subsequent measurement at fair value are recognised in profit and loss. Please refer to > section D.18 for information on the calculation of fair value.

Subsidiaries and associates that are not consolidated or accounted for at equity as they are not material to the financial position and financial performance of the Group are recognised at fair value as at the end of the reporting period, or at cost if this cannot be reliably determined. Shares in unconsolidated subsidiaries or associates are not listed on the stock market. The fair value of these shares cannot be reliably determined owing to the lack of an active market. There is currently no intention to sell these shares in the near future.

6 | Accounting for leases as the lessee

In accordance with IFRS 16, a right-of-use asset and a lease liability are recognised at present value from the date at which the leased asset is available to LEG for use. The lease instalment is divided into a repayment portion and a financing portion. The finance costs are recognised in profit or loss over the term of the leases.

The right-of-use assets are depreciated on a straight-line basis over the shorter of the term of the lease and the useful life of the asset. As LEG subsequently measures its investment property at fair value in accordance with IAS 40, the subsequent measurement of right-of-use assets for heritable building rights is also at fair value.

LEG's lease liabilities can include the present value of fixed lease payments less lease incentives to be received as well as variable lease payments linked to an index. Lease payments are discounted at the interest rate implicit in the lease, if this can be readily determined. Otherwise the incremental borrowing rate is used for discounting. This is calculated using a risk-free interest rate with terms of between one and 30 years and a risk premium matched to the specific maturity. This calculation of the incremental borrowing rate is also applied in subsequent measurement.

Right-of-use assets are measured at cost, which can consist of the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date less any lease incentives received. They are subsequently measured at amortised cost with the exception of heritable building rights, which are measured at fair value in accordance with IAS 40.

The practical expedients for short-term leases of less than twelve months are not used. The practical expedients are used for low-value lease assets, such as mobile phones. The payments are expensed in the income statement on a straight-line basis. Moreover, LEG has exercised the option not to separate the lease and the non-lease components. This essentially applies to leases for cars.

Some of LEG's property leases contain extension and termination options. These contractual conditions grant the Group the utmost operational flexibility with regard to its contract portfolio. The term of a lease is determined taking into account all facts and circumstances that create an economic incentive to exercise an extension or not to exercise an option. A contract term is adjusted only if the option is reasonably certain (not) to be exercised.

7 | Accounting for leases as the lessor

Leases for residential properties grant tenants an option to terminate the agreement at short notice on the basis of the statutory regulations. In accordance with IFRS 16, these agreements are classified as operating leases as the significant risks and rewards remain with LEG. The same applies to the current agreements for commercial property.

Income from operating leases is recognised in the statement of comprehensive income in rental and lease income on a straight-line basis over the term of the respective leases.

8 | Receivables and other assets

On initial recognition, receivables and other assets are carried at fair value plus transaction costs. Subsequent measurement is at amortised cost.

LEG uses the expected credit loss model for rent receivables and receivables from operating costs not yet invoiced. The simplified approach in accordance with IFRS 9 is used and lifetime expected credit losses calculated.

9 | Receivables and liabilities from operating costs not yet invoiced

At LEG, allocable operating costs not yet invoiced as at the end of the reporting period are reported under other receivables, less the amount of advances received from tenants for operating costs. Allocable costs eligible for capitalisation and advances received from tenants are reported net. A financial liability is reported if liabilities exceed assets.

10 | Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, other short-term, highly liquid financial assets with original maturities of three months or less and bank overdrafts. Utilised bank overdrafts are shown in the statement of financial position in current financial liabilities.

11 | Assets held for sale

In accordance with IFRS 5, assets held for sale consist solely of those assets for which a decision on disposal has been made as at the end of the reporting period, the disposal of the property within twelve months of the decision is considered to be highly likely and active marketing activities have been initiated.

In accordance with IFRS 5, assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. Items of investment property classified as assets held for sale are measured at fair value in accordance with IAS 40.

12 | Pension provisions

Pension and similar obligations result from commitments to employees. Obligations arising from defined benefit plans are measured in accordance with the projected unit credit method. Using this method, forecast future increases in salaries and benefits are taken into consideration in addition to benefits and entitlements known at the end of the reporting period. The biometric basis is provided by the 2018G Heubeck mortality tables.

The Group has both defined benefit and defined contribution plans. The amount of the pension benefits payable under defined benefit plans is based on the qualifying period of employment and the pensionable income.

In Germany, the regulatory framework is the Betriebsrentengesetz (Germany Company Pension Act), according to which pensions rise in line with the rate of inflation. LEG bears the actuarial risks, such as the longevity risk, the interest rate risk and the inflation risk. There are no additional plan-specific risks at LEG.

Remeasurement components in connection with defined benefit plans, which cover actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income in the period in which they arise. No past service costs were incurred in the reporting year or the previous year.

The interest effect included in pension expenses is shown in interest expenses in the consolidated statement of comprehensive income. Past service costs are shown under operating result in the individual functions.

13 | Other provisions

Other provisions are recognised if LEG has a present legal or constructive obligation as a result of past events that is uncertain with regard to settlement or amount. They are recognised at the present value of the expected settlement amount.

Non-current provisions are carried at their discounted settlement amount as at the end of the reporting period on the basis of corresponding market interest rates with matching maturities.

14 | Financial liabilities

On initial recognition, financial liabilities are carried at fair value plus transaction costs and adjusted for any premiums or discounts. The fair value at the grant date is the present value of future payment obligations based on a market interest rate with matching maturity and risk.

In subsequent periods financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is determined on initial recognition of the financial liability.

Changes in terms affecting the amount and timing of interest and principal payments result in the remeasurement of the carrying amount of the liability in the amount of the present value on the basis of the effective interest rate originally calculated. Any differences compared to the previous carrying amount are recognised in profit or loss. If changes in terms lead to significant differences in contractual conditions, the original liability is treated as if it had been repaid in full in accordance with IFRS 9. A new liability is subsequently recognised at fair value.

15 | Derivative financial instruments

LEG uses derivative financial instruments to hedge interest rate risks arising from property financing.

Derivative financial instruments are recognised at fair value. Changes in the fair value of derivatives are recognised in profit or loss unless the respective instruments are designated as hedges in accordance with IFRS 9. Derivatives accounted for as hedging instruments are used to hedge uncertain future cash flows. LEG is exposed to future cash flow risks as a result of floating-rate financial liabilities in particular.

The effectiveness of the hedging relationships is determined using prospective assessments at the inception of the hedge and as at the end of the reporting period. It is checked whether the contractual terms of the hedged item match those of the hedging instrument and thus whether there is an economic relationship.

Changes in fair value are divided into an effective and an ineffective portion. Effectiveness is determined using the dollar offset method. The effective portion is the portion of the gain or loss on remeasurement that is recognised as an effective hedge against the cash flow risk. The effective portion, net of deferred taxes, is recognised directly in cumulative other reserves in equity. Hedge ineffectiveness can arise from embedded floors in loan agreements that are not matched in the associated swap and from the consideration of credit risk in the context of derivative measurement.

The ineffective portion of the gain or loss on remeasurement is reported in net finance costs in the consolidated statement of comprehensive income. The amounts recognised directly in equity are transferred to the consolidated statement of comprehensive income if gains or losses in connection with the underlying are recognised in profit or loss. In the event of the early termination of the hedge, the amounts recognised in equity are reclassified to profit or loss if gains or losses in connection with the underlying are recognised in profit or loss. If the underlying is terminated, the amounts remaining in other comprehensive income (OCI) are immediately recognised in profit or loss.

16 | Fair values of financial instruments

The fair values of financial instruments are determined on the basis of corresponding market values or measurement methods. For cash and cash equivalents and other short-term primary financial instruments, the fair value is approximately the same as the carrying amount at the end of the respective reporting period.

For non-current receivables, other assets and liabilities, the fair value is calculated on the basis of the forecast cash flows, applying the reference interest rates as at the end of the reporting period. The fair values of derivative financial instruments are calculated using the reference interest rates as at the end of the reporting period plus own risk or counterparty risk.

For financial instruments at fair value, the discounted cash flow method is used to determine fair value using corresponding quoted market prices, with individual credit ratings and other market conditions being taken into account in the form of standard credit and liquidity spreads when calculating present value. If no quoted market prices are available, the fair value is calculated using standard measurement methods applying instrument-specific market parameters.

When calculating the fair value of derivative financial instruments, the inputs for the measurement models are the relevant market prices and interest rates observed as at the end of the reporting period, which are obtained from recognised external sources. Accordingly, derivatives are assigned to Level 2 of the fair value hierarchy set out in IFRS 13.72 et seq. (measurement on the basis of observable inputs). Please refer to > section D.18.

Both the Group's own risk and the counterparty risk were taken into account in the calculation of the fair value of derivatives in accordance with IFRS 13.

17 | Put options

LEG companies are the writers of several put options on the basis of which non-controlling shareholders can tender their interests in companies controlled by LEG Immobilien SE to the respective LEG company.

As financial liabilities, put options are recognised at fair value. The liability is recognised against the equity attributable to the writer if material risks and rewards of the interest remain with the non-controlling shareholders. There is no additional reporting of the put options as independent derivatives in this case. They are subsequently measured at amortised cost using the effective interest method.

18 | Calculation of fair value

Fair value measurement of investment property is assigned to level 3 of the measurement hierarchy of IFRS 13.86 (measurement based on unobservable inputs). For information on the measurement of investment property, please see the comments in > section D.1. For the measurement of derivative financial instruments, please see > section D.16 and > section I.3.

The fair value hierarchy can be summarised as follows:

T95

Fair value hierarchy

	Level 1	Level 2	Level 3
Purchase price allocation in the context of business combinations			X
Investment properties			X
Financing liabilities		X	
Other liabilities (particularly derivative)		X	
Shareholdings without control or significant influence	X		
Investments in corporations and partnerships without control or significant influence			X

There were no transfers between the levels of the fair value hierarchy.

Equity investments without control or significant influence are assigned to Level 1 of the fair value hierarchy if traded on an active market.

The fair value of the very small equity investments is calculated using DCF procedures as there are no quoted prices in an active market for the relevant equity investments. The fair value calculated using valuation models is allocated to Level 3 of the IFRS 13 measurement hierarchy. They are allocated to Level 3 on account of the use of inputs not observed on a market in the measurement model. In particular, this refers to the capitalisation rate of 3.9% (previous year: 4.8%).

19 | Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to LEG and the amount of the revenue can be measured reliably. The following recognition criteria must also be met in order for revenue to be recognised:

a) Rental and lease income
LEG generates income from the rental and lease of properties. Rental income falls within the scope of IFRS 16 Leases and does not constitute a customer contract as referred to by IFRS 15.

Rental and lease income from properties for which the corresponding rental and lease agreements are classified as operating leases is recognised on a straight-line basis over the term of the respective lease. When incentives are provided to tenants, the cost of the incentive is recognised over the lease term, on a straight-line basis, as a reduction of rental and lease income.

Rental and lease income also includes tenant payments for utilities and service charges if the services have been provided. For allocable operating costs, there are isolated cases in which LEG qualifies as an agent under IFRS 15. The operating costs of cold water supply, draining and street cleaning, for which LEG operates as agent, are reported on a net basis. The other operating costs are reported on a gross basis. Please refer to > section F.1.

Revenue from operating costs is calculated on the basis of the costs incurred and corresponds to the contractually agreed transaction price. Advance payments for operating costs are due by the third day of the current month. Revenue is recognised over time (the given month). In the subsequent year, advance payments made for operating costs are offset against the amounts actually incurred. Excess prepayments received are reported under rental and lease liabilities. If the prepayments received are lower than the operating costs actually incurred, this is reported under receivables from rental and leasing activities.

The operating costs of property tax and insurance are recognised as a component of rent and lease income from lease agreements in the statement of comprehensive income in rental and lease income on a straight-line basis over the term of the respective leases.

b) Income from the disposal of property
LEG generates income from the disposal of property. Income from the disposal of property is recognised when power over the property is transferred to the buyer.

By contrast, income is not recognised if LEG assumes yield guarantees, grants a right of return to the buyer or enters into other material obligations with respect to the buyer that prevent a transfer of control to the buyer.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred. While deferred payment terms can be agreed in rare circumstances, the deferral never exceeds 12 months. The transaction price is therefore not adjusted for the effects of a significant financing component.

c) Income from other services
Income from other services covers income from services and third-party management.

Income from other services is recognised as income for a period of time given that the customer directly receives and consumes the benefits provided by the service. The transaction price and its due date are based on the agreed contractual conditions.

d) Interest and similar income
Interest income is recognised using the effective interest method in the period in which it arises.

20 | Government grants

LEG has primarily received government grants in the form of loans at below-market interest rates.

These loans at below-market rates are property loans and are reported as financial liabilities. They provide benefits compared to regular loans, such as lower interest rates or periods free of interest and principal payments. The loans were measured at fair value when the company was acquired in 2008 and carried at amortised cost in subsequent periods.

On initial recognition, new investment loans and loans at below-market rates are measured at their present value based on the applicable market interest rate at the grant date. The difference between the nominal amount and the present value of the loan is recognised as deferred income under other liabilities (see > section E.12) and reversed on a straight-line basis over the remaining term of the corresponding loan, which is measured at amortised cost in subsequent periods.

21 | Income taxes

The income tax expense represents the total of the current tax expense and the deferred tax expense.

LEG is subject to taxation in Germany. Some judgements have to be made in assessing income tax receivables and liabilities. It cannot be ruled out that the tax authorities will make a different assessment. The uncertainty this entails is taken into account by recognising uncertain tax receivables and liabilities only when LEG considers their probability of occurrence to be higher than 50%. Any changes in judgements, e.g. due to final tax assessments, affect current and deferred tax items. The best estimate of the provisionally expected tax payment is used for recognised uncertain income tax items.

The current tax expense is calculated on the basis of the taxable income for the financial year. Taxable income differs from the consolidated net profit for the period, as shown in the consolidated statement of comprehensive income, due to income and expenses that are taxable or tax-deductible only in future periods, if at all. The Group's liabilities and provisions for current taxes are calculated on the basis of the applicable tax rates.

Deferred taxes are recognised for the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base for the purpose of calculating taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised or that there are deferred tax liabilities. Deferred tax assets also include reductions in taxes resulting from the expected utilisation of existing tax loss or interest carryforwards (or similar items) in subsequent periods if realisation is reasonably assured.

In addition, deferred taxes are recognised for outside basis differences if the relevant conditions are met. In accordance with IAS 12, a company must recognise deferred taxes (outside basis differences) for taxable and deductible temporary differences between the consolidated IFRS net assets and the carrying amount in the tax accounts of interests in subsidiaries, associates and joint arrangements under certain conditions.

Deferred tax liabilities and deferred tax assets are calculated on the basis of the tax rates (and tax legislation) that are expected to apply at the time the liability is settled or the asset is realised. This is based on the tax legislation in force or adopted by the Bundestag (Lower House of the German Parliament) and, where applicable, the Bundesrat (Upper House of the German Parliament) as at the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the Group expects to settle the deferred tax liabilities or realise the deferred tax assets as at the end of the reporting period.

Current or deferred taxes are recognised in profit or loss unless they relate to items that are recognised in other comprehensive income or recognised directly in equity. In this case, the corresponding current and deferred taxes are recognised in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority and to the same taxable entity. In addition, only deferred taxes that relate to items of the statement of financial position with the same maturity are netted.

22 | Judgements

Judgements must be made by management in the application of accounting policies. In particular, this applies to the following:

- For assets held for sale, it must be determined whether the assets can be sold in their present condition and whether their disposal can be considered highly likely within the meaning of IFRS 5. If this is the case, the assets and any corresponding liabilities are reported and measured as assets and liabilities held for disposal.
- It must be determined whether property should be classified as inventories or investment property depending on the intended use.
- Buildings that are both owner-occupied and used by third parties must be reported as separate assets in accordance with IAS 16 and IAS 40, unless the owner-occupied component is immaterial.
- In the context of portfolio acquisitions, non-controlling interests are reported if material risks and rewards lie with the minority shareholder.
- LEG's leases can include extension and termination options. The term of a lease is determined taking all facts and circumstances that create an economic incentive to exercise an extension or not to exercise an option into account. A contract term is adjusted only if the option is reasonably certain (not) to be exercised.
- LEG cannot exercise significant influence over the financial and operating policy decisions of BCP due to the shareholding structure (IAS 28.6). The shares of BCP are therefore measured at fair value according to the regulations of IFRS 9 for equity instruments. The quoted market price of the BCP share at the Tel Aviv Stock Exchange continues to be classified as a Level 1 input factor of fair value hierarchy (IFRS 13.77).
- As of the balance sheet date, there are framework contracts between EnergieServicePlus GmbH and local energy suppliers for the supply of gas to residential properties. These contracts are classified as own-use exemption as at the balance sheet date in accordance with IFRS 9 and are therefore treated as pending supply and sales contracts in accordance with IAS 37.

23 | Use of estimates

The preparation of IFRS consolidated financial statements requires assumptions and estimates that materially affect the carrying amounts of the assets and liabilities recognised, income and expenses and the disclosure of contingent liabilities.

Among other things, these assumptions and estimates relate to:

- Measurement of investment property: Significant measurement parameters include the expected cash flows, the assumed vacancy rate, the remaining useful life and the discount and capitalisation rates. If market values cannot be derived from transactions for similar properties, they are measured using the DCF method, under which future cash flows are discounted to the end of the reporting period. These estimates involve assumptions concerning the future. In light of the large number of properties affected and their geographical distribution, individual measurement uncertainties are subject to statistical smoothing. Measurement is performed on the basis of publicly available market data (e. g. property market reports by expert committees, data from the service provider INWIS, etc.) and LEG's extensive knowledge of the respective regional submarkets.
- Recognition and measurement of provisions for pensions and similar obligations: Provisions for pensions and similar obligations are measured on the basis of actuarial calculations, applying assumptions with regard to interest rates, future wage and salary increases, mortality tables and future pension growth.
- Recognition and measurement of other provisions: Recognition and measurement is subject to uncertainty concerning future price growth and the amount, timing and probability of utilisation of the respective provision.
- Measurement of financial liabilities: The measurement of financial liabilities depends in particular on estimates of future cash flows and potential changes in terms. Estimates of the company-specific risk premium are also required.

- Measurement of lease liabilities: Estimates of the risk premium are required in determining the incremental borrowing rate.
- Recognition of deferred tax assets: Deferred tax assets are recognised if it is probable that future tax benefits will be realised. The actual taxable income in future financial years, and hence the extent to which deferred tax assets can be utilised, can deviate from the estimates made when the deferred tax assets are recognised. Deferred tax assets for tax loss and interest carryforwards are recognised on the basis of future taxable income for a planning period of five financial years.
- Share-based payment (IFRS 2): Assumptions and judgements regarding the development of performance indicators and fluctuation are required in accounting for stock option plans. They are calculated using option pricing models.
- Goodwill impairment test: The calculation of the FVLCOD requires assumptions and judgements regarding future net cold rents, the long-term investment rate, long-term EBITDA and the capitalisation rate in particular.
- When accounting for business combinations, all identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. There is estimation uncertainty regarding the determination of these fair values. Land and buildings are internally measured on the basis of independent valuations. Technical equipment and machinery are measured at estimated replacement cost. Intangible assets are identified and measured based on the nature of the intangible asset and the complexity of determining their fair values using appropriate valuation techniques.

Further information on the assumptions and estimates made can be found in the notes on individual items. All assumptions and estimates are based on the circumstances and assessments as at the end of the reporting period.

The estimation of future business development also takes into account the future economic environment that is currently assumed to be realistic in the industries and regions in which LEG operates.

While management believes that the assumptions and estimates used are appropriate, any unforeseen changes in these assumptions could affect the Group's financial position and financial performance.

24 | Share-based payment

LEG has share-based remuneration plans for the members of the Management Board of LEG Immobilien SE. In accordance with IFRS 2, the long-term incentive programme is a cash-settled share-based remuneration programme. Provisions for these obligations were recognised in the amount of the anticipated expense, distributed pro rata over the defined vesting period. The fair value of the options is determined using recognised financial models.

In addition, LEG provides its managers with a share-based remuneration programme classified as a cash-settled share-based remuneration programme in accordance with IFRS 2. The provisions for these obligations are recognised in the amount of the anticipated expense, pro rata over the vesting period.

In addition, LEG has an employee share programme that is treated as a cash-settled share-based remuneration programme in accordance with IFRS 2. The expense was recognised in staff costs in the current financial year.

Details of share-based payment can be found in > section I.6.

E. Notes to the consolidated statement of financial position

1 | Investment property

Investment property developed as follows in the 2022 and 2021 financial years:

T96

Investment properties 2022

		Residential assets							
€ million	Total	High-growth markets	Stable markets	Higher-yielding markets	Other	Commercial assets	Parking + other assets	Leasehold	Land values
Carrying amount as of 01.01.2022	**19,178.4**	**7,886.7**	**6,813.0**	**3,553.2**	**0.0**	**311.0**	**374.9**	**210.4**	**29.2**
First-time application IFRS 16	324.4	89.2	108.8	10.7	0.0	90.0	20.5	5.2	0.0
Other additions	368.7	106.9	166.7	90.4	0.0	4.8	1.7	–1.8	0.0
Reclassified to assets held for sale	–49.5	–15.0	–14.3	–17.5	0.0	–0.2	–1.9	–0.2	–0.4
Reclassified from assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassified to property, plant and equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassified from property, plant and equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value adjustment	382.4	186.3	61.4	103.0	0.0	–20.2	8.5	38.7	4.7
Reclassification	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carrying amount as of 31.12.2022	**20,204.4**	**8,254.1**	**7,135.6**	**3,739.8**	**0.0**	**385.4**	**403.7**	**252.3**	**33.5**

Fair value as at 31.12.2022 (€ million)	382.4
thereof as at 31.12.2022 in the portfolio	380.1
thereof as at 31.12.2022 disposed investment properties	2.3

T97

Investment properties 2021

€ million	Total	Residential assets: High-growth markets	Residential assets: Stable markets	Residential assets: Higher-yielding markets	Residential assets: Other	Commercial assets	Parking + other assets	Leasehold	Land values
Carrying amount as of 01.01.2021[1]	14,582.7	6,262.9	4,808.4	2,802.2	0.0	231.9	280.0	165.2	32.1
Acquisitions[2]	2,343.8	1,022.1	662.2	484.7	–11.6	64.7	90.1	31.5	0.1
Acquisitions purchase price allocation[2]	110.7	42.9	98.8	17.7	0.0	–1.0	–48.3	–0.2	0.8
Acquisitions incl. business combinations[2]	2,454.5	1,065.0	761.0	502.4	–11.6	63.7	41.8	31.3	0.9
Other additions	325.4	99.6	134.2	86.2	0.0	3.9	1.5	0.0	0.0
Reclassified to assets held for sale	–47.2	–29.8	–19.5	5.1	–1.9	–2.6	0.0	1.3	0.2
Reclassified to property, plant and equipment	–0.7	–0.7	0.1	0.0	0.0	–0.1	0.0	0.0	0.0
Reclassified from property, plant and equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value adjustment	1,863.7	910.4	667.8	218.9	–0.4	–4.6	54.0	14.8	2.8
Reclassification	0.0	–420.7	461.0	–61.6	13.9	18.8	–2.4	–2.2	–6.8
Carrying amount as of 31.12.2020[2]	19,178.4	7,886.7	6,813.0	3,553.2	0.0	311.0	374.9	210.4	29.2

[1] Extension of the market classification to the entire territory of Germany.
[2] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

Fair value as at 31.12.2021 (€ million)	1,863.7
thereof as at 31.12.2021 in the portfolio	1,862.1
thereof as at 31.12.2021 disposed investment properties	1.6

Other additions in the financial year essentially relate to investments in existing properties. The biggest investments in 2022 include the energy-efficiency modernisation of properties in Mönchengladbach, Dortmund, Essen, Cologne and Wolfsburg.

Investment property broke down as follows in the 2022 and 2021 financial years:

T98

Composition of investment properties

€ million	31.12.2022 Investment properties	31.12.2022 Properties held for sale	31.12.2021 Investment properties	31.12.2021 Properties held for sale
Developed land	19,434.2	34.2	18,592.3[1]	36.2
Undeveloped land	33.4	0.4	29.2[1]	–
Other	736.8	0.9	556.9[1]	0.8
Total	**20,204.4**	**35.5**	**19,178.4[1]**	**37.0**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

The trend of strong increases in purchase prices has been disrupted by the highly dynamic interest rate landscape. This reclining price increase trend is affecting cities experiencing a high influx of young people, which continue to be subject to demand pressure, and the neighbouring communities alike.

At the same time, a sharp drop in new construction in conjunction with consistently high demand for affordable housing in many cities and regions, compounded by immigration effects, has left a scant property supply.

The developments observable on the market are reflected in the calculation of fair values by way of measurement parameters and discount rates.

Sensitivities were as follows as at 31 December 2022:

T99

Sensitivity analysis 2022

	GAV investment properties[2]	Valuation technique	Sensitivities in %							
			Administrative costs		Stabilised vacancy ratio		Maintenance costs		Capitalisation rate	
Segment	€ million		+10%	–10%	+1% pts.	–1% pts.	+10%	–10%	+0.25%	–0.25%
Residential assets										
High-growth markets	8,203	DCF	–0.8	0.8	–1.7	1.7	–2.1	2.1	–3.8	4.4
Stable markets	7,000	DCF	–1.1	1.1	–1.8	1.9	–2.8	2.8	–3.3	3.8
Higher-yielding markets	3,740	DCF	–1.4	1.5	–2.0	2.0	–3.4	3.4	–2.9	3.3
Commercial assets	250	DCF	–0.4	0.4	–1.5	1.5	–1.3	1.3	–1.9	2.0
Leasehold	252	DCF	–	–	–	–	–	–	–	–
Parking + other assets	403	DCF	–1.2	1.1	–0.9	0.9	–2.5	2.4	–1.4	1.6
Land values	33	Earnings/reference value method	–	–	–	–	–	–	–	–
Total portfolio (IAS 40)[1]	**19,881**	**DCF**	**–1.0**	**1.1**	**–1.8**	**1.8**	**–2.6**	**2.6**	**–3.4**	**3.8**

	Sensitivities in %					
	Discount rate		Market rent		Estimated rent development residential	
Segment	+0,25%	–0,25%	+2%	–2%	+0,2%	–0,2%
Residential assets						
High-growth markets	–5.8	6.4	1.0	–1.0	4.5	–4.0
Stable markets	–5.0	5.5	1.9	–1.8	3.8	–3.4
Higher-yielding markets	–4.8	5.2	1.8	–1.7	3.4	–3.1
Commercial assets	–2.2	2.3	1.1	–1.1	1.3	–1.2
Leasehold	–4.5	4.9	–	–	–	–
Parking + other assets	–5.4	5.8	1.7	–1.7	2.3	–2.2
Land values	0.0	0.0	–	–	–	–
Total portfolio (IAS 40)[1]	**–5.3**	**5.8**	**1.5**	**–1.4**	**3.9**	**–3.5**

[1] In addition, as at 31.12.2022, there are assets held for sale (IFRS 5) of EUR 35.6 million, which correspond to level 2 of the fair value hierarchy.
[2] Property valuation with cut-off date as of 30.09.2022 and revaluation date as of 31.12.2022.

Sensitivities were as follows as at 31 December 2021:

T100

Sensitivity analysis 2021

Segment	GAV investment properties[2] € million	Valuation technique	Sensitivities in % Administrative costs +10%	-10%	Stabilised vacancy ratio +1% pts.	-1% pts.	Maintenance costs +10%	-10%	Capitalisation rate +0.25%	-0.25%
Residential assets										
High-growth markets	6,970	DCF	-0.7	0.7	-1.6	1.6	-1.7	1.7	-3.8	4.4
Stable markets	6,059	DCF	-0.9	0.9	-1.7	1.8	-2.3	2.3	-3.3	3.7
Higher-yielding markets	3,061	DCF	-1.1	1.2	-1.8	1.9	-2.7	2.7	-2.7	3.0
Commercial assets	222	DCF	-0.4	0.1	-1.8	1.5	-1.2	0.9	-2.0	2.2
Leasehold	181	DCF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Parking + other assets	340	DCF	-1.1	1.1	-1.0	1.0	-2.2	2.3	-1.8	2.0
Land values	28	Earnings/reference value method	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total portfolio (IAS 40)[1]	**16,861**	**DCF**	**-0.9**	**0.9**	**-1.7**	**1.7**	**-2.1**	**2.1**	**-3.4**	**3.8**

Segment	Sensitivities in % Discount rate +0,25%	-0,25%	Market rent +2%	-2%	Estimated rent development residential +0,2%	-0,2%
Residential assets						
High-growth markets	-5.7	6.3	0.9	-0.9	4.5	-4.1
Stable markets	-5.0	5.4	1.7	-1.6	3.8	-3.5
Higher-yielding markets	-4.6	5.0	1.6	-1.5	3.2	-3.0
Commercial assets	-2.2	2.3	1.3	-1.6	1.4	-1.7
Leasehold	-4.2	4.5	0.0	0.0	0.0	0.0
Parking + other assets	-5.4	5.8	1.8	-1.8	2.7	-2.6
Land values	0.0	0.0	0.0	0.0	0.0	0.0
Total portfolio (IAS 40)[1]	**-5.2**	**5.7**	**1.3**	**-1.3**	**3.9**	**-3.6**

[1] In addition, as at 31.12.2021, there are assets held for sale (IFRS 5) of EUR 37 million, which correspond to level 2 of the fair value hierarchy.
[2] Property valuation with cut-off date as of 30.09.2021 and revaluation date as of 31.12.2021.

Some investment property is let under the terms of commercial rental agreements and leases. These rental agreements and leases generally have a term of ten years and contain extension options for a maximum of two times five years.

The Group also has land with third-party heritable building rights with an original contractual term that is generally between 75 and 99 years.

The rental agreements for residential property entered into by LEG can generally be terminated by the tenant with notice of three months to the end of the month. Accordingly, fixed cash flows in the amount of rent for three months are expected from these rental agreements.

The following amounts are expected to be due over the coming years based on the minimum lease instalments for long-term rental agreements for commercial property and leases for advertising space that were in place as at 31 December 2022:

T101

Amount based on minimum lease instalments for long-term rental agreements

	Remaining terms						Total
€ million	up to 1 year	> 1 to 2 years	> 2 to 3 years	> 3 to 4 years	> 4 to 5 years	> 5 years	
31.12.2022	21.8	11.4	8.9	7.2	5.4	25.6	80.3
31.12.2021	17.4	10.0	7.1	5.9	4.4	22.1	66.9

Investment property is used almost exclusively as collateral for financial liabilities – see also > section E.11.

2 | Property, plant and equipment

The development of property, plant and equipment is shown in the > consolidated statement of changes in assets (Annex I).

Right-of-use assets from leases of EUR 22.0 million (31 December 2021: EUR 24.9 million) are reported under property, plant and equipment and intangible assets as at 31 December 2022. The right-of-use assets result from leased buildings, car leases, heat contracting, measurement and reporting technology, IT peripheral devices and software. Additions to right-of-use assets amounted to EUR 6.5 million in the reporting period.

T102

Right of use leases

€ million	31.12.2022	31.12.2021
Right of use buildings	2.0	3.3
Right of use technical equipment and machinery	14.0	13.6[1]
Right of use operating and office equipment	5.3	6.9
Property, plant and equipment	**21.3**	**23.8[1]**
Right of use software	0.7	1.1
Intangible assets	**0.7**	**1.1**
Right of use leases	**22.0**	**24.9[1]**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

3 | Intangible assets and goodwill

The development of intangible assets is shown in the > consolidated statement of changes in assets (Annex I).

Please refer to > section D.3 for disclosures on goodwill.

4 | Other financial assets

Other financial assets are composed as follows:

T103

Other financial assets

€ million	31.12.2022	31.12.2021
Investments in affiliates not included in consolidation	0.1	0.1
Investments in equity investments and associates	296.1	109.7
Other financial assets	41.7	1.4
Total	**337.9**	**111.2**

Details of other financial assets can be found in > section I.3.

5 | Receivables and other assets

Receivables and other assets are composed as follows:

T104

Receivables and other assets

€ million	31.12.2022	31.12.2021
Trade receivables, gross	63.5	44.2
Impairment losses	– 28.4	– 20.9
Total	**35.1**	**23.3**
Thereof attributable to rental and leasing	24.6	14.3
Thereof attributable to property disposals	0.8	1.8
Thereof attributable to other receivables	9.7	7.1
Thereof with a remaining term up to 1 year	35.1	23.3
Thereof with a remaining term of between 1 – 5 years	–	–
Receivables from uninvoiced operating costs	37.9	23.9
Loans	0.6	0.0
Other financial assets	74.9	100.0[1]
Other non-financial assets	16.2	7.7[1]
Total	**129.6**	**131.6**[1]
Thereof with a remaining term up to 1 year	128.7	131.4
Thereof with a remaining term of between 1 – 5 years	0.9	0.2
Total receivables and other assets	**164.7**	**154.9**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

Details of receivables from related parties and companies can be found in > section I.7.

6 | Cash and cash equivalents

T105

Cash and cash equivalents

€ million	31.12.2022	31.12.2021
Bank balances	362.2	675.6
Cash in hand	0.0	0.0
Cash and cash equivalents	**362.2**	**675.6**
Restricted disposal balances	1.7	2.0

Bank balances earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on LEG's immediate cash requirements. Cash and cash equivalents include balances with an intended purpose. These are reported as restricted balances.

7 | Assets held for sale

T106

Assets held for sale

€ million	2022	2021
Carrying amount as of 01.01.	**37.0**	**21.6**
Reclassified from investment properties	49.5	47.2
Disposal due to sale of land and buildings	– 51.3	– 31.8
Other additions	0.4	0.0
Carrying amount as of 31.12.	**35.6**	**37.0**

Investment property was sold again in the reporting period for the purposes of selective portfolio streamlining.

For information on reclassifications from investment property, please see > section E.1.

The item "Disposals due to the sale of land and buildings" includes developed and undeveloped land and residential and commercial buildings. The reclassification from investment property essentially relates to individual sales and six block sales. The disposals essentially relate to individual sales and two more significant block sales see > section E.1.

See also > section F.3.

8 | Equity

The change in equity components is shown in the statement of changes in equity.

a) Share capital
By way of resolution of the Annual General Meeting on 19 August 2020, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions by up to a total of EUR 21,413,950 by issuing up to 21,413,950 new registered shares against cash or non-cash contributions by 18 August 2025 (Authorised Capital 2020).

The share capital is contingently increased by up to EUR 35,689,918 through the issue of up to 35,689,918 new no-par value bearer shares (Contingent Capital 2013/2017/2018/2020).

On the basis of the authorisation granted in the Articles of Association dated 11 May 2020/19 August 2020/8 March 2021, the share capital was increased by EUR 743,682 to EUR 72,839,625 in the 2021 financial year. By way of resolution of the Supervisory Board on 21 June 2021, Articles 3 and 4 of the Articles of Association (Amount and Distribution of Share Capital, Authorised Capital) were amended accordingly.

Share capital was increased by EUR 1,269,651 to EUR 74,109,276 on the basis of the authorisation in accordance with Article 4(1) of the Articles of Association. By way of resolution of the Supervisory Board on 14 June 2022, Articles 3 and 4 of the Articles of Association (Share Capital and Shares, Authorised Capital) were amended.

Authorised Capital 2020 thus amounts to EUR 19,400,617.

In total, the gross proceeds from the capital increase in the reporting period amounted to EUR 113.2 million, EUR 1.3 million of which were allocated to issued capital and EUR 111.9 million were allocated to capital reserves.

The average total number of shares as at 31 December 2022 is 73,509,719. The number of shares as at 31 December 2022 is 74,109,276 (31 December 2021: 72,839,625).

b) Cumulative other reserves
Cumulative other reserves consist of the Group's retained earnings and other reserves.

Retained earnings are composed of the net profits generated by the companies included in consolidation in prior periods and the current period, to the extent that these have not been distributed.

Other reserves consist of adjustments to the fair values of derivatives used as hedging instruments and actuarial gains and losses from the remeasurement of pension obligations.

In the 2022 financial year, there was a distribution to the shareholders of the company for 2021 in the form of a dividend of EUR 296.5 million (EUR 4.07 per share) (EUR 113.2 million of which by issuing new shares).

Cumulative other reserves include the counterpart to the annual guaranteed dividend of EUR 1.8 million to the non-controlling interest of TSP-TechnikServicePlus GmbH.

The non-controlling interest in other comprehensive income amounts to EUR 0.0 million.

T107

Non-controlling interest in other comprehensive income

€ million	31.12.2022	31.12.2021
Actuarial gains and losses from the measurement of pension obligations	0.0	0.0
Fair value adjustment	0.0	0.0
Non-controlling interest in other comprehensive income	**0.0**	**0.0**

9 | Pension provisions

Expenses for defined contribution plans amounted to EUR 7.2 million in the current year (31 December 2021: EUR 6.0 million). These essentially comprise contributions to the statutory pension scheme.

In connection with defined benefit plans, LEG uses actuarial calculations by actuaries to ensure that future developments are taken into account in the calculation of expenses and obligations. Among other things, these calculations are based on assumptions regarding the discount rate and future wage and salary developments.

In accordance with IAS 19, provisions for pensions for defined benefit plans are calculated on the basis of actuarial assumptions. The following parameters were applied in the 2021 and 2022 financial years:

T108

Calculation of pension provisions

in %	31.12.2022	31.12.2021
Discounting rate	3.60	0.85
Salary trend	2.75	2.75
Pension trend	2.20	1.70

The present value of the obligation was EUR 107.2 million as at 31 December 2022. A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows:

T109

Sensitivity of pension provisions 2022

€ million	Increase	Decrease
Discount rate (increase and decrease by 0.5 % pts.)	101.3	113.6
Salary trend (increase and decrease by 0.5 % pts.)	107.8	106.7
Mortality (increase and decrease by 10 %)	103.5	111.4
Pension trend (increase and decrease by 0.25 % pts.)	109.4	105.0

The present value of the obligation was EUR 149.6 million as at 31 December 2021. A change in the individual parameters, with the other assumptions remaining unchanged, would have affected the present value of the obligation as follows:

T110

Sensitivity of pension provisions 2021

€ million	Increase	Decrease
Discount rate (increase and decrease by 0.5 % pts.)	139.3	161.2
Salary trend (increase and decrease by 0.5 % pts.)	150.8	148.4
Mortality (increase and decrease by 10 %)	143.6	156.4
Pension trend (increase and decrease by 0.25 % pts.)	153.9	145.5

Increases or reductions in the discount rate, the salary trend, the pension trend and mortality do not affect the calculation of the defined benefit obligation (DBO) with the same absolute amount.

If several assumptions are changed at the same time, the total amount is not necessarily the same as the total of the individual effects resulting from the changes in assumptions. It should also be noted that the sensitivities reflect a change in the DBO only for the specific respective degree of the change in assumptions (e. g. 0.5 percentage points). If the assumptions change to a different extent this will not necessarily have a straight-line impact on the DBO.

The following table shows the development of pension obligations. In the absence of plan assets, the present value of the obligation in both years is the same as both the recognised provision and the plan deficit.

T111

Development of pension obligations

€ million	2022	2021
Present value of obligations as of 01.01.	**149.6**	**164.0**
Service cost	1.4	1.7
Interest expenses	1.2	0.6
Disposals	–	–
Payments	–6.7	–6.7
Remeasurement	–38.3	–10.0
Thereof losses (gains) from changes in experience	–1.0	0.3
Thereof losses (gains) arising from changes in financial assumptions	–37.3	–10.3
Thereof losses (gains) arising from changes in demographic assumptions	–	–
Present value of obligations as of 31.12.	**107.2**	**149.6**

EUR 24.3 million of the present value of the obligation relates to current employees covered by the plan (31 December 2021: EUR 45.1 million), EUR 7.0 million to employees who have left the company and whose rights are not yet vested (31 December 2021: EUR 11.7 million) and EUR 75.9 million to pensioners (31 December 2021: EUR 92.8 million).

A pension payment of EUR 6.7 million is expected for 2023 (31 December 2021: EUR 6.7 million). The duration of the defined benefit obligation is 11.3 years (31 December 2021: 13.9 years).

10 | Other provisions

Other provisions break down as follows:

T112

Other provisions

€ million	31.12.2022	31.12.2021
Provision for bonus	0.5	0.2
Provisions for partial retirement	2.2	2.7
Staff provisions	**2.7**	**2.9**
Construction book provisions	1.6	2.3
Provisions for other risks	29.7	23.7
Provisions for litigation risks	1.0	0.7
Provisions for lease properties	0.1	0.1
Provision for costs of annual financial statements	1.3	1.3
Archiving provision	0.8	0.9
Other provisions	**34.5**	**29.0**

Details of the development of provisions can be found in > Annex II.

Construction book provisions contain amounts for outstanding measures and guarantees relating to project developments.

The provisions for other risks essentially relate to obligations from a former residential property development project with 47 detached houses and to costs for the early termination of new construction projects.

The cash outflows from provisions are expected to amount to EUR 33.4 million within one year (31 December 2021: EUR 25.2 million) and EUR 5.6 million after one year (31 December 2021: EUR 7.1 million).

11 | Financial liabilities

Financial liabilities are composed as follows:

T113

Financing liabilities

€ million	31.12.2022	31.12.2021
Financing liabilities from real estate financing	9,347.9	8,767.8
Financing liabilities from lease financing	112.9	116.5[1]
Financing liabilities	**9,460.8**	**8,884.3**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

Financial liabilities from real estate financing serve the financing of investment property.

The consolidated financial statements of LEG Immobilien SE reported financial liabilities from real estate financing of EUR 9,347.9 million as at 31 December 2022.

In the 2022 financial year, financial liabilities from real estate financing were increased by the issuance of a corporate bond in three tranches with IFRS carrying amounts of EUR 498.4 million, EUR 498.5 million and EUR 501.2 million. A loan of EUR 498.2 million was also borrowed. This was offset by scheduled and unscheduled repayments of EUR 1,438.6 million and the amortisation of transaction costs.

Financial liabilities from real estate financing comprise the following capital market instruments as at the end of the reporting period:

T114

Capital market instruments as of 31.12.2022

€ million	IFRS carrying amount	Nominal value
Convertible bond 2020/2028	530.8	550.0
Convertible bond 2017/2025	394.5	400.0
Corporate bond 2022/2026	498.4	500.0
Corporate bond 2022/2029	498.5	500.0
Corporate bond 2022/2034	501.2	500.0
Corporate bond 2021/2032	492.3	500.0
Corporate bond 2021/2031	597.1	600.0
Corporate bond 2021/2033	597.9	600.0
Corporate bond 2019/2033	296.0	300.0
Corporate bond 2019/2027	496.7	500.0
Corporate bond 2017/2024	504.8	500.0

The convertible bonds were classified and recognised in full as debt due to the issuer's contractual cash settlement option. There are several embedded and separable derivatives that are treated as a single compound derivative and carried at fair value. The underlying debt instrument is recognised at amortised cost.

The equity interests in individual companies and rent receivables serve as security for some loan agreements. The expected rent pledged as security amounted to EUR 554.5 million in the 2022 financial year (31 December 2021: EUR 508.4 million).

In addition to security in the form of land charges, potential receivables from buildings insurance have been pledged to the creditors of the respective land charges. By contrast, the security provided in the form of pledged rent receivables is increased by the corresponding receivables for incidental costs. For certain loan agreements there are also additional surety bonds and the joint and several liabilities of additional LEG companies to the respective bank. Existing loan liabilities of EUR 3,530.6 million (31 December 2021: EUR 3,130.6 million) are secured by land charges.

The decline in financial liabilities from lease financing of EUR 3.6 million in the reporting year essentially reflects the reduction of lease liabilities for buildings and cars. Leases already entered into that commence after the end of the reporting period will result in future possible cash outflows of EUR 1.2 million (31 December 2021: EUR 2.2 million).

a) Financial liabilities from real estate financing
The maturities shown in the consolidated financial statements are based on the contractually agreed maturities.

The remaining terms of financial liabilities from real estate financing are composed as follows:

T115

Maturity of financing liabilities from real estate financing

	Remaining term			Total
€ million	≤ 1 year	> 1 and 5 years	> 5 years	
31.12.2022	244.0	4,380.0	4,723.9	9,347.9
31.12.2021	1,508.2	2,808.2	4,451.4	8,767.8

The main driver of the change in the maturity structure since 31 December 2021 has been the issuance of the corporate bond in three tranches with a total nominal of EUR 1,500.0 million (IFRS carrying amount: EUR 1,498.1 million), which mainly increased medium and long-term remaining terms. Financial liabilities with a short remaining term were essentially reduced by the repayment of interim finance in the amount of EUR 1,400.0 million.

b) Financial liabilities from lease financing
Financial liabilities from lease financing are composed as follows:

T116

Maturity of financing liabilities from lease financing

	Remaining term			Total
€ million	≤ 1 year	> 1 and 5 years	> 5 years	
31.12.2022	8.3	17.6	87.0	112.9
31.12.2021	9.9	20.7	85.9	116.5[1]

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

12 | Other liabilities

Other liabilities are composed as follows:

T117

Other liabilities

€ million	31.12.2022	31.12.2021
Interest derivatives	0.5	146.7
Advance payments received	21.2	29.2
Trade payables	152.7	168.5[1]
Rental and lease liabilities	23.9	27.0
Liabilities to employees	13.2	13.1
Operating cost liabilities	0.1	1.3
Interest benefit recognised as a liability	18.1	6.2
Other miscellaneous liabilities	115.7	147.6
Other liabilities	**345.5**	**539.6[1]**
Thereof with a remaining term up to 1 year	278.4	339.6[1]
Thereof with a remaining term of between 1–5 years	38.6	25.7
Thereof with a remaining term of more than 5 years	28.5	174.3

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

The main drivers of the decline in other liabilities are derivative financial instruments. This includes embedded derivatives whose market value has increased as a result of the changing market environment. It also includes interest rate derivatives that have developed positively on account of higher interest rates.

13 | Deferred tax assets and liabilities

Deferred tax assets and liabilities result from temporary differences between the IFRS and tax carrying amounts, from tax loss carryforwards and from grant carryforwards and break down as follows:

T118

Deferred tax assets and liabilities

	31.12.2022		31.12.2021	
€ million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Non-current assets				
Investment properties	3.1	2,337.3	3.5	2,069.8[1]
Other miscellaneous non-current assets	0.8	16.6	1.2	10.7
Current assets	2.1	6.7	1.1	5.5
Non-current liabilities				
Pension provisions	11.6	–	24.0	–
Other provisions	0.3	0.3	0.4	0.2
Other non-current liabilities	3.7	12.1	8.4	11.7
Current liabilities				
Other provisions	0.1	0.4	0.2	0.3
Other current liabilities	4.0	2.4	6.5	0.9
Total deferred taxes from temporary differences	**25.7**	**2,375.8**	**45.3**	**2,099.1[1]**
Deferred taxes on loss carryforwards	43.6	–	42.1	–
Total deferred taxes	**69.3**	**2,375.8**	**87.4**	**2,099.1[1]**
Netting	56.1	56.1	78.3	78.3
Carrying amount	**13.2**	**2,319.7**	**9.1**	**2,020.8[1]**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

The deferred taxes from non-current assets and non-current liabilities in the table above are expected to reverse more than twelve months after the end of the reporting period.

T119

Deferred tax assets from tax loss

€ million	31.12.2022	31.12.2021
Corporation tax	11.2	13.2
Trade tax	26.3	22.9
Total	**37.5**	**36.1**

Deferred tax assets from unused tax losses are recognised in the same amount as deferred tax liabilities from temporary differences. Deferred tax assets from unused tax losses in excess of this amount are recognised to the extent that it is probable that the company will generate taxable income. No deferred tax assets were recognised on tax loss and interest carryforwards of EUR 906.0 million as at the end of the reporting period (31 December 2021: EUR 829.0 million).

Interest expenses are tax-deductible up to the amount of interest income. Above and beyond this amount, deductibility is limited to 30 % of taxable EBITDA for the financial year (interest barrier), unless the exemption limit or the equity escape clause apply.

Non-deductible interest expenses in the current financial year are carried forward to subsequent periods. Deferred tax assets are recognised for interest carried forward only to the extent that it is probable that the interest expenses can be utilised in subsequent financial years. Owing to the effective entry into profit transfer agreements between the subsidiaries that hold the property portfolios and the Group company LEG NRW GmbH and the resulting fiscal entity for corporation and trade tax purposes, the interest barrier does not apply to the (extended) fiscal entity of LEG NRW GmbH, as was the case in the previous year.

T120

Deferred tax assets on grant carried forwards in acc. with 10b EStG

€ million	31.12.2022	31.12.2021
Corporation tax	3.1	3.1
Trade tax	3.0	3.0
Total	**6.1**	**6.1**

A deferred tax asset of EUR 6.1 million (31 December 2021: EUR 6.1 million) was recognised on a grant carried forward in accordance with section 10b of the Einkommenssteuergesetz (EStG – German Income Tax Act) in the past financial year. The grant carryforward is vested.

In the past financial year, the remeasurement of derivative financial instruments in hedges reduced equity by EUR 11.3 million (31 December 2021: reduction of equity of EUR 3.8 million), while actuarial gains and losses reduced equity by EUR 11.6 million (31 December 2021: reduction of equity of EUR 3.0 million). As at the end of the reporting period, deferred tax liabilities recognised directly in equity amounted to EUR 1.2 million (31 December 2021: deferred tax assets of EUR 21.7 million).

No deferred tax liabilities were recognised on temporary differences in connection with shares in subsidiaries and associates that are not expected to reverse in the foreseeable future in accordance with IAS 12.39 of EUR 128.6 million (31 December 2021: EUR 117.8 million).

F. Notes to the consolidated statement of comprehensive income

1 | Revenue

LEG generates revenue from the transfer of goods and services both over time and at a point in time from the following areas:

T121

Revenues

	2022		
€ million	Net operating income	Income from the disposal of investment properties	Revenues from other services
Timing of revenue recognition			
At a certain point of time	–	51.0	28.4
Over a period of time	1,149.4	–	–
Total	**1,149.4**	**51.0**	**28.4**

T122

Revenues

	2021		
€ million	Net operating income	Income from the disposal of investment properties	Revenues from other services
Timing of revenue recognition			
At a certain point of time	–	31.8	13.6
Over a period of time	960.4	–	–
Total	**960.4**	**31.8**	**13.6**

The following overview summarises the assessment of whether a contract with a customer satisfied the definition of IFRS 15 and whether LEG qualifies as a principal (gross revenue) or an agent (net revenue) in sales:

T123

Allocable operating costs

€ million	Principal – agent relations acc. to IFRS 15	2022	2021
Operating costs – land tax	–	32.4	34.2
Operating costs – cold water supply	Agent	46.1	41.5
Operating costs – draining	Agent	35.6	27.7
Operatings costs – hot water supply	Principal	0.6	0.5
Operatings costs – elevator	Principal	4.0	3.2
Operatings costs – waste disposal	Principal	52.5	40.1
Operatings costs – vermin control	Principal	1.2	1.0
Operatings costs – gardening	Principal	22.1	18.8
Operatings costs – chimney sweep	Principal	2.0	1.3
Operatings costs – caretaker	Principal	3.0	1.0
Operatings costs – property and liability insurance	–	61.4	44.6
Operatings costs – washing facilites	–	0.1	0.2
Operatings costs – smoke alarms	–	0.0	0.8
Operatings costs – heating costs/heat supply	Principal	68.5	40.9
Operatings costs – street cleaning	Agent	7.8	9.0
Operatings costs – cleaning of building	Principal	12.5	9.2
Operatings costs – lightning	Principal	3.7	0.9
Operatings costs – cabel and TV multimedia	Principal	6.4	4.0

Assets and liabilities from contracts with customers

T124

Assets and liabilities from customer contracts

€ million	2022	2021
Current assets from ancillary costs	37.9	23.9
Impairment of ancillary costs	10.1	3.2
Total assets from customer contracts	**48.0**	**27.1**
Current liabilities from customer contracts	–10.5	–7.3
Total liabilities from customer contracts	**–10.5**	**–7.3**

2 | Net operating income

T125

Net operating income

€ million	2022	2021
Net cold rent	799.1	683.9
Net income from operating costs	–12.4	–2.4
Maintenance expenses for externally procured services	–57.1	–65.7
Personnel expenses (rental and lease)	–107.5	–87.9
Impairment losses on rent receivables	–25.2	–10.3
Depreciation	–196.9	–11.5
Others	13.5	16.0
Net operating income	**413.5**	**522.1**
Net operating income margin (in %)	**51.7**	**76.3**
Non-recurring special effects – rental and lease	10.6	6.4
Depreciation	196.9	11.5
Net operating income (recurring)	**621.0**	**540.0**
Net operating income-margin (recurring) (in %)	**77.7**	**79.0**

Net operating income declined by EUR 108.6 million year-on-year in the reporting period. Net cold rent increased by EUR 115.2 million (16.8 %) in the reporting period. Rent per square metre on a like-for-like basis rose by 3.1 %. The main factor driving this was goodwill impairment of EUR 181.4 million, in particular as a result of higher interest. Also, a higher headcount, essentially in connection with the acquisitions of 2021, caused staff costs to rise by EUR 19.6 million. The write-down on rent receivables rose by EUR 14.9 million, in particular on account of the higher volume of operating costs not yet invoiced.

The recurring net operating income (NOI) margin declined slightly from 79.0 % in the previous year to 77.7 %.

Net operating income includes the following depreciation expenses for right-of-use assets from leases in the reporting period:

T126

Depreciation expenses of leases

€ million	2022	2021
Right of use buildings	0.3	0.3
Right of use technical equipment and machines	4.4	4.9
Right of use operating and office equipment	3.0	2.7
Depreciation expenses of leases	**7.7**	**7.9**

In the reporting period, net operating income also includes expenses for leases for low-value assets of EUR 0.3 million (previous year: EUR 0.6 million).

3 | Net income from the disposal of investment property

Net income from the disposal of investment property breaks down as follows:

T127

Net income from the disposal of investment properties

€ million	2022	2021
Income from the disposal of investment properties	51.0	31.8
Carrying amount of the disposal of investment properties	–51.3	–31.8
Costs of sales of investment properties sold	–1.2	–1.0
Net income from the disposal of investment properties	**–1.5**	**–1.0**
Valuation gains induced by disposals (included in net income from the remeasurement of investment properties)	–	1.6
Adjusted net income from disposals	**–1.5**	**0.6**

There was an increase in disposals of investment property in the reporting period.

Income from disposals amounted to EUR 51.0 million (previous year: EUR 31.8 million). The increase in income from disposals essentially results from two major block sales for which the contracts were signed in the 2021 financial year, though title did not transfer until the 2022 financial year.

4 | Net income from the remeasurement of investment property

Net income from the remeasurement of investment property amounted to EUR 382.4 million in the reporting year (previous year: EUR 1,863.7 million). Based on the property portfolio at the beginning of the financial year (EUR 19,178.4 million) and taking acquisitions into account (measured at EUR 288.5 million), this corresponds to an increase of 2.0 % (previous year: 12.5 %).

The average value of residential investment property was EUR 1,789 per square metre as at 31 December 2022 (previous year: EUR 1,706 per square metre) including IFRS 5 properties and acquisitions and EUR 1,788 per square metre (previous year: EUR 1,734 per square metre) not including acquisitions.

The main drivers for the increase in portfolio value in the reporting year are the reduction of the discount and capitalisation rate as well as the positive development of rents. The expected increase in maintenance and management costs due to the current market situation has a counteracting effect.

5 | Net income from other services

Net income from other services is composed as follows:

T128

Net income from other services

€ million	2022	2021
Income from other services	28.4	13.6
Purchased services	–7.3	–1.6
Other operating expenses	–2.8	–2.7
Personnel expenses	–1.1	–1.0
Depreciation, amortisation and write-downs	–0.8	–2.6
Expenses in connection with other services	–12.0	–7.9
Net income from other services	16.4	5.7

Other services include the generation of electricity and heat, IT services for third parties and management services for third-party properties.

Operating earnings from electricity and heat generation improved as against the previous year as a result of the higher price level.

6 | Administrative and other expenses

Administrative and other expenses are composed as follows:

T129

Administrative and other expenses

€ million	2022	2021
Other operating expenses	–35.7	–104.1
Personnel expenses (administration)	–28.4	–26.7
Purchased services	–1.9	–1.5
Depreciation, amortisation and write-downs	–116.6	–4.1
Administrative and other expenses	–182.6	–136.4

The other operating expenses contained in the table above are composed as follows:

T130

Other operating expenses

€ million	2022	2021
Legal and consulting costs	–20.2	–27.9
Rent and other costs of business premises	–3.4	–4.3
Annual financial statement, accounting and audit costs	–1.8	–1.7
Expenses for postage, telecommunications, IT	–0.6	–0.5
Temporary staff	–0.1	–0.2
Vehicles	–0.7	–0.4
Travel expenses	–1.6	–0.5
Advertising expenses	–0.5	–0.8
Other expenses	–6.8	–2.5
Others	0.0	–65.3
Other operating expenses	**–35.7**	**–104.1**

The amount of other operating expenses in the previous year essentially results from the incidental costs incurred on the acquisition of the Adler companies (mainly the real estate transfer tax of EUR 65.3 million).

The rise in depreciation and amortisation relates to the goodwill impairment of EUR 112.4 million relating to this item.

Administrative and other expenses include the following depreciation expenses for right-of-use assets from leases in the reporting period.

T131

Depreciation expense of leases

€ million	2022	2021
Right of use buildings	1.0	2.1
Right of use operating and office equipment	0.3	0.3
Right of use software	0.3	0.3
Depreciation expense of leases	**1.6**	**2.7**

Expenses for leases for low-value assets of EUR 0.1 million are included in the reporting period (previous year: EUR 0.1 million).

7 | Interest expenses

Interest expenses are composed as follows:

T132

Interest expenses

€ million	2022	2021
Interest expenses from real estate and bond financing	–105.4	–74.8
Interest expense from loan amortisation	–22.2	–20.4
Prepayment penalty	0.0	–2.0
Interest expense from interest derivatives for real estate financing	–4.7	–7.9
Interest expense from change in pension provisions	–1.2	–0.6
Interest expense from interest on other assets and liabilities	–2.7	–3.0
Interest expenses from lease financing	–2.5	–2.0
Other interest expenses	–4.3	–11.0
Interest expenses	**–143.0**	**–121.7**

Interest expenses increased by EUR – 21.3 million year-on-year to EUR – 143.0 million. The rise in interest expenses and loan amortisation in the reporting period essentially relates to newly issued corporate bonds and loans granted.

The decline in other interest expense largely relates to the replacement of an interest rate derivative, which resulted in a non-recurring effect of EUR 4.5 million in the previous year. The replacement led to a reduction in interest expense from interest rate derivatives for real estate financing in the reporting period.

8 | Net income from other investment securities and other equity investments

The decline in net income from other investment securities and other equity investments of EUR – 110.8 million relates to the fair value measurement of the equity investment in BCP. This was offset by the change in the fair value of very small equity investments of EUR 3.9 million and investment income of EUR 5.5 million.

9 | Net income from the fair value measurement of derivatives

The gains and losses on the remeasurement of standalone derivatives and the ineffective portion of interest hedging instruments are reported in net income from the fair value measurement of derivatives.

The net income from the fair value measurement of derivatives in the past financial year was EUR 121.5 million (previous year: EUR – 2.3 million).

The net income from the fair value measurement of derivatives in the reporting period primarily results from changes in the fair value of the embedded derivative from the convertible bond of EUR 123.0 million (previous year: EUR 3.5 million).

10 | Income taxes

Income tax expense and income are broken down by origin as follows:

T133

Income taxes

€ million	2022	2021
Current income taxes	1.3	– 4.5
Deferred taxes	– 271.9	– 409.5
Income taxes	**– 270.6**	**– 414.0**

Based on the consolidated net profit before income taxes and the relevant anticipated tax expense, the reconciliation to current income taxes is as follows:

T134

Reconciliation to current income tax expenses

€ million	2022	2021
IFRS earnings before income taxes	508.0	2,138.7
Group tax rate in %	31.6	31.2
Forecast income taxes	**– 160.8**	**– 667.8**
Tax reduction due to tax-free income and off-balance sheet deductions	115.5	273.4
Additional taxes due to non-deductible expenses and off-balance sheet additions	– 16.2	– 14.5
Tax effect due to deferred tax assets on tax losses carryforwards and not recognised deferred tax assets due to lack of recoverability	0.9	– 8.5
Tax effect from goodwill impairment	– 93.0	–
Tax expenses relating to prior periods	– 5.7	2.4
Tax decreases/increases due to changes in tax rate	– 112.8	– 0.1
Other	1.5	1.1
Income taxes as per statement of comprehensive income	**– 270.6**	**– 414.0**
Effective tax rate in %	53.3	19.4

The tax rate applied in calculating the anticipated income tax takes into account the current and expected future tax rates for corporate income tax (15.0 %), the solidarity surcharge (5.5 % of corporate income tax) and trade tax (15.8 %) based on a basic rate of 3.5 % and a weighted average assessment rate of 452 % (city of Dusseldorf).

The tax reduction due to tax-exempt income and off-balance sheet reductions essentially results from the application of the extended trade tax reduction. This option is exclusively reserved for companies that manage properties. When applying this regulation, the results of these companies are subject only to corporation tax and the solidarity surcharge.

11 | Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the shareholders by the average number of shares outstanding during the financial year.

A capital increase was carried out on 21 June 2022 on account of stock dividends issued for the 2021 financial year. 1,269,651 new shares were issued in total.

T135

Earnings per share (basic)

	1.1. – 31.12. 2022	1.1. – 31.12. 2021
Net profit or loss attributable to shareholders in € million	234.0	1,721.6
Average numbers of shares outstanding	73,509,719	72,482,244
Earnings per share (basic) in €	**3.18**	**23.75**

T136

Earnings per share (diluted)

	1.1. – 31.12. 2022	1.1. – 31.12. 2021
Net profit or loss attributable to shareholders in € million	234.0	1.721.6
Convertible bond coupon after taxes	2.7	4.5
Measurement of derivatives after taxes	– 122.9	– 3.5
Amortisation of the convertible bond after taxes	2.8	4.7
Net profit or loss for the period for diluted earnings per share	116.6	1.727.3
Average weighted number of shares outstanding	73,509,719	72,482,244
Number of potentially new shares in the event of exercise of conversion rights	7,112,329	7,026,824
Number of shares for diluted earnings per share	80,622,048	79,509,068
Subtotal	**1.45**	**21.72**
Diluted earnings per share in €	**1.45**	**21.72**

As at 31 December 2022, LEG Immobilien SE has convertible bonds outstanding that bearers can exchange for up to 7.1 million new ordinary shares.

Diluted earnings per share are calculated by increasing the average number of shares outstanding by the number of all potentially dilutive shares. The net profit/loss for the period is adjusted for the expenses no longer incurring for the interest coupon, the measurement of the embedded derivatives and the amortisation of the convertible bonds and the resulting tax effect in the event of the conversion rights being exercised in full.

EPRA earnings per share – Not an IFRS performance indicator
The following table shows earnings per share according to the best practice recommendations by EPRA (European Public Real Estate Association):

T137

EPRA earnings per share

€ million	1.1.–31.12. 2022	1.1.–31.12. 2021
Net profit or loss for the period attributable to parent shareholders	234.0	1,721.6
Changes in value of investment properties	–382.4	–1,863.7
Profits or losses on disposal of investment properties, development properties held for investment, other interests and sales of trading properties including impairment charges in respect of trading properties	1.7	0.5
Tax on losses on disposals and real estate inventory	2.9	0.6
Changes in fair value of financial instruments and associated close-out costs	–121.5	2.3
Acquisition costs on share deals and non-controlling joint venture interests	2.9	0.0
Deferred tax in respect of EPRA-adjustments	271.9	332.5
Refinancing expenses	0.0	2.0
Other interest expenses	4.3	11.0
Non-controlling interests in respect of the above	1.7	2.8
EPRA earnings	**15.5**	**209.6**
Weighted average number of shares outstanding	73,509,719	72,482,244
= EPRA earnings per share (undiluted) in €	0.21	2.89
Potentially diluted shares	–	3,470,683
Interest coupon on convertible bond after taxes	–	2.8
Amortisation expenses convertible bond after taxes	–	1.9
EPRA earnings (diluted)	15.5	214.3
Number of diluted shares	73,509,719	75,952,927
= EPRA earnings per share (diluted) in €	**0.21**	**2.82**

G. Notes to the consolidated statement of cash flows

1 | Composition of cash and cash equivalents

The cash and cash equivalents shown in the statement of cash flows correspond to the cash and cash equivalents reported in the statement of financial position, i. e. cash on hand and bank balances.

2 | Other notes to the statement of cash flows

LEG has subsequently paid EUR 9.2 million this year for the 13 companies of the Adler Group newly included in accordance with IFRS 3 in the previous year.

LEG also paid a further EUR 293.3 million for the shares in BCP reported under financial assets in 2022.

LEG Immobilien SE received EUR 1,482.4 million in total from the issuance of corporate bonds in the financial year.

EUR 1.8 million of distributions to non-controlling interests relate to TSP-TechnikServicePlus GmbH and EUR 0.6 million to Biomasse Heizkraftwerk Siegerland GmbH & Co. KG.

The other payments of EUR 2.0 million relate to transfers to the capital reserves of Renowate GmbH.

The cash payments for the acquisition of companies in accordance with IFRS 3 are recognised as cash payments for consolidated companies, while payments related to acquisitions not in accordance with IFRS 3 are presented as cash payments for investment property.

The cash outflow for the repayment of bank loans also included prepayment penalties and payments for the reversal of hedges incurred due to early loan repayments.

Interest payments are reported in cash flow from operating activities. Total cash outflows for leases amounted to EUR 13.1 million in the reporting year (31 December 2021: EUR 13.6 million).

T138

Reconciliation financial liabilities 2022

€ million	01.01.2022	Cash Flows	Non-Cash Changes Acquisition	Non-Cash Changes Changes in fair value	Amortisation from effective interest method	Others	31.12.2022
Financial liabilities	8,767.9	554.8	–	–	22.2	3.0	9,347.9
Lease liabilities	116.5	–10.7	7.1	–	–	–	112.9
Total	**8,884.4**	**544.1**	**7.1**	**–**	**22.2**	**3.0**	**9,460.8**

T139

Reconciliation financial liabilities 2021

€ million	01.01.2021	Cash Flows	Non-Cash Changes Acquisition	Non-Cash Changes Changes in fair value	Amortisation from effective interest method	Others	31.12.2021
Financial liabilities	5,776.1	2,937.3	1.8	–	11.7	41.0	8,767.9
Lease liabilities	92.9	–11.6	35.2	–	–	–	116.5[1]
Total	**5,869.0**	**2,925.7**	**37.0**	**–**	**11.7**	**41.0**	**8,884.4[1]**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

H. Notes on Group segment reporting

LEG has operated only in one segment since the 2016 financial year. It generates its revenue and holds its assets exclusively in Germany. In the 2022 financial year, LEG did not generate more than 10 % of reported total revenue with any one customer.

In addition to the minimum disclosures required in IFRS 8, the key performance indicators of the company are explained and presented below. These correspond to the management and reporting system that LEG Immobilien SE uses for corporate management and offer a deeper insight into the economic performance of our company.

Internal reporting at LEG deviates from the IFRS accounting figures. To date, LEG's internal reporting has focused in particular on the key performance indicator of FFO I and the other key financial performance indicators figures for the housing industry of EPRA NTA and LTV. The alternative performance indicators presented below are not based on IFRS figures, with the exception of the comments on LTV.

FFO I direct

FFO I is one of the most important financial performance indicators for Group management in financial year 2022. LEG distinguishes between FFO I (not including net income from the disposal of investment property), FFO II (including net income from the disposal of investment property) and AFFO (FFO I adjusted for capex).

FFO I, FFO II and AFFO are calculated as follows in the reporting period and the previous year:

T140

Calculation of FFO I, FFO II and AFFO

€ million	01.01. – 31.12.2022	01.01. – 31.12.2021
Net cold rent	799.1	683.9
Profit from operating expenses	–12.4	–2.4
Maintenance for externally procured services	–57.1	–65.7
Personnel expenses (rental and lease)	–107.5	–87.9
Allowances on rent receivables	–25.2	–10.3
Other	13.5	16.0
Non-recurring special effects (rental and lease)	10.6	6.4
Net operating income (recurring)	**621.0**	**540.0**
Net income from other services (recurring)	**17.3**	**8.3**
Personnel expenses (administration)	–28.4	–26.7
Non-personnel operating costs	–37.6	–105.6
Non-recurring special effects (administration)	26.4	96.2
Administrative expenses (recurring)	**–39.6**	**–36.1**
Other income	0.0	0.0
EBITDA (adjusted)	**598.7**	**512.2**
Cash interest expenses and income FFO I	–113.2	–86.7
Cash income taxes FFO I	–1.7	–0.6
FFO I (before adjustment of non-controlling interests)	**483.8**	**424.9**
Adjustment of non-controlling interests	–1.8	–1.8
FFO I (after adjustment of non-controlling interests)	**482.0**	**423.1**
Net income from the disposal of investment properties (adjusted)	0.8	0.7
Cash income taxes FFO II	0.9	–3.9
FFO II (incl. disposal of investment properties)	**483.7**	**419.9**
Capex	–373.2	–330.9
AFFO (Capex-adjusted FFO I)	**108.8**	**92.2**

The direct calculation of FFO I is based on the cost of sales method.

EBITDA and FFO are adjusted for non-recurring effects to ensure comparability with previous periods. Adjustments are made for all items that are not attributable to operations in the period and that have a not insignificant effect on EBITDA and FFO. These non-recurring special items comprise project costs for business model and process optimisation, personnel matters, acquisition and integration costs, capital market financing and M&A activities as well as other atypical matters. These are composed as follows:

T141

Special one-off effects

€ million	01.01. – 31.12.2022	01.01. – 31.12.2021
Project costs to optimise the business model and processes	5.2	9.4
Staff related costs	4.2	5.0
Acquisition and integration related costs	20.5	80.0
Capital market financing and M&A activities	2.1	2.5
Other atypical matters	5.0	5.9
Special one-off effects	**37.0**	**102.8**

In the previous year, the acquisition and integration costs were essentially due to the acquisition of the 13 companies of the Adler Group. This acquisition was recognised as a business combination in accordance with IFRS 3 and all incidental purchase costs are therefore expensed, in particular the real estate transfer tax of EUR 65.3 million.

EBITDA adjusted for these special items is further adjusted for cash interest income and expenses, cash taxes and non-controlling interests in FFO I.

Cash interest expenses are composed as follows:

T142

Cash interest expenses

€ million	01.01. – 31.12.2022	01.01. – 31.12.2021
Interest expense reported in income statement	143.0	121.7
Interest expense related to loan amortisation	–22.2	–20.4
Interest costs related to the accretion of other assets/liabilities	–2.7	–3.0
Interest expenses related to changes in pension provisions	–1.2	–0.6
Other interest expenses	–3.0	–11.0
Cash effective interest expense (gross)	**113.9**	**86.7**
Cash effective interest income	0.7	0
Cash effective interest expense (net)	**113.2**	**86.7**

Capex in the context of the AFFO reconciliation includes additions to investment property of EUR 365.0 million and additions to property, plant and equipment of EUR 8.2 million.

FFO I indirect

FFO I, FFO II and AFFO are calculated according to the indirect method as follows in the reporting period and the previous year:

T143

Calculation of FFO I, FFO II and AFFO – indirect method

€ million	01.01.–31.12.2022	01.01.–31.12.2021
Net profit or loss for the period	237.4	1,724.7
Interest income	–2.5	–1.3
Interest expenses	143.0	121.7
Interest expenses (net)	140.5	120.4
Other financial expenses	–20.4	–4.4
Income taxes	270.6	414.0
EBIT	**628.1**	**2,254.7**
Amortisation and depreciation	314.3	18.1
EBITDA	**942.4**	**2,272.8**
Net income from the remeasurement of investment properties	–382.4	–1,863.7
Special one-off effects	37.0	102.8
Net income from the disposal of investment properties	1.5	0.9
Net income from the disposal of real estate inventory	0.2	–0.6
Adjusted EBITDA	**598.7**	**512.2**
Cash interest expenses and income	–113.2	–86.7
Cash income taxes FFO I	–1.7	–0.6
FFO I (before adjustment of non-controlling interests)	**483.8**	**424.9**
Adjustment of non-controlling interests	–1.8	–1.8
FFO I (after adjustment of non-controlling interests)	**482.0**	**423.1**
Net income from the disposal of investment properties (adjusted)	0.8	0.7
Cash income taxes FFO II	0.9	–3.9
FFO II (incl. disposal of investment properties)	**483.7**	**419.9**
Capex	–373.2	–330.9
AFFO (Capex-adjusted FFO I)	**108.8**	**92.2**

In conjunction with the reorganisation of the company's management, AFFO (capex-adjusted FFO I) will replace FFO I as the Group's primary key financial performance indicator from the 2023 financial year.

Cash-optimised management necessitates a separation of operating cash generation from capital expenditure. Maintenance expenses for purchased services and the own work capitalised previously included in "Other" will no longer be reported in recurring net operating income moving ahead, and will instead be recognised as an EBITDA adjustment.

Taking the adjustments described above into account, FFO I, FFO II and AFFO are calculated as follows:

T144

Calculation of FFO I, FFO II and AFFO (new definition)

€ million	01.01.–31.12.2022	01.01.–31.12.2021
Net cold rent	799.1	683.9
Profit from operating expenses	–12.4	–2.4
Personnel expenses (rental and lease)	–107.5	–87.9
Allowances on rent receivables	–25.2	–10.3
Other	–4.2	–0.2
Non-recurring special effects (rental and lease)	10.6	6.4
Net operating income (recurring)	**660.4**	**589.5**
Net income from other services (recurring)	**17.3**	**8.3**
Personnel expenses (administration)	–28.4	–26.7
Non-personnel operating costs	–37.6	–105.6
Non-recurring special effects (administration)	26.4	96.2
Administrative expenses (recurring)	**–39.6**	**–36.1**
Other income	0.0	0.0
EBITDA (adjusted)	**638.1**	**561.7**
Cash interest expenses and income FFO I	–113.2	–86.7
Cash income taxes FFO I	–1.7	–0.6
Maintenance for externally procured services	–57.1	–65.7
Own work capitalised	17.7	16.2
FFO I (before adjustment of non-controlling interests)	**483.8**	**424.9**
Adjustment of non-controlling interests	–1.8	–1.8
FFO I (after adjustment of non-controlling interests)	**482.0**	**423.1**
Net income from the disposal of investment properties (adjusted)	0.8	0.7
Cash income taxes FFO II	0.9	–3.9
FFO II (incl. disposal of investment properties)	**483.7**	**419.9**
Capex (recurring)	–373.2	–330.9
AFFO (Capex-adjusted FFO I)	**108.8**	**92.2**

Starting from FFO I (after non-controlling interests), AFFO generally takes capitalised cost from modernisation and maintenance into account. This procedure for the calculation of AFFO was adjusted in conjunction with the realignment of the corporate management. In future, recurring capex alone will be deducted (capex (recurring)). Capex that benefits from government funding is defined as non-recurring. Consolidation effects from intercompany results relating to own work are also eliminated. The reconciliation breaks down as follows:

T145

Reconciliation capex (recurring)

€ million	01.01.–31.12.2022	01.01.–31.12.2021
Investments in investment properties	–377.7	–335.6
Investments in property, plant and equipment	–8.2	–5.5
Capital expenditure	**–385.9**	**–341.1**
Subsidised investments	0.0	0.0
Consolidation effects	12.7	10.2
Capex (recurring)	**–373.2**	**–330.9**

EPRA net tangible assets (EPRA NTA)

The key metrics relevant to the property industry and to LEG are EPRA NRV, NTA and NDV. LEG has defined EPRA NTA as its key figure. Another key financial indicator is EPRA NTA per share.

LEG reports EPRA NTA of EUR 11,377.2 million or EUR 153.52 per share as at 31 December 2022. Deferred taxes on investment property are adjusted for the amount attributable to LEG's planned property disposals. Incidental purchase costs are not taken into account. The key figures are presented exclusively on a diluted basis.

T146

EPRA Net Tangible Asset (EPRA NTA)

	31.12.2022			31.12.2021		
€ million	EPRA NRV	EPRA NTA	EPRA NDV	EPRA NRV	EPRA NTA	EPRA NDV
Equity attributable to shareholders of the parent company	9,058.6	9,058.6	9,058.6	8,927.9	8,927.9	8,927.9
Hybrid instruments	31.0	31.0	31.0	455.7	455.7	455.7
Diluted NAV at fair value	**9,089.6**	**9,089.6**	**9,089.6**	**9,383.6**	**9,383.6**	**9,383.6**
Deferred tax in relation to fair value gains of IP and deferred tax on subsidised loans and financial derivatives	2,371.9	2,371.9	–	2,091.9	2,080.2	–[2]
Fair value of financial instruments	–78.5	–78.5	–	95.2	95.2	–
Goodwill as a result of deferred tax	–	–	–	–250.0	–250.0	–250.0[2]
Goodwill as a result of synergies	–	–	–	–	–43.7	–43.7[2]
Intangibles as per the IFRS balance sheet	–	–5.8	–	–	–3.8	–
Fair value of fixed interest rate debt	–	–	1,208.3	–	–	–307.4
Deferred taxes of fixed interest rate debt	–	–	–643.6	–	–	59.5
Revaluation of intangibles to fair value	–	–	–	–	–	–
Estimated ancillary acquisition costs (real estate transfer tax)[1]	1,955.3	–	–	1,843.9	–	–
NAV	**13,338.3**	**11,377.2**	**9,654.3**	**13,164.6**	**11,261.5**	**8,842.0[2]**
Fully diluted number of shares	**74,109,276**	**74,109,276**	**74,109,276**	**76,310,308**	**76,310,308**	**76,310,308**
NAV per share	**179.98**	**153.52**	**130.27**	**172.51**	**147.58**	**115.87[2]**

[1] Taking the ancillary acquisition costs into account would result into an EPRA NTA of EUR 13,332.4 million or EUR 179.90 per share (previous year: EUR 13,105.4 and EUR 171.74 per share).
[2] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

LEG's calculation of EPRA NTA is based on the Best Practice Recommendations of the European Public Real Estate Association (EPRA).

The effects on equity from the exercise of options, convertible bonds and other rights of EUR 31.0 million result from liabilities from purchase price obligations for share deals.

Deferred taxes resulting from the measurement of investment property, from the measurement of publicly subsidised loans and from the measurement of derivatives are adjusted for in the amount of their effect on equity. Deferred taxes relating to the planned sales programme are not included in the calculation of EPRA NTA. These amount to EUR 2,371.9 million in total as at 31 December 2022.

The effects of the fair value measurement of derivative financial instruments are also eliminated in the calculation of EPRA NTA. If these effects from the measurement of derivatives relate to the value of equity calculated under "Effects on equity from the exercise of options, convertible bonds and other rights", they are not taken into account in the "Effects of the fair value measurement of derivative financial instruments". These effects total EUR –78.5 million as at 31 December 2022.

If purchase price allocation for acquisitions accounted for in accordance with IFRS 3 give rise to goodwill (from deferred taxes and synergies), these reduce equity in the calculation of EPRA NTA. The goodwill was written off in full in the reporting year. Further information can be found in > section D.3 "Intangible assets and goodwill".

All recognised intangible assets are also eliminated; these amounted to EUR 5.8 million in total as at 31 December 2022.

The estimated incidental purchase costs are calculated on the basis of the net market values of the property portfolio. Real estate transfer tax is taken into account appropriately for the property portfolios in the various federal states. Brokerage commission and notary fees are also taken into account in calculating the estimated incidental purchase costs.

Loan to value ratio (LTV)

Net debt in relation to property assets rose as compared to the relatively low increase in property values in the reporting period on account of the higher additional debt financing.

As a result of the transition to IFRS 16, financial liabilities are corrected by lease liabilities for which the corresponding right-of-use asset is not reported as investment property.

The loan to value ratio (LTV) is therefore EUR 43.9% (previous year: 41.9%).

T147

Loan to value ratio

€ million	31.12.2022	31.12.2021
Financing liabilities	9,460.8	8,884.3[2]
Without lease liabilities IFRS16 (not leasehold)	22.0	26.6
Less cash and cash equivalents[1]	402.2	745.6
Net financing liabilities	**9,036.6**	**8,112.1**
Investment properties	20,204.4	19,178.4[2]
Assets held for sale	35.6	37.0
Prepayments for investment properties	60.8	23.4
Participation in other residential companies[1]	306.7	119.2
Prepayments for acquisitions of companies	–	1.8
Real estate assets	**20,607.5**	**19,359.8**
Loan to value ratio (LTV) in %	**43.9**	**41.9**

[1] The calcualtion was adjusted to the current market standard as of 31 March 2022. The net financial liabilities are reduced by the short-term deposits, the real estate assets are supplemented by the participations in other real estate companies. The figure as at 31 December 2021 was adjusted accordingly.

[2] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

Maintenance and modernisation

The non-capitalised maintenance expenses from the perspective of the companies that hold properties consist of maintenance expenses for externally purchased services and maintenance expenses purchased internally by the service companies of LEG Immobilien SE. For modernisation work capitalised as value-adding measures, capex represents the initial value that is adjusted for consolidation effects.

T148

Maintenance and modernisation

€ million	01.01.–31.12.2022	01.01.–31.12.2021
Maintenance expenses for externally procured services	57.1	65.7
Maintenance expenses for internally procured services	54.3	45.2
Non-capitalised maintenance expenses	**111.4**	**110.9**
Capex	373.2	330.9
Consolidation effects	12.7	10.3
Modernisations capitalised as value-enhancing measures	**385.9**	**341.2**
Total investment	**497.3**	**452.1**

I. Other disclosures

1 | Overview of cost types

The following cost types are contained in the various functions:

T149

Cost types

€ million	2022	2021
Expenses for purchased services	384.4	304.4
Employee benefits	137.8	116.3
Depreciation, amortisation and write-downs	314.4	18.1

Staff costs of EUR 137.8 million are composed as follows:

T150

Employee benefits

€ million	2022	2021
Wages and salaries	114.7	97.1
Social security	22.7	18.5
Pensions	0.4	0.7
Total	**137.8**	**116.3**

2 | Capital management

The aim of LEG's capital management is to ensure the continued existence of the company as a going concern while generating income for its shareholders, in addition to providing all other stakeholders of LEG with the benefits to which they are entitled. Overall, the aim is to increase LEG's value.

This end-to-end capital management strategy has not changed since the previous year.

As is typical for the industry, LEG monitors capital on the basis of loan to value (LTV). LTV describes the ratio of net debt to the fair value of investment property. Net debt is calculated by deducting cash and cash equivalents from financial liabilities.

As in the previous year, LEG's goal in the financial year was to maintain an appropriate level of gearing in order to ensure continued access to debt financing in the long term at economically appropriate costs. Please refer to > section H for details of the calculation of LTV as at 31 December 2022 and 31 December 2021.

In the past financial year 2022, the regulations on financial ratios agreed with the financing partners were complied with.

The aims of capital management were achieved in the reporting year.

Details of restricted funds can be found in > section E.6.

3 | Financial instruments

a) Other disclosures on financial instruments

The following table shows the financial assets and liabilities broken down by measurement category and class. Liabilities from finance leases and derivatives used as hedging instruments are included even though they are not assigned to an IFRS 9 measurement category. Non-financial assets and non-financial assets are also included for the purposes of reconciliation even though they are not covered by IFRS 7:

T151

Classes of financial instruments for financial assets and liabilities 2022

€ million	Carrying amounts as per statement of financial positions 31.12.2022	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IFRS 16)	Fair value 31.12.2022
Assets					
Other financial assets	**337.9**				**337.9**
AC	7.1	7.1			7.1
FVtPL	290.2		290.2		290.2
Hedge accounting derivatives	40.6				40.6
Receivables and other assets	**164.7**				**164.7**
AC	149.0	149.0			149.0
Other non-financial assets	15.7				15.7
Cash and cash equivalents	**362.2**				**362.2**
AC	362.2	362.2			362.2
Total	**864.8**	**518.3**	**290.2**		**864.8**
Of which IFRS 9 measurement categories					
AC	518.3	518.3			518.3
FVtPL	**290.2**		290.2		**290.2**

AC = Amortized Cost
FVtPL = Fair Value through profit and loss

€ million	Carrying amounts as per statement of financial positions 31.12.2022	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IFRS 16)	Fair value 31.12.2022
Equity and liabilities					
Financial liabilities	**–9,460.8**				**–8,139.7**
FLAC	–9,347.9	–9.347.9			–8,139.7
Liabilities from lease financing	–112.9			–112.9	
Other liabilities	**–345.5**				**–345.5**
FLAC	–184.9	–184.9			–184.9
Derivatives HFT	–0.5		–0.5		–0.5
Hedge accounting derivatives	0.0				0.0
Other non-financial liabilities	–160.1				–160.1
Total	**–9,806.3**	**–9,532.8**	**–0.5**	**–112.9**	**–8,485.2**
Of which IFRS 9 measurement categories					
FLAC	–9,532.8	–9,532.8			–8,324.6
Derivatives HFT	**–0.5**		–0.5		**–0.5**

FLAC = Financial Liabilities at Cost
HFT = Held for Trading

T152

Classes of financial instruments for financial assets and liabilities 2021

€ million	Carrying amounts as per statement of financial positions 31.12.2021	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IFRS 16)	Fair value 31.12.2021
Assets					
Other financial assets	**111.2**				**111.2**
AC	7.2	7.2			7.2
FVtPL	103.6		103.6		103.6
Hedge accounting derivatives	0.4				0.4
Receivables and other assets	**154.9**				**154.9**[1]
AC	147.5	147.5			147.5[1]
Other non-financial assets	7.4				7.4[1]
Cash and cash equivalents	**675.6**				**675.6**
AC	675.6	675.6			675.6
Total	**941.7**	**830.3**	**103.6**		**941.7**[1]
Of which IFRS 9 measurement categories					
AC	830.3	830.3			830.3[1]
FVtPL	103.6		103.6		103.6

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

AC = Amortized Cost
FVtPL = Fair Value through profit and loss

€ million	Carrying amounts as per statement of financial positions 31.12.2021	Measurement (IFRS 9) Amortised cost	Measurement (IFRS 9) Fair value through profit or loss	Measurement (IFRS 16)	Fair value 31.12.2021
Equity and liabilities					
Financial liabilities	**–8,884.4**				**–9,089.2**[1]
FLAC	–8,767.9	–8,767.9			–9,089.2
Liabilities from lease financing	–116.5			–116.5	
Other liabilities	**–539.6**				**–539.6**[1]
FLAC	–223.1	–223.1			–223.1
Derivatives HFT	–123.4		–123.4		–123.4
Hedge accounting derivatives	–23.3				–23.3
Other non-financial liabilities	–169.8				–169.8[1]
Total	**–9,424.0**	**–8,991.0**	**–123.4**	**–116.5**	**–9,628.8**[1]
Of which IFRS 9 measurement categories					
FLAC	–8,991.0	–8,991.0			–9,312.3
Derivatives HFT	–123.4		–123.4		–123.4

FLAC = Financial Liabilities at Cost
HFT = Held for Trading

As at 31 December 2022, the fair value of a shareholding amounts to EUR 268.0 million (previous year: EUR 85.4 million). The change compared to the previous year amounts to EUR 182.6 million, of which EUR –110.8 million were recognised in profit or loss. This investment is allocated to Level 1 of the valuation hierarchy, as there is an active market for the shares.

Furthermore, there are very small participations with a fair value of EUR 22.1 million (previous year: EUR 18.2 million). This results in a change compared to the previous year of EUR 3.9 million (previous year: EUR 4.4 million), which was recognised in profit or loss.

The fair value of the very small equity investments is calculated using DCF procedures as there are no quoted prices in an active market for the relevant equity investments. The fair value calculated using valuation models is allocated to Level 3 of the IFRS 13 measurement hierarchy. They are allocated to Level 3 on account of the use of inputs not observed on a market in the measurement model. In particular, this refers to the capitalisation rate of 3.9 % (previous year: 4.8 %).

The fair value of the Level 3 very small equity investments was EUR 22.1 million as at 31 December 2022. The stress test of this parameter on the basis of plus 50 bp results in a reduction of fair value to EUR 19.7 million (previous year: EUR 16.6 million) and at minus 50 bp in an increase in fair value to EUR 25.3 million (previous year: EUR 20.2 million).

Trade receivables, other financial and non-financial assets, trade payables and other liabilities predominantly have short remaining terms. The carrying amounts are approximately equal to their fair value.

Originated financial instruments (liabilities from real estate and corporate financing, FLAC category), whose fair value does not correspond to their carrying amount are classified as financial liabilities. The fair value of loan liabilities is calculated as the present value of the future cash flows, taking into account the applicable risk-free interest rates and the LEG-specific risk premium as at the end of the reporting period.

Net income for each measurement category is broken down as follows:

T153

Net income 2022

€ million	2022
AC	–62.5
FVtPL (assets)	–122.2
FVtPL (liabilities)	121.3
FLAC	–129.0
Total	**–192.4**

T154

Net income 2021

€ million	2021
AC	–8.0
FVtPL (assets)	9.0
FVtPL (liabilities)	3.5
FLAC	–100.9
Total	**–96.4**

AC = Amortized Cost
FVtPL = Fair Value through profit and loss
FLAC = Financial Liabilities at Cost

Net income contains remeasurement effects in addition to interest income and expenses during the financial year.

b) Risk management

Principles of risk management

LEG is exposed to default risk, liquidity risk and market risk as a result of its use of financial instruments. To take these risks into account, LEG has an effective risk management system supported by the clear functional organisation of the risk controlling process.

The effectiveness of the risk management system is reviewed and assessed regularly on a company-wide basis by the Internal Audit and Compliance unit. Where adjustments are necessary or areas for improvement are identified, the Internal Audit and Compliance unit advises on, examines and monitors these activities.

The framework for the Group's financial policy is determined by the Management Board and monitored by the Supervisory Board. The implementation of financial policy is the responsibility of the Corporate Finance and Treasury unit, while ongoing risk management is handled by Controlling and Risk Management. The use of derivative financial instruments is governed by a corresponding Treasury policy adopted by Management Board and acknowledged by the Supervisory Board. Derivative financial instruments can be used solely to hedge existing underlyings, future cash flows and planned transactions whose occurrence is reasonably certain. Derivative financial instruments are concluded solely to hedge against interest rate risks.

c) Default risk

Credit or default risk describes the risk that business partners – essentially the tenants of the properties held by LEG – will be unable to meet their contractual payment obligations and that this will result in a loss to LEG. In order to prevent and control default risk to the greatest possible extent, new lettings are subject to credit checks.

Default risk exists for all classes of financial instrument, and in particular for trade receivables. LEG is not exposed to significant default risk with regard to any individual party. The concentration of default risk is limited due to the Group's broad, heterogeneous tenant base.

There are gross receivables from rental and leasing activities of EUR 52.6 million (previous year: EUR 34.7 million). Allowances of EUR 28.0 million (previous year: EUR 20.4 million) were recognised, hence net rent receivables of EUR 24.6 million were reported as at 31 December 2022 (previous year: EUR 14.3 million). Collateral for receivables (essentially rent deposits) of EUR 47.3 million (previous year: EUR 24.1 million) can be taken into account only in the offsetting of outstanding receivables under restrictive conditions.

Offsetting is possible only if the receivable being offset:

- is undisputed; or
- has been ruled legally binding; or
- is manifestly substantiated.

Offsetting by the lessor against receivables that are manifestly disputed or not covered by the lease (such as receivables from operating expenses) is not permitted. In addition, the restrictions of section 9(5) sentence 1 of the Wohnungsbindungsgesetz (WoBindG – German Controlled Tenancy Act) must also be noted in particular.

Allowances on rent receivables were essentially recognised using the simplified approach in accordance with IFRS 9 without taking collateral into account.

With regard to cash and cash equivalents and derivatives, LEG enters into corresponding agreements only with banks with excellent credit ratings. The credit ratings of counterparties are monitored and assessed by LEG on an ongoing basis, taking into account external ratings from various agencies (e. g. Standard & Poor's, Moody's, Fitch and others), the findings of internal research and financial market information. Depending on the availability of information with sufficient informative value, LEG refers to one or more of the data sources described above. In the event of a substantial deterioration in the credit rating of a counterparty, LEG takes efforts to ensure that its existing exposure is reduced as quickly as possible and that new exposures are no longer entered into with the respective counterparty. Expected credit loss is not taken into account for this reason.

As shown in the table below, the carrying amounts of recognised financial assets less any write-downs represent the highest default risk. The carrying amount of financial assets represents the maximum default risk. The default risk for interest rate derivatives is limited to the amount of the positive fair values of derivatives.

The table below shows the financial assets determined to be impaired as at the end of the reporting period:

T155

Impaired financial assets 2022

€ million classes of financial instruments 31.12.2021	Carrying amount before impairment	Impairment	Residual carrying amount
Loans	0.8	–	0.8
Other financial assets	88.1	−14.3	73.8
Trade receivables	63.5	−28.4	35.1
Cash and cash equivalents	362.2	–	362.2
Total	**514.6**	**−42.7**	**471.9**

T156

Impaired financial assets 2021

€ million classes of financial instruments 31.12.2021	Carrying amount before impairment	Impairment	Residual carrying amount
Loans	0.2	–	0.2
Other financial assets	57.8	−5.2	52.6[1]
Trade receivables	44.2	−20.9	23.3
Cash and cash equivalents	675.6	–	675.6
Total	**777.8**	**−26.1**	**751.7[1]**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

To calculate the expected credit losses for trade receivables, LEG uses the simplified approach of the expected credit loss model in accordance with IFRS 9 in order to take potential impairment on a receivable into account on initial recognition. Life-time expected credit losses are therefore calculated for all trade receivables. In calculating the impairment rates for rent receivables, location-specific risk profiles are also taken into account within the individual past due ranges. This includes both the historical default rate for outstanding rent receivables and an assessment of the future development of a location.

Locations are divided into three categories (good, medium, poor), giving rise to the following impairment matrix in accordance with IFRS 9 in the reporting year (unchanged since the previous year):

T157

Impairment rates for rent receivables – IFRS 9

Age of rent receivable/ overdue period (days)	Status of lease	Impairment rate in %		
		Good location	Medium location	Poor location
0 to 60	active	1.0	25.0	45.0
61 to 90	active	8.0	35.0	55.0
91 to 120	active	10.0	37.0	57.0
121 to 180	active	13.0	40.0	60.0
more than 180	active	18.0	45.0	65.0
0 to 60	past	43.0	70.0	90.0
more than 60	past	60.0	87.0	100.0

The gross receivables, broken down by time past due and location-based risk profiles, comprise rent receivables after offsetting tenant credit. Taking allowances into account, the net receivables are as follows as at the end of the reporting period:

T158

Impairment rates for rent receivables – IFRS 9

Age of rent receivable/ overdue period (days)	Status of lease	Gross receivables			Impairment in %	Net receivables 31.12.2022
		Good location	Medium location	Poor location		
0 to 60	active	0.6	2.8	4.6	2.8	5.2
61 to 90	active	0.1	0.5	0.6	0.5	0.7
91 to 120	active	0.1	0.5	0.6	0.6	0.6
121 to 180	active	0.1	0.7	0.8	0.7	0.9
more than 180	active	0.6	2.5	3.1	3.2	3.0
0 to 60	past	0.2	0.7	1.0	1.5	0.4
more than 60	past	1.2	5.4	7.6	13.0	1.2
		2.9	**13.1**	**18.3**	**22.3**	**12.0**

T159

Impairment rates for rent receivables – IFRS 9

Age of rent receivable/ overdue period (days)	Status of lease	Gross receivables			Impairment in %	Net receivables 31.12.2021
		Good location	Medium location	Poor location		
0 to 60	active	0.5	2.0	3.0	1.8	3.7
61 to 90	active	0.1	0.3	0.5	0.4	0.5
91 to 120	active	0.1	0.2	0.6	0.4	0.5
121 to 180	active	0.1	0.3	0.8	0.6	0.6
more than 180	active	0.4	1.0	2.6	2.2	1.8
0 to 60	past	0.1	0.3	0.5	0.7	0.2
more than 60	past	0.8	2.1	5.8	8.1	0.6
		2.1	**6.2**	**13.8**	**14.2**	**7.9**

Allowances of 20.0 % on receivables from operating and heating costs were recognised in the reporting year (previous year: 12.4 %) while general allowances of 20.0 % (previous year: 12.4%) were recognised on rent receivables not yet due. Allowances of 32.6 % were recognised in the reporting year on rent receivables not yet due that are based on instalment payment agreements. The expected loss rate has been estimated using past loss rates for all items posted as due.

Rent receivables and receivables from operating costs are derecognised if there is no longer a reasonable expectation of recovery.

Impairment losses broke down as follows for 2022 and 2021:

T160

Impairment losses 2022

€ million	As of 01.01.2022	Change remeasurement	Utilisation	Change in consolidated companies	As of 31.12.2022
Trade receivables	20.8	26.5	–18.7	–	28.6
Other financial assets	5.2	12.5	–3.4	–	14.3
Total	**26.0**	**39.0**	**–22.1**	**–**	**42.9**

T161

Impairment losses 2021

€ million	As of 01.01.2021	Change remeasurement	Utilisation	Change in consolidated companies	As of 31.12.2021
Trade receivables	18.1	11.6	–13.5	4.6	20.8
Other financial assets	4.1	4.3	–3.2	–	5.2[1]
Total	**22.2**	**15.9**	**–16.7**	**4.6**	**26.0[1]**

[1] Previous year's figure adjusted.

d) Liquidity risks

LEG defines liquidity risk as the risk that the Group will be unable to meet its own payment obligations at a contractually agreed date.

To ensure that this is not the case, LEG's liquidity requirements are monitored and planned on an ongoing basis by the Corporate Finance and Treasury unit. Sufficient cash and cash equivalents to meet the Group's obligations for a defined period are available at all times. In addition, LEG has credit facilities and bank overdrafts of EUR 615.0 million (previous year: EUR 425.0 million).

The following table shows the contractually agreed (undiscounted) interest and principal payments for LEG's primary financial liabilities and its derivative financial instruments with negative fair value. The maturities are based on the contractually agreed fixed interest periods for the respective financial liabilities.

T162

Type of liabilities on 31.12.2022

€ million	Carrying amount	Remaining terms		
		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	9,347.9	275.6	4,628.9	5,409.7
Financing liabilities from lease financing	112.9	11.1	25.4	159.5
Interest rate derivatives	–	–	–	–
Embedded derivatives	0.5	–	–	–
Liabilities to employees	13.2	12.8	0.1	0.3
Liabilities from operating costs	0.1	0.1	–	–
Rent and lease liabilities	23.9	23.9	–	–
Trade payables	152.7	144.1	8.6	–
Others	110.8	71.3	11.4	28.1
Total	**9,762.0**	**538.9**	**4,674.4**	**5,597.6**

The embedded derivatives do not result in direct cash outflows.

T163

Type of liabilities on 31.12.2021

€ million	Carrying amount	Remaining terms		
		< 1 year	1 – 5 years	> 5 years
Financing liabilities from loan payable	8,767.9	1,514.3	2,941.4	5,081.7
Financing liabilities from lease financing	116.5	12.5	28.3	139.1[1]
Interest rate derivatives	23.3	6.5	14.1	3.0
Embedded derivatives	123.4	–	–	–
Liabilities to employees	13.1	12.8	– 0.0	0.3
Liabilities from operating costs	1.3	1.3	–	–
Rent and lease liabilities	27.0	27.0	–	–
Liabilities from shareholder loans	0.0	0.0	–	–
Trade payables	168.5	162.1	6.4	0.0[1]
Others	142.8	102.9	12.3	27.6
Total	**9,383.8**	**1,839.4**	**3,002.5**	**5,251.7[1]**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

All instruments for which payments were contractually agreed as at the end of the reporting period are included. Forecast figures for future new liabilities are not included. Floating-rate interest payments for financial instruments are calculated using the most recent interest rates prior to the end of the reporting period. Financial liabilities that are repayable at any time are always allocated to the earliest repayment date.

Some of LEG's loan agreements contain financial covenants. In the event of a failure to comply with the agreed covenants, LEG generally has the opportunity to resolve the situation; however, certain cases of non-compliance can result in the bank having the right to terminate the loan agreement with immediate effect. In addition, some agreements provide the bank with the possibility of increasing interest and principal payments or demanding further security for compliance with the covenants in the event of noncompliance. In any case, a long-term failure to comply with the agreed covenants means that the financing bank is entitled to terminate the respective agreement. In conjunction with unsecured financing, such as bonds, covenants have also been agreed that can lead to termination rights in the event of non-compliance. Compliance with covenants is monitored on an ongoing basis. In the past financial year 2022, the regulations on financial ratios agreed with the financing partners were complied with.

e) Market risks
LEG is subject to significant interest rate risks on account of its business activities. Interest rate risk results, in particular, from floating-rate liabilities to banks. In order to limit interest rate risk, LEG generally enters into fixed or floating-rate loans, sometimes in connection with interest payer swaps. Around 94 % of financial liabilities are hedged in this way.

LEG uses derivative financial instruments exclusively to hedge interest rates. The Treasury policy prohibits the use of derivatives for speculative purposes.

The Group had the following derivative financial instruments as at 31 December 2022:

T164

Derivatives 31.12.2022

€ million	Fair Value	thereof < 1 year
Derivate – HFT – Assets	0.1	–
thereof from interest rate swaps	0.1	–
Derivate – HFT – Liabilities	–0.5	–
thereof from interest rate swaps	–	–
thereof embedded derivatives	–0.5	–
Hedged derivatives	40.6	–

The Group had the following derivative financial instruments as at 31 December 2021:

T165

Derivatives 31.12.2021

€ million	Fair Value	thereof < 1 year
Derivate – HFT – Assets	–	–
thereof from interest rate swaps	–	–
Derivate – HFT – Liabilities	–123.4	–
thereof from interest rate swaps	–	–
thereof embedded derivatives	–123.4	–
Hedged derivatives	–22.9	–

The derivatives entered into by LEG are used as hedging instruments in accordance with IFRS 9 if they meet the conditions for hedge accounting. The cash flows from hedged items in cash flow hedge accounting will be received between 2022 and 2030 and will be recognised in profit or loss at the same time.

The following table shows the amount recognised/reversed directly in other comprehensive income in the reporting period. It is reversed to interest income. This corresponds to the effective portion of the change in fair value:

T166

Equity implication

€ million	2022	2021
Operating balance as of 01.01.	–20.1	–42.4
Recognised in equity in reporting period	57.8	9.9
Reserved from equity to statement of comprehensive inome	5.0	12.4
Closing balance as of 31.12.	42.7	–20.1

The effects of accounting for interest rate swaps on the financial position and financial performance of the Group are as follows:

T167

Effects from interest rate swap accounting

€ million	2022	2021
Hedging ratio	1:1	1:1
Weighted average interest rate in %	0.93	0.93
Change in fair value of outstanding hedging instruments	63.4	16.9
Change in the value of the underlying transaction	–63.8	–17.5
Notional amount of hedging instruments as of 31.12.2020	445.5	448.5
thereof due < 1 year	1.9	3.0
thereof due 1 to 5 years	302.6	221.3
thereof due > 5 years	141.0	224.2

f) Sensitivity analysis

In accordance with IFRS 7, interest rate risk is presented using sensitivity analyses to determine the impact that a change in market interest rates would have on LEG's interest income and expense, trading gains and losses and equity as at the end of the reporting period.

The effects on LEG's equity and statement of comprehensive income are analysed using a +/- 50 BP parallel shift in the euro yield curve in the sensitivity analysis. The cash flow effects from the shift in the yield curve relate solely to interest expense and income for the next reporting period.

Based on the financial instruments held or issued by LEG as at the end of the reporting period, a hypothetical change in the applicable interest rates for the respective instruments as quantified using sensitivity analysis would have had the following effects (before taxes) as at the end of the reporting period:

T168

Financial instruments as at 31.12.2022

	Equity effect		Comprehensive income	
€ million	+50 bp	–50 bp	+50 bp	–50 bp
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	–3.0	3.0
Interest rate derivatives	9.5	–9.6	–	–
Embedded derivatives	–	–	–15.8	16.3

T169

Financial instruments as at 31.12.2021

	Equity effect		Comprehensive income	
€ million	+50 bp	–50 bp	+50 bp	–50 bp
Net position of all interest-sensitive financial instruments				
Financing liabilities	–	–	–2.3	2.3
Interest rate derivatives	12.6	–12.3	–	–
Embedded derivatives	–	–	–7.0	49.2

Embedded derivatives are subject to both interest rate risk and share price risk. If the market price for the full instrument had been 5 % higher (lower) at the end of the reporting period as a result of a change in the price of LEG Immobilien SE shares, with the other parameters for the company remaining unchanged, the fair value of the embedded derivatives would have been EUR 38.6 million higher (EUR 38.6 million lower).

g) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting:

T170

Financial assets (netted)

€ million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts, which are not netted in the balancesheet		
				Financial instruments	Received cash deposits	Net amount
31.12.2022						
Operating costs not yet billed (services in process)	395.3	–357.4	37.9	–	–	37.9
31.12.2021						
Operating costs not yet billed (services in process)	363.2	–339.4	23.8	–	–	23.8

The following financial liabilities are subject to offsetting:

T171

Financial assets (netted)

€ million	Gross amount of the admitted financial assets	Gross amount of the admitted financial liabilities, which have been netted in the balance sheet	Net amount of the admitted financial assets, which are considered in the balance sheet	Related amounts, which are not netted in the balancesheet		
				Financial instruments	Received cash deposits	Net amount
31.12.2022						
Advanced payments received	–367.9	357.4	–10.5	–	–	–10.5
31.12.2021						
Advanced payments received	–346.6	339.4	–7.2	–	–	–7.2

4 | Number of employees

The average number of employees at LEG developed as follows as against the previous year:

T172

Average number of employees

	2022		2021	
	Average number of employees	Employee capacity (FTE)	Average number of employees	Employee capacity (FTE)
Operations	1,142	1,053	886	836
Management	207	181	196	180
Special entities	572	540	524	499
Total	**1,921**	**1,774**	**1,606**	**1,515**

5 | Total auditor's fees

The total fees paid to the auditor of the consolidated financial statements are composed as follows:

T173

Total auditor's fees

€ million	2022	2021
Audits of financial statements	1.5	1.3
Other audit services	0.2	0.3
Total fee	**1.7**	**1.6**

The audit services mainly include the fees for the audit of the consolidated financial statements and the legally required audits of LEG Immobilien SE and the subsidiaries included in the consolidated financial statements. The fees for the audit include EUR 0.1 million for services in the previous year. The fees for other audit services essentially comprise the issue of a comfort letter and the audit review of the sustainability report.

6 | IFRS 2 programmes

Management Board remuneration programme
From 1 January 2022, the new contracts for members of the Management Board provide for a long-term incentive programme to be offered for each financial year. The LTI has a performance period of four years. The amount of LTI remuneration is dependent on the achievement of the financial performance target of the development of total shareholder return relative to the relevant property index (EPRA Germany Index) and non-financial environmental, social and governance targets (ESG targets). The long-term incentive programme set up in the 2021 financial year has a performance period of four years. The amount of LTI remuneration is dependent on the achievement of the financial performance targets of total shareholder return and the development of LEG's share price compared to the relevant EPRA Germany index, as well as non-financial environmental, social and governance targets (ESG targets). For the Management Board remuneration system in place until 31 December 2020, the performance period for the LTI 2019 and LTI 2020 is four years. The programme is divided into three performance periods (until the end of the first, second and third financial year following the relevant financial year). The performance targets in question are total shareholder return and the development of LEG's share price compared to the relevant EPRA Germany Index.

The programme is treated as cash-settled share-based payment in accordance with IFRS 2. Based on the Management Board's assessment and the Supervisory Board's approval of the achievement of the performance hurdles, staff costs of EUR 0.6 million (previous year: EUR 1.1 million) were recognised as at 31 December 2022 on the basis of an actuarial report. The provision for long-term incentive plans amounted to EUR 1.6 million as at 31 December 2022 (31 December 2021: EUR 1.6 million).

The 2022 LTI tranche allocated in the previous year was calculated on the basis of the new terms of the plan effective from 1 January 2022.

The fair value of a performance share unit for the 2023 LTI tranche is EUR 62.64 while the fair value of a performance share unit for the 2022 LTI tranche is EUR 82.50.

A target level of 73 % was achieved for the 2021 LTI tranche with target levels of 60 % achieved for both the 2020 LTI tranche 2 and the 2019 LTI tranche 3.

The total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the reporting period was EUR 392 thousand as at 31 December 2022 (31 December 2021: EUR 621 thousand).

Management remuneration programme
The Management Board and Supervisory Board of LEG Immobilien SE have resolved to introduce a share-based remuneration programme for second level managers at LEG from 1 January 2021, with the aim of giving managers a greater share in the company's success. The remuneration programme will be granted in annual tranches with an individual term of four financial years for each tranche. Each tranche consists of the executive's own investment in LEG Immobilien SE shares and a partly performance-based component in euro. The condition for granting the performance-based component of the programme is the manager's own investment in LEG Immobilien SE shares combined with a holding period of four years. This personal investment results in a higher share-based factor in the remuneration of second-level managers.

The programme is treated as cash-settled share-based payment in accordance with IFRS 2. A provision of EUR 390 thousand was recognised as at 31 December 2022 (31 December 2021: EUR 180 thousand).

Employee share programme
LEG Immobilien SE also offers all its employees the chance to participate in an employee share programme to boost employee identification with the company's goals.

The programme is treated as cash-settled share-based payment in accordance with IFRS 2. A provision of EUR 615 thousand was recognised as at 31 December 2022.

7 | Related party disclosures

Related parties are defined as companies and persons that have the ability to control LEG or exercise significant influence over its financial and business policy. The existing control relationships were taken into account when determining the significant influence that related parties can exercise over LEG's financial and business policy.

Related persons
The related persons of LEG Immobilien SE include the Management Board and the Supervisory Board of LEG Immobilien SE.

Related companies
LEG Immobilien SE's related companies include all the subsidiaries and associates of LEG.

Transactions with related persons and companies are conducted at arm's-length conditions.

The following table shows the receivables from and liabilities to related companies as at the end of the reporting period and expenses and income involving related companies for the financial year:

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Receivables from and liabilities to related companies

€ million	31.12.2022	31.12.2021
Statement of financial positions		
Receivables from equity investments	0.4	0.0
Receivables from associates and non-consolidated companies	0.1	0.1
Receivables from associated companies	0.1	0.0
Liabilities to associated companies	0.3	0.0

T175

Income from and expenses for related companies

€ million	2022	2021
Statement of comprehensive income		
Income from associates	0.3	0.3
Income from equity investments	5.5	3.6

The income from related parties comprises the pro rata annual results of the associated companies and distributions by investees.

a) Related company disclosures
Related companies controlled by LEG Immobilien SE or which it significantly influences are included in the consolidated financial statements. Intragroup transactions under existing service and management agreements between the companies are eliminated as part of consolidation.

There was no significant exchange of goods and services with the other unconsolidated subsidiaries or associates.

b) Related person disclosures
With the exception of the remuneration paid to the company's executive bodies as described below, there were no transactions with related parties in the reporting year.

Total remuneration of the Management Board is shown in the table below:

T176

Compensation package of the Management Board

€ thousand	2022	2021
Fixed remuneration	2,050	1,800
Ancillary benefits	98	86
Total fixed benefits	**2,148**	**1,886**
Short-Term-Incentive-programme (STI)	1,837	1,544
Long-Term-Incentive-programme (LTI)	392	620
Transaction bonus (Deferral 2020)	395	198
Total variable benefits	**2,624**	**2,362**
Pension costs	**224**	**224**
Total	**4,996**	**4,472**

The basis for calculating the STI is the achievement of the respective consolidated IFRS business plan. The STI consists of an annual payment measured on the basis of the following three targets: net operating income, funds from operations I per share and non-financial environmental, social and governance targets. The first two targets each account for 40 % and the latter target for 20 % of the STI.

No loans or advances were granted or extended to the members of the Management Board in the 2022 financial year.

There were pension provisions for previous members of the Management Board of EUR 0.2 million as at 31 December 2022 (31 December 2021: EUR 0.3 million).

The total remuneration of members of the Supervisory Board of LEG Immobilien SE amounted to EUR 0.9 million in 2022 (31 December 2021: EUR 0.8 million).

No loans or advances were granted or extended to the members of the Supervisory Board in the 2022 financial year.

Recognised expenses for the remuneration of members of the Management Board and Supervisory Board in accordance with IAS 24.17 can be summarised as follows:

T177

Benefits to the Management and Supervisory Board

€ thousand	2022	2021
Current payable benefits	5,539	4,450
Share-based payment	583	1,085
Total	**6,122**	**5,535**

8 | Guarantees and contingent liabilities

The guarantees and contingent liabilities relate exclusively to intra-group matters that have generally already been recognised as liabilities at the level of the group companies.

9 | Other financial commitments

LEG's other financial commitments are composed as follows:

T178

Other financial commitments

€ million	31.12.2022	31.12.2021
Purchase of energy	107.4	46.1
Purchase obligations	88.6	129.7

Furthermore, there are purchase price payment obligations of EUR 59.5 million from property purchase agreements entered into before the end of the reporting period with a purchase price due date and closing after the end of the reporting period and payment obligations from new construction projects of EUR 184.9 million.

10 | The Management Board

LEG Immobilien SE is represented by its Management Board, whose members are as follows:

MR LARS VON LACKUM
CEO of LEG Immobilien SE,
Dusseldorf

MS SUSANNE SCHRÖTER-CROSSAN
CFO of LEG Immobilien SE,
Krefeld

DR VOLKER WIEGEL
COO of LEG Immobilien SE,
Dusseldorf

Registered office of the company:
Flughafenstrasse 99
40474 Dusseldorf
Germany
Commercial register: HRB 92791
Dusseldorf

11 | Supervisory Board

The terms of all the members of the Supervisory Board in office ended effective from the close of the Annual General Meeting on 19 May 2022. Mr Stefan Jütte and Dr Johannes Ludewig were not eligible for another term in office on account of their age. The Annual General Meeting on 19 May 2022 reduced the size of the Supervisory Board from seven to six members.

In addition to the above members already in office available for another term in office, the Annual General Meeting on 19 May 2022 elected Dr Katrin Suder as a member of the Supervisory Board of LEG Immobilien SE for the first time.

The Supervisory Board of LEG Immobilien SE has six members.

The following members were elected by the Annual General Meeting:

MR MICHAEL ZIMMER,
Chairman, independent investor and consultant, Pulheim

MR STEFAN JÜTTE,
Businessman, Bonn – until 19 May 2022

DR JOHANNES LUDEWIG,
Business consultant, Berlin – until 19 May 2022

DR CLAUS NOLTING,
Deputy Chairman, lawyer and consultant, Frankfurt

DR JOCHEN SCHARPE,
Managing partner, AMCI GmbH, Munich

MR MARTIN WIESMANN,
Consultant, Frankfurt

DR SYLVIA EICHELBERG,
CEO of Gothaer Krankenversicherung AG, Cologne, member of the management boards of Gothaer Versicherungsbank VVaG and Gothaer Finanzholding AG, Cologne

DR KATRIN SUDER,
Senior advisor at TAE Advisory & Sparring GmbH, Hamburg – since 19 May 2022

12 | Events after the end of the reporting period

The acquisition of a property portfolio of around 376 residential units was notarised on 14 September 2022. The portfolio generates annual net cold rent of around EUR 1.91 million. The average in-place rent is around EUR 8.33 per square metre and the initial vacancy rate is around 4.9 %. The transaction was closed on 1 January 2023. The portfolio acquisition does not constitute a business combination as defined by IFRS 3.

In conjunction with portfolio streamlining, 339 residential units in Bad Oldesloe and Siegen were sold for EUR 18.3 million in September 2022. The transaction was closed on 1 January 2023.

There were no other transactions of material importance to the Group after the end of the financial year.

Declaration of compliance in accordance with section 161 AktG

The Management Board and the Supervisory Board comply with the recommendations of the German Corporate Governance Code as presented in the Group management report. The declaration of compliance has been made permanently available to shareholders on the company's website at https://www.leg-wohnen.de/en/corporation/corporate-governance#c2612

Dusseldorf, 8 March 2023
LEG Immobilien SE

The Management Board

LARS VON LACKUM
SUSANNE SCHRÖTER-CROSSAN
DR VOLKER WIEGEL

List of shareholdings

The following table shows an overview of LEG's consolidated group:

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Consolidated companies

		Share of capital %	Equity[1] € thousand	Result[1] € thousand
LEG Immobilien SE, Dusseldorf		Parent company		
Rote Rose GmbH & Co. KG, Dusseldorf	1)	100.00	109,403	–115
LEG Holding GmbH, Dusseldorf	1)	100.00	880,763	0
LEG NRW GmbH, Dusseldorf	2)	99.98	1,339,682	0
LEG Wohnen GmbH, Dusseldorf	2)	100.00	559,031	0
LEG Wohnungsbau Rheinland GmbH, Dusseldorf	2)	100.00	112,639	0[3]
Solis GmbH, Dusseldorf	1)	94.90	99,333	0
Rheinweg Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	86,392	0[3]
Luna Immobilienbeteiligungs GmbH, Dusseldorf	1)	94.90	10,196	0
Rheinweg Zweite Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	78,525	0
LEG Rheinland Köln GmbH, Dusseldorf	2)	100.00	33,969	0[3]
Noah Asset 4 GmbH, Dusseldorf	2)	94.90	2,616	0
LEG Wohnen Bocholt GmbH, Dusseldorf	2)	100.00	25	0
LEG Bauen und Wohnen GmbH, Dusseldorf	2)	100.00	2,165	0
LCS Consulting und Service GmbH, Dusseldorf	1)	100.00	2,556	0
LEG Consult GmbH, Dusseldorf	1)	100.00	302	0
GWN Gemeinnützige Wohnungsgesellschaft Nordwestdeutschland GmbH, Münster	2)	94.86	74,582	0[3]
GeWo Gesellschaft für Wohnungs- und Städtebau mbH, Castrop-Rauxel	2)	94.00	22,542	0[3]
GeWo Beteiligungsgesellschaft mbH, Dusseldorf	2)	100.00	26	0
Hiltrup Grundbesitzverwertungsgesellschaft mbH, Münster	2)	100.00	50	–6
LEG Rheinrefugium Köln GmbH, Dusseldorf	2)	94.00	34	0
Calor Caree GmbH, Dusseldorf	2)	94.00	25	0
LEG Beteiligungsverwaltungsgesellschaft mbH, Dusseldorf	1)	100.00	13,745	0
LEG Erste WI Bremen GmbH, Dusseldorf	2)	94.90	25	0
LEG Zweite WI Bremen GmbH, Dusseldorf	2)	94.90	4,151	0
LEG WI Oldenburg GmbH, Dusseldorf	2)	94.90	4,324	0
LEG Grundstücksverwaltung GmbH, Dusseldorf	2)	100.00	25,863	0

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Consolidated companies

		Share of capital %	Equity[1] € thousand	Result[1] € thousand
Dusseldorfer Ton- und Ziegelwerke GmbH, Dusseldorf	2)	100.00	10,455	0
Germany Property Dusseldorf GmbH, Dusseldorf	2)	94.90	4,881	0
LEG Management GmbH, Dusseldorf	1)	100.00	1,124	0[3]
LEG Wohnen NRW GmbH, Dusseldorf	1)	100.00	395	0[3]
LEG LWS GmbH, Dusseldorf	4)	100.00	25	0
LWS Plus GmbH, Essen	4)	100.00	8,557	0[3]
LEG Bauen GmbH, Dusseldorf	3)	100.00	66,718	0
LEG Wohnviertel Dyk GmbH, Dusseldorf	2)	100.00	444	–9
LEG Standort- und Projektentwicklung Köln GmbH, Dusseldorf	2)	100.00	13,753	0
Biomasse Heizkraftwerk Siegerland GmbH & Co. KG, Liebenscheid	5)	94.86	8,789	8.395[3]
Ravensberger Heimstättengesellschaft mbH, Bielefeld	2)	100.00	89,970	0[3]
Ravensberger Heimstätten Beteiligungsgesellschaft mbH, Dusseldorf	2)	100.00	26	0
Gemeinnützige Bau- und Siedlungsgesellschaft Höxter-Paderborn GmbH, Höxter	2)	100.00	11,909	0
Ruhr-Lippe Wohnungsgesellschaft mbH, Dortmund	2)	100.00	318,566	0[3]
Ruhr-Lippe Immobilien-Dienstleistungsgesellschaft mbH, Dortmund	2)	100.00	7,452	0
Wohnungsgesellschaft Münsterland mbH, Münster	2)	100.00	164,978	0[3]
Münsterland Immobilien-Dienstleistungsgesellschaft mbH, Münster	2)	100.00	114	0
LEG Erste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Zweite Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Dritte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Vierte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Fünfte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0[3]
LEG Sechste Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0
LEG Siebte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0[3]
LEG Achte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0[3]

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Consolidated companies

Consolidated companies		Share of capital %	Equity[1] € thousand	Result[1] € thousand
LEG Neunte Grundstücksverwaltungs GmbH, Dusseldorf	2)	100.00	25	0[3]
SW Westfalen Invest GmbH, Dusseldorf	2)	94.90	78,957	0[3]
LEG Recklinghausen 1 GmbH, Dusseldorf	2)	94.90	22,737	0
LEG Recklinghausen 2 GmbH, Dusseldorf	2)	94.90	10,926	0
LEG Niedersachsen GmbH, Dusseldorf	2)	100.00	25	0[3]
LEG Rhein Neckar GmbH, Dusseldorf	2)	100.00	25	0
LEG Wohngelegenheit Mitte GmbH, Dusseldorf	2)	100.00	25	0
LEG Wohngelegenheit Süd GmbH, Dusseldorf	2)	100.00	25	0
LEG Objekt Krefeld-Bockum Verwaltungs GmbH, Dusseldorf	1)	100.00	-160	–33
CeRo Wohnen GmbH, Dusseldorf	2)	89.88	-1,085	0
Cero Wohnen 2 GmbH, Dusseldorf	2)	100.00	858	0
LEG II Germany GmbH, Dusseldorf	2)	100.00	-8,953	0
LEG Grundstücksverwaltungsgesellschaft mbH & Co. KG, Dusseldorf	2)	100.00	8,200	–21
LEG Verwaltungsgesellschaft mbH, Dusseldorf	1)	100.00	112	0
LEG Jade mbH, Dusseldorf	2)	100.00	1,708	0[3]
LEG 38. Wohnen GmbH, Dusseldorf	2)	100.00	104	0
LEG 45. Wohnen GmbH, Dusseldorf	2)	100.00	111	0
LEG Baltic GmbH, Dusseldorf	2)	100.00	5,088	477
LEG West Immobilien GmbH, Dusseldorf	2)	100.00	4,028	0
LEG Niedersachsen Nord GmbH, Dusseldorf	2)	100.00	34	0
LEG Niedersachsen Süd GmbH, Dusseldorf	2)	100.00	34	0[3]
LEG Wolfsburg GmbH, Dusseldorf	2)	100.00	25	0
LEG West VIII. GmbH, Dusseldorf	2)	100.00	31	0[3]
Zweite LEG-Real Estate Opportunities GmbH, Dusseldorf	2)	100.00	2,064	43
LEG Nord FM GmbH, Cologne	1)	100.00	-32	0
LEG Nord Service GmbH, Dusseldorf	1)	100.00	-4	0
Youtilly GmbH, Dusseldorf	4)	100.00	25	0
Erste WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0[3]
WohnServicePlus GmbH, Dusseldorf	4)	100.00	25	0[3]
EnergieServicePlus GmbH, Dusseldorf	4)	100.00	7,464	0[3]
TSP-TechnikServicePlus GmbH, Dusseldorf	4)	51.00	827	0[3]
Grundstücksgesellschaft DuHa mbH, Dusseldorf	2)	94.90	3,058	0[3]
Gladbau Baubetreuungs- und Verwaltungsgesellschaft mbH, Dusseldorf	2)	94.90	34,426	0[2,3]
AWM Grundstücksgesellschaft mbH, Dusseldorf	2)	100.00	2,318	0
Vitus Service GmbH, Mönchengladbach	1)	100.00	29	0
BRE/GEWG GmbH, Dusseldorf	1)	100.00	24,169	0
Gemeinnützige Eisenbahn Wohnungsbaugesellschaft mbH, Dusseldorf	2)	94.90	6,496	0[3]

[1] Unless indicated otherwise, these figures show the equity and result as taken from the separate HGB financial statements as at 31 December 2022, which have not yet been adopted. A nil result is reported if there is a profit transfer agreement.
[2] Earnings before loss absorption and after profit transfer
[3] Exemption in accordance with section 264(3) HGB/section 264b HGB

Activities of subsidiaries:

1) Performance of services and management of equity investments within LEG
2) Property management and location development
3) Performance of services for third parties
4) Performance of housing industry services
5) Electricity and heat generation

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Non-consolidated companies

		Share of capital %	Equity[1] € thousand	Result[1] € thousand
Entwicklungsgesellschaft Rhein-Pfalz GmbH, Mainz	2)	100.00	25	0
Entwicklungsgesellschaft Rhein-Pfalz GmbH & Co. KG, Mainz	1)	100.00	1,026	–68
LEG Wohngelegenheit Nord GmbH, Dusseldorf	2)	100.00	25	0
Biomasse Heizkraftwerk Siegerland Verwaltungs GmbH, Dusseldorf	3)	100.00	30	1
Brack Capital Properties N. V., The Netherlands[2]	2)	35.66	911,435	72,576

[1] These figures are the HGB equity and results as at 31 December 2021, with the exception of Wohngelegenheit Nord (31 December 2022) and Brack Capital (IFRS consolidated financial statements).
[2] LEG cannot exercise significant influence over the financial and operating policy decisions of BCP due to the shareholding structure (IAS 28.6). BCP is therefore not included as an associate in the consolidated financial statements of LEG Immobilien SE.

Activities of the companies not included in consolidation:

1) General partner in a limited liability company
2) Shell company
3) Performance of services for third parties

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Associates accounted for using the equity method

	Share of capital %	Equity[1] € thousand	Result[1] € thousand
Kommunale Haus und Wohnen GmbH, Rheda-Wiedenbrück	40.62	23,121	556
Renowate GmbH, Lindau (before: Ökoconstrukt Gesellschaft für energetische Sanierung mbH, Dusseldorf)	50.00	25	0
Beckumer Wohnungsgesellschaft mbH, Beckum	33.37	4,054	140

[1] These figures are the HGB equity and results as at 31 December 2021.

Consolidated statement of changes in assets/annex I

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Consolidated statement of changes in assets 2022

	Costs								Cumulative depreciation, amortisation and write-downs/fair values				Carrying amounts	
€ million	As of 01.01.2022	Additions from consolidated companies	Additions	Disposals	Reclassi-fication	Additions from investment properties	Disposal to investment properties	As of 31.12.2022	As of 01.01.2022	Additions	Disposals	As of 31.12.2022	As of 31.12.2022	As of 01.01.2021
Property, plant and equipment	**177.8**	**–**	**80.9**	**–4.6**	**–**	**–**	**–**	**254.1**	**–91.5**	**–19.6**	**4.6**	**–106.5**	**147.6**	**88.8**
Land, land rights and buildings	42.4	–	1.8	–	59.0	–	–	103.2	–14.2	–2.6	–	–16.8	86.4	28.2
Technical equipment and machinery	103.4	–	12.4	–0.2	–	–	–	115.6	–60.2	–8.6	0.2	–68.6	47.0	45.7
Other equipment, operating and office equipment	27.6	–	7.6	–4.4	–	–	–	30.8	–17.1	–8.4	4.4	–21.1	9.7	10.5
Finance leases	4.4	–	59.1	–	–59.0	–	–	4.5	–	–	–	0.0	4.5	4.4
Intangible assets	**380.4**	**–**	**3.0**	**–0.1**	**–**	**–**	**–**	**383.3**	**–82.8**	**–294.8**	**0.1**	**–377.5**	**5.8**	**374.6**
Other intangible assets	20.0	–	3.0	–0.1	–	–	–	22.9	–16.2	–1.0	0.1	–17.1	5.8	3.9
Goodwill	360.4	–	–	–	–	–	–	360.4	–66.6	–293.8	–	–360.4	–	370.7
Total	**558.2**	**–**	**83.9**	**–4.7**	**–**	**–**	**–**	**637.4**	**–174.3**	**–314.4**	**4.7**	**–484.0**	**153.4**	**463.4**

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Consolidated statement of changes in assets 2021

	Costs								Cumulative depreciation, amortisation and write-downs/fair values				Carrying amounts	
€ million	As of 01.01.2021	Additions from consolidated companies	Additions	Disposals	Reclassi-fication	Additions from investment properties	Disposal to investment properties	As of 31.12.2021	As of 01.01.2021	Additions	Disposals	As of 31.12.2021	As of 31.12.2021	As of 01.01.2020
Property, plant and equipment	**161.7**	**4.3**	**12.6**	**–1.4**	**–**	**0.8**	**–0.2**	**177.8**	**–75.4**	**–17.4**	**1.3**	**–91.5**	**86.3**	**86.3**
Land, land rights and buildings	38.9	2.3	0.6	–	–	0.8	–0.2	42.4	–11.3	–2.9	–	–14.2	28.2	27.6
Technical equipment and machinery[1]	97.7	–	6.1	–0.4	–	–	–	103.4	–50.3	–10.3	0.4	–60.2	43.2	47.4
Other equipment, operating and office equipment	21.1	2.0	5.5	–1.0	–	–	–	27.6	–13.8	–4.2	0.9	–17.1	10.5	7.3
Finance leases	4.0	–	0.4	–	–	–	–	4.4	–	–	–	0.0	4.4	4.0
Intangible assets	**184.6**	**–**	**195.9**	**–0.1**	**–**	**–**	**–**	**380.4**	**–82.2**	**–0.7**	**0.1**	**–82.8**	**297.6**	**102.4**
Other intangible assets[1]	18.4	–	1.7	–0.1	–	–	–	20.0	–15.6	–0.7	0.1	–16.2	3.8	2.8
Goodwill[1]	166.2	–	194.2	–	–	–	–	360.4	–66.6	–	–	–66.6	293.8	99.6
Total	**346.3**	**4.3**	**208.5**	**–1.5**	**–**	**0.8**	**–0.2**	**558.2**	**–157.6**	**–18.1**	**1.4**	**–174.3**	**383.9**	**188.7**

[1] Previous year's figure adjusted due to finalisation of the purchase price allocation. See > chapter C.3.

Consolidated statement of changes in provisions/annex II

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Consolidated statement of changes in provisions 2022

€ million	As of 01.01.2022	Changes in consolidated companies	Utilisation	Release	Reclassification	Addition	Interest	Discounting	As of 31.12.2022	thereof Non-current	thereof Current
Staff provisions											
Staff provisions	2.9	–	–1.5	–0.2	–	1.5	–	–	2.7	1.4	1.3
Other provisions	**29.0**	**–**	**–8.2**	**–1.7**	**–**	**15.8**	**–**	**–0.4**	**34.5**	**2.4**	**32.1**
Provisions of lease properties	0.0	–	–	0.0	–	–	–	–	0.0	–	–
Construction book provisions	2.4	–	–0.5	–0.5	–	0.2	–	–	1.6	–	1.6
Litigations risks	0.7	–	–	–0.1	–	0.4	–	–	1.0	0.0	1.0
Other provisions	25.9	–	–7.7	–1.1	–	15.2	–	–0.4	31.9	2.4	29.5
Total	**31.9**	**–**	**–9.7**	**–1.9**	**–**	**17.3**	**–**	**–0.4**	**37.2**	**3.8**	**33.4**

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Consolidated statement of changes in provisions 2021

€ million	As of 01.01.2021	Changes in consolidated companies	Utilisation	Release	Reclassification	Addition	Interest	Discounting	Stand am 31.12.2021	thereof Non-current	thereof Current
Staff provisions											
Staff provisions	2.8	–	–1.3	–	–0.2	1.6	–	–	2.9	1.6	1.3
Other provisions	**32.3**	**0.1**	**–11.9**	**–2.4**	**0.1**	**10.9**	**–**	**–0.1**	**29.0**	**5.1**	**23.9**
Provisions of lease properties	0.1	–	–	–0.1	–	–	–	–	–	–	–
Construction book provisions	2.6	–	–0.1	–0.1	–	–	–	–	2.4	–	2.4
Litigations risks	0.7	–	–0.1	–	–	0.1	–	–	0.7	0.0	0.7
Other provisions	28.9	0.1	–11.7	–2.2	0.1	10.8	–	–0.1	25.9	5.1	20.8
Total	**35.1**	**0.1**	**–13.2**	**–2.4**	**–0.1**	**12.5**	**–**	**–0.1**	**31.9**	**6.7**	**25.2**

Independent auditor's report

To LEG Immobilien SE, Düsseldorf / Germany

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of LEG Immobilien SE, Düsseldorf/Germany, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2022, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LEG Immobilien SE, Düsseldorf/Germany, for the financial year from 1 January to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the combined corporate governance statement pursuant to Section 289f German Commercial Code (HGB) and Section 315d HGB included in the group management report, including the further reporting on corporate governance included therein, nor the consolidated non-financial report pursuant to Sections 315b and 315c HGB, to which reference is made in the group management report, nor the quarterly figures extraneous to the management report marked as unaudited in the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the combined corporate governance statement contained in the group management report including the further reporting on corporate governance included therein, nor the consolidated non-financial report, to which reference is made in the group management report, nor the quarterly figures extraneous to the management report marked as unaudited in the group management report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present the measurement of investment properties, which we have determined as a key audit matter in the course of our audit.

Our presentation of this key audit matter has been structured as follows:

a) description (including reference to corresponding information in the consolidated financial statements)
b) auditor's response

Measurement of investment properties

a.

In the consolidated financial statements of LEG Immobilien SE, mEUR 20,204.4 (prior year: mEUR 19,178.4) in investment properties are reported as at 31 December 2022. LEG Immobilien SE recognises investment properties exercising the option set out in IAS 40.30 in accordance with the fair value model under IFRS 13. Accordingly, both changes in market value when properties are sold as well as unrealised changes in market value are recognised through profit or loss when measuring the assets. In the past financial year, mEUR 382.4 (prior year: mEUR 1,863.7) in unrealised market value changes were recognised through profit or loss in the consolidated statement of comprehensive income under operating earnings.

When determining the fair value, the executive directors assume that the current use corresponds to the highest and best use of the property. Fair value is determined using a company-internal measurement model based on projected net cash inflows from the management of the properties that are derived using the discounted cash flow method. For properties with no positive net cash inflow (mainly vacant buildings), a market value is determined using a liquidation value method. Undeveloped land is usually measured based on an indirect comparison of indicative land values.

To the extent possible, LEG Immobilien SE uses data observable on the market for fair value measurement (sources include, for example, documents prepared by expert committees as well as real estate market databases that are publicly available or for a fee). In addition, a valuation report is prepared by an independent external expert, which serves to verify the plausibility of internal measurement results.

The measurement of investment properties is based on a large number of parameters that are generally subject to judgement and estimation uncertainties. Significant measurement parameters include in particular expected cash flows as well as the discount and capitalisation rate. Expected cash flows are mainly influenced by the assumed rent, vacancy rate and maintenance costs. The discount rate is especially determined by the transactions made in the market. The capitalisation rate is, among others, dependent on the residual useful life of the properties and the expected growth rate of the cash flows.

From our point of view, this matter was of particular significance for our audit since measurement of investment properties is generally subject to judgements and estimation uncertainties and because there is a risk that the fair value changes recognised through profit or loss are not within an appropriate range.

The disclosures of the executive directors concerning measurement of these properties and the related judgements and estimates are included in section D "Accounting policies" of the notes to the consolidated financial statements.

b.

We assessed whether the measurement method applied is appropriate and reviewed the measurement results. During our audit, we examined the organisational structure and processes of property measurement for appropriateness and examined the effectiveness of the controls implemented at LEG Immobilien SE.

As part of auditing the measurement, we called in internal Real Estate Consulting experts. With the support of these experts, we evaluated the measurement models as well as the parameters used in the measurement process and measurement results for randomly selected properties. In addition, we prepared a comparison calculation for this sample for specific properties using a discounted cash flow method or the standardised German income approach [Ertragswertverfahren] under the German Property Valuation Regulation (ImmoWertV), comparing this calculation with the results of the measurement prepared by LEG Immobilien SE. Furthermore, we conducted on-site visits on a sample basis in order to evaluate in particular the assumed residual useful lives for deriving the capitalisation rates.

We convinced ourselves of the qualification and objectivity of the external expert contracted by LEG Immobilien SE, evaluated the measurement methods used in the expert opinion for conformity with IAS 40 in conjunction with IFRS 13, and compared the internal measurement results with those of the corresponding expert opinion.

In addition, we evaluated the completeness and appropriateness of the disclosures on investment properties required to be made in the notes to the consolidated financial statements under IAS 40 and IFRS 13.

Other Information

The executive directors and/or the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board,
- the combined corporate governance statement included in the group management report, including the further reporting on corporate governance included therein,
- the separate consolidated non-financial report, to which reference is made in the group management report,
- the quarterly figures extraneous to the management report marked as "unaudited" in the group management report,
- the executive directors' confirmation regarding the consolidated financial statements and the group management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, and
- all other parts of the annual report,
- but not the consolidated financial statements, not the audited content of the group management report and not our auditor's report thereon.

The supervisory board is responsible for the report of the supervisory board. The executive directors and the supervisory board are responsible for the statement according to Section 161 German Stock Corporation Act (AktG) concerning the German Corporate Governance Code, which is part of the combined corporate governance statement included in the group management report. Otherwise the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information identified above and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited content of the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i. e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

The executive board and the supervisory board are also responsible for the preparation of the remuneration report, which is included in a special section of the group management report, including the related disclosures, that complies with the requirements of Section 162 AktG. In addition, they are responsible for such internal control as they consider necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud (i. e., fraudulent financial reporting and misappropriation of assets) or error.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

Other Matter – Formal Audit of the Remuneration Report

The audit of the group management report described in this auditor's report comprises the formal audit required under Section 162 (3) AktG of the remuneration report including the issuance of a report on this audit. Since our audit opinion on the group management report is unmodified, this audit opinion includes that the disclosures required under Section 162 (1) and (2) AktG are contained, in all material respects, in the remuneration report.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and of the Group Management Report Prepared for Publication Pursuant to Section 317 (3a) HGB

Audit Opinion

We have performed an audit in accordance with Section 317 (3a) HGB to obtain reasonable assurance whether the electronic reproductions of the consolidated financial statements and of the group management report (hereinafter referred to as "ESEF documents") prepared for publication, contained in the file, which has the SHA-256 value 5c15e8548b50f65633ba0e7a59fe6fa3845db955537189cf9d75a19a1d46945e meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB ("ESEF format"). In accordance with the German legal requirements, this audit only covers the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format, and therefore covers neither the information contained in these electronic reproductions nor any other information contained in the file identified above.

In our opinion, the electronic reproductions of the consolidated financial statements and of the group management report prepared for publication contained in the file identified above meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying group management report for the financial year from 1 January to 31 December 2022 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Group Management Report" above, we do not express any assurance opinion on the information contained within these electronic reproductions or on any other information contained in the file identified above.

Basis for the Audit Opinion

We conducted our audit of the electronic reproductions of the consolidated financial statements and of the group management report contained in the file identified above in accordance with Section 317 (3a) HGB and on the basis of the IDW Auditing Standard: Audit of the Electronic Reproductions of Financial Statements and Management Reports Prepared for Publication Purposes Pursuant to Section 317 (3a) HGB (IDW AuS 410 (06.2022)). Our responsibilities in this context are further described in the "Group Auditor's Responsibilities for the Audit of the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the parent are responsible for the preparation of the ESEF documents based on the electronic files of the consolidated financial statements and of the group management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal controls that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements for the electronic reporting format pursuant to Section 328 (1) HGB.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- evaluate the technical validity of the ESEF documents, i. e. whether the file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, on the technical specification for this electronic file.
- evaluate whether the ESEF documents enable a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the general meeting on 19 May 2022. We were engaged by the supervisory board on 25 July 2022. We have been the group auditor of LEG Immobilien SE, Düsseldorf/Germany, without interruption since the financial year 2021.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as with the audited ESEF documents. The consolidated financial statements and the group management report converted into the ESEF format – including the versions to be submitted for inclusion in the Company Register – are merely electronic reproductions of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our audit opinion contained therein are to be used solely together with the audited ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Rolf Künemann.

Düsseldorf / Germany, 8 March 2023

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

ANDRÉ BEDENBECKER Wirtschaftsprüfer (German Public Auditor)	**ROLF KÜNEMANN** Wirtschaftsprüfer (German Public Auditor)

Responsibility statement

"To the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of LEG, and the management report of LEG includes a fair review of the development and performance of the business and the position of LEG, together with a description of the principal opportunities and risks associated with the expected development of LEG."

Dusseldorf, 8 March 2023

LEG Immobilien SE
The Management Board

LARS VON LACKUM **SUSANNE SCHRÖTER-CROSSAN** **DR VOLKER WIEGEL**

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FURTHER INFORMATION

Management Board

The members of the Management Board are as follows

LARS VON LACKUM
CEO

Strategy, M&A, Organisation, Processes and Digitisation
Legal and Human Resources
- Management & Supervisory Board Office
- Legal, Compliance, Data Protection and Internal Audits
- Human Resources

Corporate Communications
Acquisitions
Project Development
IT
ESG

SUSANNE SCHRÖTER-CROSSAN
CFO

Management Accounting (Controlling)
Investor Relations
Corporate Finance & Treasury
Portfolio Management
Accounting and Taxes
- Accounting
- Taxes

Risk Management & Internal Control System

DR VOLKER WIEGEL
COO

Asset and Property-Management incl.
- Commercial Management
- District and Neighbourhood Management
- Property Management
- Modernisation
- Central Procurement
- Receivables Management
- Rent Management
- Operating Expenses Management

Service Companies

Separate financial statements of LEG Immobilien SE

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

As at the balance sheet date of 31 December 2022, the separate entity company is a large corporation within the meaning of section 267(3) sentence 2 of the Handelsgesetzbuch (HGB – German Commercial Code). Since applying for a stock market listing in December 2012, LEG Immobilien SE has been considered a publicly traded company in accordance with section 264d HGB and is subject to section 267(3) HGB.

LEG Immobilien AG went public on 1 February 2013 with the initial listing of its shares on the regulated market (Prime standard) of the Frankfurt Stock Exchange.

LEG Immobilien SE and its direct and indirect subsidiaries are among the largest residential companies in Germany. The LEG Group held a portfolio of 168.651 units (residential and commercial) on 31 December 2022.

HGB annual financial statements for 2022

Net income/income statement

The net loss for the 2022 financial year amounts to EUR 307.6 million (previous year: net loss of EUR 33.4 million).

The increase in the net loss for the year compared to the previous year is mainly due to a loss transfer from LEG Holding GmbH (EUR 281.9 million). LEG Holding GmbH's loss is mainly the result of write-downs on the carrying amounts of investments and loans within LEG NRW GmbH fiscal entity.

The EUR 490.9 million reduction in equity is offset by an increase in liabilities to affiliated companies (EUR 278.1 million), the raising of additional financing (EUR 1,500.0 million) via the capital market with a simultaneous repayment of bridge financing (EUR 1,400 million), and an increase in other liabilities (EUR 14.1 million).

Based on the approved business planning, a net loss was already anticipated for 2022.

Statement of financial position

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Summary of balance sheet

€ million	31.12.2022	31.12.2021	Change
Financial assets	8,751.9	7,456.7	1,295.2
Receivables	29.9	1,426.1	–1,396.2
Cash and cash equivalents	1.0	2.6	–1.6
Prepaid expenses	45.4	41.9	3.5
Total assets	**8,828.2**	**8,927.3**	**–99.1**
Equity	2,731.6	3,222.5	–490.9
Provisions	44,9	45.4	–0.5
Liabilities	6,045.9	5,653.6	392.3
Deferred tax liabilities	5.8	5.8	0,0
Total equity and liabilities	**8,828.2**	**8,927.3**	**–99.1**

Financial assets increased by EUR 1,295.2 million to EUR 8,751.9 million (previous year: EUR 7,456.7 million). EUR 1,293.8 million of the change in financial assets resulted from a further loan to an affiliated company in the LEG Group.

Prepaid expensens of EUR 45.4 million (previous year: EUR 41.9 million) consists mainly of discounts from the difference between the issue proceeds and the liability for bonds carried at the settlement amount.

The equity and liabilities side of the balance sheet comprises equity of EUR 2,731.6 million, liabilities of EUR 6,045.9 million, deferred tax liabilities of EUR 5.8 million and provisions of EUR 44.9 million.

As of 31 December 2022 the equity of LEG Immobilien SE consists of the subscribed capital of EUR 74.1 million, capital reserves of EUR 1,495.8 million, revenue reserves of EUR 1,439.3 million and the retained loss of EUR 277.6 million.

The change in equity compared to the previous year results from the dividend paid of EUR 296.5 million (thereof EUR 113.2 million from the issue of new shares) and the net loss EUR 307.6 million.

The bonds amount to EUR 5,730.0 million as at the balance sheet date (previous year: EUR 4,230.0 million). Three bonds with a total nominal value of EUR 1,500.0 million were issued on 17 January 2022. The tranches of EUR 500.0 million each have a term until 17 January 2026, 17 January 2029 and 17 January 2034. On 28 December 2021, financing in the amount of EUR 1,400.0 million was raised as bridge financing within the scope of a portfolio acquisition and repaid on 18 January 2022 from the proceeds of the newly issued bonds.

As of 31 December 2022, liabilities of EUR 6,045.9 million comprised convertible bonds with a total volume of EUR 950.0 million, corporate bonds of EUR 4,500.0 million and other financial instruments of EUR 280 million, other liabilities (EUR 33.6 million), liabilities to affiliated companies (EUR 282.0 million) and trade liabilities (EUR 0.3 million).

Provisions essentially consist of a provision for conversion rights in the amount of EUR 38.3 million.

Financial statements

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

Note to the non-financial report

Limited Assurance Report of the Independent Practitioner Regarding the Non-financial Report

To LEG Immobilien SE, Düsseldorf/Germany

Our Engagement

We have performed a limited assurance engagement on the separate consolidated non-financial report of LEG Immobilien SE, Düsseldorf/Germany, ("the Company") for the financial year from 1 January to 31 December 2022 (hereafter referred to as "non-financial report").

Our assurance engagement does not cover the external sources of documentation and disclosures marked as unaudited stated in the non-financial report.

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the non-financial report in accordance with Section 315c in conjunction with Sections 289c to 289e German Commercial Code (HGB) and Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereafter referred to as "EU Taxonomy Regulation") and the delegated acts adopted thereon, as well as with the executive directors' interpretation of the wording and terminology contained in the EU Taxonomy Regulation and the delegated acts adopted thereon, as is presented in section "EU taxonomy" of the non-financial report.

These responsibilities of the executive directors of the Company include the selection and application of appropriate methods regarding the non-financial report and the use of assumptions and estimates for individual non-financial disclosures of the Group which are reasonable under the given circumstances. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud (fraudulent non-financial reporting) or error.

Some of the wording and terminology contained in the EU Taxonomy Regulation and the delegated acts adopted thereon are still subject to considerable interpretation uncertainty and have not yet been officially clarified. Therefore, the executive directors have laid down their own interpretation of the EU Taxonomy Regulation and of the delegated acts adopted thereon in section "EU taxonomy" of the non-financial report. They are responsible for the reasonableness of this interpretation. As there is the inherent risk that indefinite legal concepts may allow for various interpretations, the legal conformity of the interpretation is prone to uncertainty.

The preciseness and completeness of the environmental data in the non-financial report is subject to inherent restrictions resulting from the manner in which the data was collected and calculated as well as from assumptions made.

Independence and Quality Assurance of the Audit Firm

We have complied with the German professional requirements on independence and other professional rules of conduct.

Our firm applies the national statutory rules and professional announcements – particularly of the "Professional Charter for German Public Auditors and German Sworn Auditors" (BS WP/vBP) and of the IDW Quality Assurance Standard: Requirements for Quality Management in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW) – and does therefore maintain a comprehensive quality assurance system comprising documented regulations and measures in respect of compliance with professional rules of conduct, professional standards, as well as relevant statutory and other legal requirements.

Responsibilities of the Independent Practitioner

Our responsibility is to express a conclusion on the non-financial report based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", adopted by the IAASB. This Standard requires that we plan and perform the assurance engagement so that we can conclude with limited assurance whether matters have come to our attention to cause us to believe that the non-financial report of the Company, with the exception of the external sources of documentation or expert opinions stated therein, has not been prepared, in all material respects, in accordance with Section 315c in conjunction with Sections 289c to 289e HGB and the EU Taxonomy Regulation and the delegated acts adopted thereon, as well as with the executive directors' interpretation presented in section "EU taxonomy" of the non-financial report.

The procedures performed in a limited assurance engagement are less in extent than for a reasonable assurance engagement; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The choice of assurance work is subject to the practitioner's professional judgement.

Within the scope of our limited assurance engagement, which we performed in November 2022 and March 2023, we performed, among others, the following procedures and other work:

- Obtaining an understanding of the structure of the Group's sustainability organisation and of the stakeholder engagement,
- Inquiries of the executive directors and relevant employees involved about the process of preparation, about the system of internal control relating to this process, as well as about the disclosures contained in the non-financial report,
- Identification of probable risks of material misstatements in the non-financial report,
- Analytical evaluation of selected disclosures contained in the non-financial report,
- Cross validation of selected disclosures and the corresponding data in the consolidated and annual financial statements as well as in the group management report and management report,
- Evaluation of the presentation of the non-financial report,
- Evaluation of the process to identify taxonomy-aligned economic activities and the corresponding disclosures in the non-financial report.

The determination of the disclosures pursuant to Article 8 of the EU Taxonomy Regulation requires the executive directors to make interpretations of indefinite legal concepts. As there is the inherent risk that indefinite legal concepts may allow for various interpretations, the legal conformity of the interpretation, and hence our related examination, is prone to uncertainty.

Practitioner's Conclusion

Based on the work performed and the evidence obtained, nothing has come to our attention that causes us to believe that the separate consolidated non-financial report of the Company for the financial year from 1 January to 31 December 2022 does not comply, in all material respects, with Section 315c in conjunction with Sections 289c to 289e HGB and the EU Taxonomy Regulation and the delegated acts adopted thereon, as well as with the executive directors' interpretation presented in section "EU taxonomy" of the non-financial report.

We do not express a conclusion on the external sources of documentation and disclosures marked as unaudited stated in the non-financial report.

Restriction of Use

We issue this report as stipulated in the engagement letter agreed with the Company. We are liable solely to the Company and our liability is governed by the engagement letter agreed with the Company as well as the "General Engagement Terms for Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms)" (IDW-AAB) in the version dated 1 January 2017. We draw attention to the fact that the assurance engagement was performed for the purposes of the Company and the report is solely designed for informing the Company about the findings of the assurance engagement. Therefore, it may not be suitable for another than the aforementioned purpose. Hence, this report should not be used by third parties as a basis for any (asset) decision. We are liable solely to the Company. However, we do not accept or assume liability to third parties. Our conclusion was not modified in this respect.

Düsseldorf/Germany, 8 March 2023

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

ROLF KÜNEMANN **SEBASTIAN DINGEL**
Wirtschaftsprüfer
(German Public Auditor)

Glossary

Net operating income (NOI)

Result from the management of the real estate portfolio and from other operating activities. Administrative expenses are not taken into account.

Net operating income (recurring)

Net operating income adjusted for depreciation and special effects of a non-recurring nature. As part of the realignment of corporate management, maintenance expenses for externally procured services and own work capitalised, which was previously included in the “Other” item, will no longer be reported in the adjusted result from letting and leasing from the 2023 financial year onwards.

EBITDA

Earnings **b**efore **I**nterest, **T**ax, **D**epreciation and **A**mortisation
Consolidated net income before net finance costs and taxes, depreciation on property, plant and equipment and amortisation of intangible assets; depreciation and amortisation also include impairment losses and reversals thereof.

adj. EBITDA

adjusted EBITDA
EBITDA adjusted for net income on the remeasurement of investment of investment properties, net income from the disposal of real estate inventory, net income from the disposal of investment properties, non-recurring project costs and other extraordinary and prior-period expenses and income. As part of the realignment of corporate management, from the 2023 financial year onwards – analogous to the result from letting and leasing (adjusted) – the maintenance expenses for externally procured services and the own work capitalised previously included in the "Other" item will also no longer be taken into account in the calculation.

or

Recurring net operating income less recurring administrative expenses.

EBIT

Earnings **b**efore **I**nterest and **T**ax
Operating earnings
Consolidated net income before net finance costs and taxes.

FFO I

Funds from **O**perations **I**
Funds generated from operating activities LEG calculation: adj. EBITDA adjusted for cash interest expenses and income and cash taxes.

FFO II

Funds from **O**perations **II**
FFO I plus net income from the disposal of investment properties.

AFFO

Adjusted **FFO I**
Starting from FFO I (after non-controlling interests), AFFO generally takes capitalised cost from modernisation and maintenance into account. This procedure for the calculation of AFFO was adjusted in conjunction with the realignment of the corporate management. In future, recurring capex alone will be deducted (capex (recurring)). Capex that benefits from government funding is defined as non-recurring. Consolidation effects from intercompany results relating to own work are also eliminated.

EPRA

European **P**ublic **R**eal **E**state **A**ssociation

EPRA capex

The EPRA capex splits the **capitalised expenditure** of the reporting period in comparison to the comparative period in several components.

EPRA vacancy rate

Vacancy rate as defined by **EPRA**
Expressed as a percentage being the estimated market rental value of vacant space divided by the estimated market rental value of the whole portfolio.

EPRA Earnings per share

Net profit or loss for the period attributable to parent shareholders, adjusted for non-cash remeasurement effects of investment properties and derivatives, acquisition costs and aperiodic financing costs and income taxes, that are not classified as current income taxes.

EPRA NAV
Net **A**sset **V**alue as defined by **EPRA**
Net asset value from a shareholder perspective assuming the long-term continuation of the company as a going concern. This value is calculated on the basis of equity which is controlled by the shareholders and eliminates the effects of the market measurement of derivative financial instruments and deferred taxes which correspond to investment properties, derivatives or subsidised loans.

EPRA NRV
Net **R**einstatement **V**alue as defined by **EPRA**
Recovery value of the company assuming that no assets are sold. The value is calculated on the basis of the equity attributable to controlling shareholders and eliminates the effects of the fair value measurement of derivative financial instruments and deferred taxes attributable to investment property, derivatives or subsidised housing loans. Incidental acquisition costs are added.

EPRA NTA
Net **T**angible **A**sset as defined by **EPRA**
Net asset value from the shareholders' perspective assuming **long-term continuation** of the business with acquisition and disposal of assets. The value is calculated on the basis of the equity attributable to controlling shareholders and eliminates the effects of the fair value measurement of derivative financial instruments and deferred taxes attributable to non-current investment property, derivatives or subsidised housing loans. Neither goodwill nor other intangible assets are included in the calculation.

EPRA NDV
Net **D**isposal **V**alue as defined by **EPRA**
Net asset value from the shareholders' perspective assuming a **disposal scenario**. The value is calculated on the basis of the equity attributable to controlling shareholders and eliminates the effects of goodwill. The effects from the measurement of liabilities at current fair value less the resulting deferred tax are taken into account.

EPRA NIY
Net initial yield as defined by **EPRA**
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

EPRA cost ratio
The **cost ratio** is an indicator of the company's operating performance. Administrative and operating expenses are divided by gross rental income, adjusted for leasehold land interests and – unless marked otherwise – directly attributable vacancy costs.

EPRA-LTV
Loan to **V**alue definition according to **EPRA**
compared to the standard LTV, hybrid debt instruments such as convertible bonds are treated as financial liabilities until the date of conversion. Furthermore, net debt and net assets of joint ventures or material associates are included while being eliminated for material non-controlling interests.

LTV
Loan to **V**alue
The ratio of net financial liabilities (not including EK 02 tax liabilities), less cash and cash equivalents to the sum of investment properties, assets held for sale and prepayments for investment properties.

Capex
Capital **Ex**penditure
Capitalised cost of modernisation and maintenance work.

Project costs
Project costs include expenses for projects that are largely non-recurring with a complex structure whose goals are to be met within the budget and time provided.

Tables and figures

Table overview

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Financial calendar

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LEG financial calendar 2023

Release of Annual Report 2022	9 March
Release of Quarterly Statement Q1 as of 31 March 2023	10 May
Annual General Meeting	17 May
Release of Quarterly Report Q2 as of 30 June 2023	10 August
Release of Quarterly Statement Q3 as of 30 September 2023	9 November

For additional dates see our Website.

The pdf version of our Annual Report was optimised for use on a PC or tablet. The linked tables of contents and the function buttons on each page ensure easy navigation:

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The annual report as of 31 December 2022
is also available in German.
In case of doubt, the German version takes precedence.

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