Deutsche Office

ANNUAL REPORT 2014

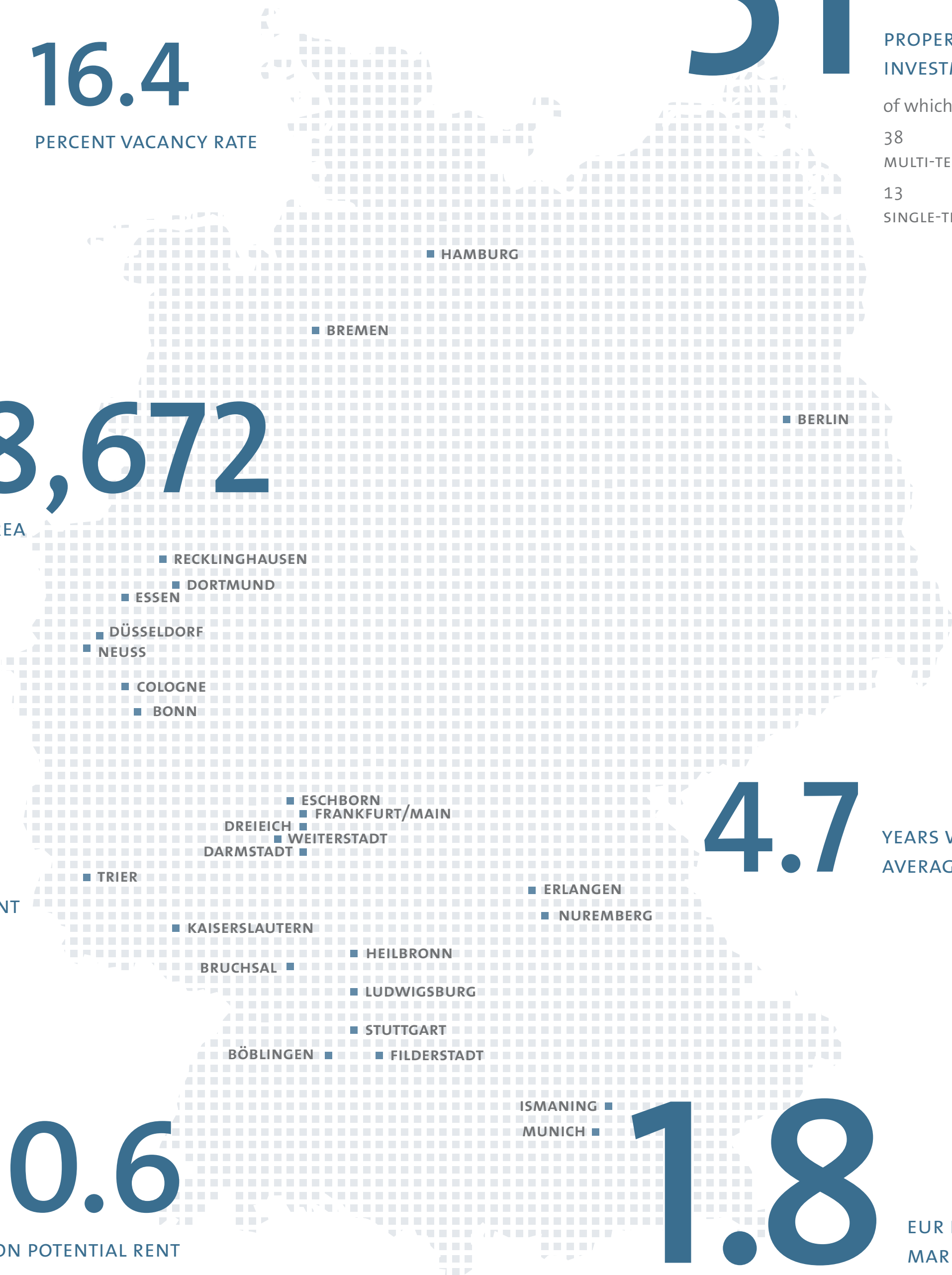
DEUTSCHE OFFICE AT A GLANCE

		2014	2013[1]	CHANGE
Earnings figures in EUR million (IFRS) and headcount				
Rental income		105.5	135.1	–22%
Net rental income		94.2	120.5	–22%
Earnings before interest and taxes (EBIT)		171.7	–19.8	
Financial result		–44.0	–106.8	–59%
EPRA costs (excluding vacancy costs)		–14.2	–20.1	–29%
EPRA cost ratio (excluding vacancy costs)	as a percentage	13.5	14.9	
Consolidated net income		124.9	–125.3	
Earnings per share	in EUR	0.73	–0.94	
EPRA earnings		38.5	17.0	> 100%
EPRA earnings per share	in EUR	0.22	0.13	76%
Funds from operations (FFO)		46.6	41.9	11%
FFO per share	in EUR	0.27	0.31	–13%
Headcount (number of employees)[2]		35	34	3%
Balance sheet ratios in EUR million (IFRS)				
Investment properties		1,780.7	1,904.1	–6%
Balance sheet total		1,951.3	2,119.8	–8%
Equity		803.0	707.3	14%
Equity ratio	as a percentage	41.2	33.4	
Net Loan to value ratio	as a percentage	53.5	61.6	
Net asset value (NAV)		803.0	707.3	14%
NAV per share	in EUR	4.45	5.28	–16%
EPRA NAV per share	in EUR	4.74	5.61	–16%
EPRA NNNAV per share	in EUR	4.45	5.28	–16%
Property performance indicators				
Gross initial yield	as a percentage	6.1	5.9	
EPRA net initial yield	as a percentage	5.2	4.7	
EPRA "topped-up" net initial yield	as a percentage	5.2	4.9	
Vacancy rate	as a percentage	16.4	19.9	
EPRA vacancy rate	as a percentage	17.0	18.0	

[1] Pro forma
[2] As of 1 January

KEY PROPERTY FIGURES

FIGURES AS OF 31 DECEMBER 2014



51
PROPERTIES IN INVESTMENT PORTFOLIO

of which

38
MULTI-TENANT PROPERTIES

13
SINGLE-TENANT PROPERTIES

16.4
PERCENT VACANCY RATE

898,672
TOTAL LETTABLE AREA

109.4
EUR MILLION ACTUAL RENT

4.7
YEARS WEIGHTED AVERAGE LEASE TERM

130.6
EUR MILLION POTENTIAL RENT

1.8
EUR BILLION MARKET VALUE

CONTENT

ADDING VALUE THROUGH ACTIVE ASSET MANAGEMENT

Deutsche Office is a leading office property company with a focus on Germany's metropolitan regions. Our portfolio consists of 51 properties worth a total of EUR 1.8 billion. We add value through yield-oriented asset management and systematic investments in our portfolio properties. To achieve attractive proceeds from the sale of properties, we take advantage of sales opportunities along the property cycle. Our objective is to increase our portfolio volume to approx. EUR 3 billion in the medium term while continuing to consolidate our leading market position in the process.

WE ACHIEVED OUR GOALS IN 2014

ALEXANDER VON CRAMM AND JÜRGEN OVERATH
MEMBERS OF THE EXECUTIVE BOARD

Dear Shareholders,
Dear Business Partners,
Ladies and Gentlemen,

Deutsche Office achieved a lot in 2014 and created a solid foundation for a successful future in particular. A first milestone was the merger of Prime Office REIT-AG with OCM German Real Estate Holding AG, which became effective in January, followed by the listing of the new company on the stock exchange. This led to the creation of a leading office property company, quoted in the SDAX index, with a focus on metropolitan regions and conurbations in Germany. As a next step, we equipped Deutsche Office with an attractive financing structure, which was achieved in particular by the successfully placed cash capital increase and the refinancing of our Homer and Herkules portfolios. As a result of these measures, we reduced our loan-to-value ratio to less than 55 percent, while at the same time improving the weighted average interest rate to approx. 3.4 percent. With the change of the company's name to DO Deutsche Office AG in mid-2014, we completed the integration process ahead of schedule. This would not have been possible without the great commitment shown by our employees, and we would like to express our sincere gratitude for their achievements.

Along with successfully resolving many issues associated with the merger and the integration process, we achieved a strong letting performance with approx. 170,700 sq.m. in fiscal 2014. The space let in 2014 corresponds to approx. 18 percent of the total lettable area in our portfolio, with new leases accounting for approx. 45,400 sq.m. and lease renewals for approx. 125,300 sq.m. Our high rate of lease-extensions of around 70 percent is clear evidence of our tenants' satisfaction.

2014 was therefore also a successful fiscal year in operational terms. By consistently leveraging economies of scale, attractive finance costs, as well as a cost leadership position compared with our competitors, we already enjoy strong

earning power today. An increase in our letting rate automatically leads to an increase in income, and hence in our Funds from Operations (FFO), an area in which we will continue to attain sustained operational growth in future.

In the past fiscal year, we were also successful in selling several properties at a profit. The selling prices reflected our IFRS carrying amounts or were above them. In our view, this shows that the market confirms our property valuation. In fiscal 2014, the rights and obligations for properties worth a total of EUR 125 million were transferred to the new owners. In addition, we have concluded notarized contracts for the sale of three additional properties worth approx. EUR 94 million.

In this context, we would like to highlight one transaction which we moved forward in the second half of 2014 and then closed at the beginning of 2015: the sale of the “Westend Ensemble” property in Frankfurt. In a particularly difficult letting market, we were successful in changing the property’s type of use, which enabled us to sell the property without additional investments and to reduce our vacancy rate by 3 percentage points. The market has rated this sale as adding value because it has eliminated our vacancy costs and further improves our financial and liquidity structure.

Our financial ratios also developed very positively in 2014: With pro forma revenues of approx. EUR 108 million, Deutsche Office generated Funds from Operations (FFO) amounting to EUR 47 million, which is approx. 11 percent above the previous year’s level. This was above our original guidance of between EUR 44 million and EUR 46 million. In 2014, the FFO per share amounted to EUR 0.27. Based on the share price of approx. EUR 4.00, this leads to an attractive FFO yield of 6.8 percent when compared to our competitors.

Based on its strong performance in fiscal 2014, Deutsche Office has excellent prospects for developing its business in future. In light of our strong operational performance in fiscal 2014 and our solid basis, we have decided to increase our dividend proposal relative to the original guidance. At the Annual General Meeting, the Executive Board and the Supervisory Board of Deutsche Office will propose that a dividend of EUR 0.15 per share should be distributed for fiscal 2014. This means that we will raise our dividend proposal by EUR 0.04 or EUR 0.05 compared with our original guidance. Furthermore, the Executive Board and the Supervisory Board plan to pay out 50 to 60 percent of our FFO as a dividend in the next few years.

Ladies and gentlemen, we will to continue to build on the sound foundation we created in 2014. We will focus on yield-driven asset management of our office properties in metropolitan regions and conurbations, with a particular emphasis on further reducing vacancies. By the end of 2018 the vacancy rate should be under 10 percent. In addition, we will seize opportunities to sell properties in keeping with our active asset management approach in order to generate attractive sales proceeds during the property cycle. At the same time, we will intensively monitor the market in search for attractive purchasing opportunities so as to add value by investing in new properties. Our medium-term objective is to achieve a portfolio volume of approx. EUR 3 billion.

Overall, the interest in Germany's property market is very strong, so that a large amount of capital will continue to flow into the German property market in 2015. We therefore expect that the general price level for office and commercial properties will increase and that these properties will increasingly be in short supply because of the strong interest of investors, also from abroad. In view of intense competition for quality properties, it can be expected that investors will increasingly also invest in B-locations and in locations which are just recovering after market price adjustments. However, we will continue to focus on the multi-tenant segment with shorter leases. This segment is less in the focus of foreign investors.

In view of the expected continued growth of Germany's gross domestic product, as well as increasing employment levels and interest rates which will probably continue to be low, Deutsche Office will operate in a very attractive environment overall. This should be reflected in particular by decreasing vacancies at office locations, a strong letting performance and continuing interest in the German property investment market.

For fiscal 2015, we expect rental income from investment properties in a range of between EUR 105 million and EUR 107 million, based on the current portfolio. We plan to increase FFO to at least EUR 50 million in the current fiscal year and to pay out 50 to 60 percent of FFO as a dividend.

Ladies and gentlemen, we would like to thank you very much for the confidence you have shown in us and for supporting our sustained growth strategy of high profitability and high dividends.

Sincerely,

Alexander von Cramm

Sincerely,

Jürgen Overath

EXECUTIVE BOARD

JÜRGEN OVERATH
Member of the Executive Board

Asset, property and letting management, technical management, and acquisitions and sales

ALEXANDER VON CRAMM
Member of the Executive Board

Financing, controlling and accounting, investor relations, IT and risk management, compliance, legal and tax

SUPERVISORY BOARD

HERMANN T. DAMBACH

Managing Director of Oaktree GmbH, Frankfurt/Main

UWE E. FLACH

Management Consultant

CALEB KRAMER

Fund Manager and Managing Director of Oaktree Capital

NEBIL SENMAN

Co-Managing Partner of Griffin Real Estate Sp. z o.o., Warsaw

EDWARD P. SCHARFENBERG

Attorney at Law

PROF. DR HARALD WIEDMANN

Of-Counsel at Gleiss Lutz Rechtsanwälte, Berlin

GREAT OPPORTUNITIES

THE GERMAN OFFICE PROPERTY MARKET CONTINUES TO PROVIDE ATTRACTIVE GROWTH OPPORTUNITIES. BASED ON ITS STABLE PORTFOLIO, DEUTSCHE OFFICE WILL PARTICIPATE IN THIS GROWTH.

KASTOR TOWER,
PLATZ DER EINHEIT 1,
FRANKFURT/MAIN

MARKET
DYNAMIC GROWTH OF THE INVESTMENT MARKET FOR COMMERCIAL PROPERTIES AND STABLE PERFORMANCE OF THE OFFICE LETTING MARKETS IN 2014.

THE MOST IMPORTANT OFFICE LOCATIONS IN GERMANY

In Germany, the market for commercial properties is dominated by office and retail properties, which account for a share of 44 percent and 22 percent of the transaction volume, respectively. There are different regional and local markets which, in turn, are subdivided according to the properties' type of use.

GERMAN OFFICE PROPERTY MARKET VERY ATTRACTIVE

In 2014, the investment market for commercial properties was very buoyant. In 2014, the transaction volume in the German commercial property market increased by 30 percent to EUR 39.8 billion, the best performance since 2007, representing a substantial increase compared with 2013 when the transaction volume was still at a level of EUR 30.8 billion. The outlook is also positive for 2015; a high transaction volume is expected this year.

Foreign investors have stepped up their activities in the German commercial property market. In 2014, foreign buyers already accounted for approx. 50 percent of the investment volume, which was higher than in previous years. In terms of the total number of bids submitted, international investors accounted for as much as 75 percent.

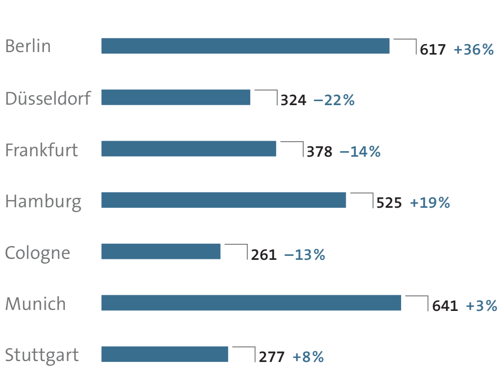
STRONGER DEMAND FOR SECONDARY LOCATIONS

In 2013, investments were focused exclusively on top properties at prime locations. In the past year, more and more buyers were willing to invest in properties of somewhat lower quality with a certain level of vacancies or at secondary locations. In Germany's seven biggest office locations (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart), the transaction volume amounted to EUR 23.0 billion in 2014, i.e. only slightly more than half of the total volume.

Frankfurt was number one, with an increase of 34 percent to EUR 5.5 billion, followed by Munich with a volume of EUR 5.0 billion and Berlin with EUR 4.4 billion. Düsseldorf was the only office location among the "Big 7" which saw a decline by 6 percent to EUR 2.1 billion. Office properties once again were the strongest segment with a share of 44 percent in the transaction volume, followed by retail properties, which accounted for a share of 22 percent. The transaction volume of warehousing and logistics properties increased significantly; their share increased from 7 percent in 2013 to 9 percent in 2014.

OFFICE SPACE INCLUDING OWNER-OCCUPIERS IN 2014 AND YEAR-ON-YEAR CHANGE

IN SQ.M. K



NUMBER OF PORTFOLIO TRANSACTIONS INCREASED, PRIME YIELDS DECREASED

In the past year, portfolio transactions – i.e. packages including several properties – increased by 57 percent; they accounted for 30 percent of the total volume. A total of 15 of the 20 largest transactions were commercial portfolio transactions.

In view of the strong demand, prime yields in the office segment already decreased somewhat. On average, the gross prime yield in the office segment decreased by 4.45 percent, when aggregated over all the "Big 7" cities. All the markets were equally affected by this decline.

TRANSACTION VOLUME EXPECTED TO INCREASE FURTHER

Overall, prospects for 2015 continue to be positive. Demand by international investors continues to run strong, interest rates remain favourable, and the financing environment continues to be attractive. Leading real estate brokers assume that the transaction volume will increase to above EUR 40 billion.

RISING PRICES OF OFFICE PROPERTIES IN SECONDARY LOCATIONS

The survey findings of the Ernst & Young Real Estate "Trendbarometer Immobilien-Investmentmarkt Deutschland 2015" have confirmed that Germany's property market is highly attractive. Nearly all the respondents stated that they considered Germany to be an attractive or very attractive location for property investments, and even more so when compared with other European countries. In the office property segment, secondary office locations, in particular, are rated more positively than in the previous year, while a stable performance is expected for prime locations. The outlook is also positive for retail properties as well as for logistics properties.

OFFICE LETTING MARKET PICKING UP

In 2014, the total letting volume of 3.0 million square metres for the seven biggest office locations slightly surpassed the previous year's volume of 2.9 million square metres. The regional differences were significant. While office space take-up increased by 36 percent in Berlin, it fell by 22 percent and by 14 percent in Düsseldorf and Frankfurt, respectively.

Take-up also increased in Hamburg, Stuttgart and Munich. The letting volume is expected to grow in 2015 due to the continued strength of the labour market, in particular in the services sector, which is particularly relevant for the office market, along with the high potential of expiring leases.

VACANCIES AT LOWEST LEVEL 2002

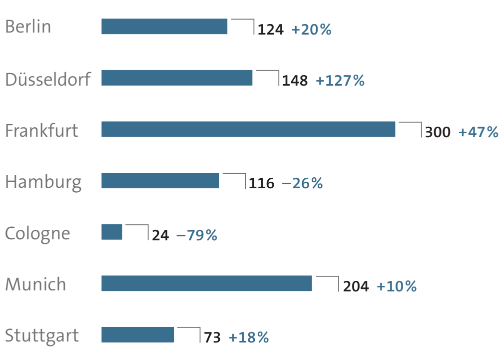
Vacancies in Germany's seven most important office locations dropped to a new all-time low in 2014: Vacancies fell to 6.8 million square metres at the end of 2014, compared with 7.3 million square metres at the end of 2013. This corresponds to a vacancy rate of 7.6 percent – 0.6 percentage points less than one year ago, and at the same time the lowest level since 2002. Both the vacancy volume and the vacancy rate decreased at all the top office property locations, most significantly in Hamburg, where the vacancy rate fell by more than 12 percent to 6.8 percent. At 5.2 percent, however, Stuttgart had the lowest vacancy rate of the seven biggest office locations.

VACANCIES INCLUDING INCLUDING SUB-LET SPACE

	Q4 2014		Q4 2013	
	SQ.M.	RATIO (%)	SQ.M.	RATIO (%)
Berlin	1,305,200	7.7	1,395,400	8.2
Düsseldorf	994,600	10.9	1,022,800	11.4
Frankfurt/Main	1,253,100	10.4	1,327,400	11.1
Hamburg	997,800	6.8	1,137,100	7.8
Cologne	490,000	6.5	530,000	7
Munich	1,327,000	6.6	1,456,900	7.3
Stuttgart	440,000	5.2	445,000	5.3

NEW-BUILD COMPLETIONS IN 2014 AND YEAR-ON-YEAR CHANGE

IN SQ.M. K



VACANCIES WILL CONTINUE TO FALL DUE TO RELATIVELY LOW VOLUME OF NEW-BUILDS

In 2014, the volume of new-builds, which totalled 988,000 square metres, increased by 11 percent compared with 2013. The expected increase of 20 percent was not achieved because, in the fourth quarter, some tenants occupied new office space later than planned. The lower growth of completions had a positive impact on vacancies at the end of 2014. The fact that nearly 80 percent of all new buildings were already let or assigned to owner-occupiers at the time of their completion was as well positive. The regional focus of construction activities was clearly on Munich and Frankfurt; these markets accounted for more than half of the new-build volume. For 2015, Jones Lang LaSalle (JLL) expects a new-build volume of just above 1.0 million square metres, which is only marginally higher than in 2014.

HAUPTSTRASSE 45 / SCHULSTRASSE 1+3 / PESTALOZZISTRASSE 1+1A, DREIEICH

UPWARD TREND IN PRIME RENTS CONTINUES

Due to the slight increase in demand, prime rents rose by 0.6 percent. The highest growth rates were observed in Hamburg (+2.1 percent to EUR 24.50), Munich (+4.8 percent to EUR 33.00) and Stuttgart (+2.7 percent to EUR 19.00). In Düsseldorf, however, the prime rent decreased by 5.5 percent to EUR 26.00. Overall, JLL expects another moderate increase in prime rents in 2015.

MAARWEG-CENTER
MAARWEG 165, COLOGNE

SOLID

THE BUSINESS MODEL OF DEUTSCHE OFFICE IS BASED ON THREE PILLARS FOR SUSTAINABLE SUCCESS: ACTIVE ASSET MANAGEMENT, PROPERTY PURCHASES, AND PROPERTY SALES. ON THIS BASIS, WE WILL FURTHER CONSOLIDATE OUR MARKET POSITION AS A LEADING OFFICE PROPERTY COMPANY.

STRATEGY AND BUSINESS MODEL

OUR MEDIUM-TERM OBJECTIVE IS TO INCREASE OUR PORTFOLIO TO APPROX. EUR 3 BILLION, WHILE CONTINUING TO STRENGTHEN OUR MARKET POSITION.

THE CORE OF OUR BUSINESS ACTIVITIES
is yield-driven management of office properties

PART OF OUR STRATEGY
is acquiring properties with the potential for value growth and making value-adding investments in the properties in our portfolio.

IN ADDITION
we will seize opportunities to sell properties during the property cycle in order to generate attractive sales proceeds and capitalise on value added.

POTENTIAL RENT

EUR 130.6 MILLION

Compared with today's actual rent of EUR 109.4 million, the potential rent of our portfolio amounts to EUR 130.6 million – an attractive internal potential for adding value.

A LEADING OFFICE PROPERTY COMPANY IN GERMANY

We focus in our business activities on yield-driven management of office properties in Germany's metropolitan regions ("Big 7") and conurbations. Forecasts suggest that these markets will enjoy a particularly favourable development. Our activities concentrate on optimising the leased properties we offer in line with tenants' needs to meet their specific expectations. Because of the high degree of tenant satisfaction, we have a significant proportion of lease renewals (with a rate of around 70 percent), and we are consistently and sustainably reducing the current vacancies in our portfolio.

We will continue to grow profitably through the acquisition of properties with a potential for value growth and through other value-adding investments in our property portfolio. In addition, we take advantage of sales opportunities to generate attractive proceeds from sales within the property cycle and to capitalise on the value added.

SOLID FOUNDATION FOR SUSTAINABLE SUCCESS

Deutsche Office's business model is based on three pillars:

- Active asset management: The core of active asset management is to conclude new lease and lease renewals to reduce the vacancies in our properties or, in other words, to ensure that all our properties are fully let at all times. The properties let by our company and the services we provide stand apart from what our competitors have to offer in comparable locations and in properties of a similar quality. We optimise our properties in accordance with our tenants' needs, maintain close contacts with our tenants and are eager to meet their specific expectations. This has led to a high degree of tenant satisfaction. In addition, we benefit from extensive networking with decision-makers in our sector. As a result, we have been successful in ensuring lease renewals and in reducing vacancies. This strategy is underpinned by value-adding investments in our property portfolio.

- Property purchases: Our objective is to further expand our portfolio with a solid financing structure and a conservative loan-to-value ratio of between 50 and 55 percent. We monitor the market to be able to seize attractive opportunities for acquisitions. In property purchases, we focus – in line with our existing portfolio – on conurbations and locations in which we are able to achieve significant value growth from leases and/or from reducing vacancies. Additional criteria for acquisitions are: properties intended for use as offices, possibly with a subsidiary proportion of other types of use, a multi-tenant structure and an investment volume of between EUR 15 million and EUR 50 million for single properties and over EUR 100 million for portfolios.

- Property sales: We see ourselves as property portfolio managers and regard our properties therefore predominantly as long-term investments or so-called "hold assets". At the same time, however, we seize sales opportunities to realize profits and to make new investments. In recent years, we have sold various stabilised properties, achieving prices that were regularly higher than the IFRS book values. In this way, we achieve attractive yields and optimise our portfolio by selling properties and/or locations that no longer fit in with our strategic focus or for which we expect no further value growth.

PROPERTY CLASSIFICATION OF DEUTSCHE OFFICE

ACTIVE ASSET MANAGEMENT	HOLD ASSETS	CAPITAL REDEPLOYMENT ASSETS
Properties with vacancies which offer the potential for adding cash flow and value	Properties with attractive, stable rental income	Utilising attractive sales opportunities to generate profits or to sell locations outside our strategic focus

Active asset management to add value in the current and future portfolio

Between 20 and 25 percent of our portfolio is comprised of properties with potential for value growth, so-called “active-management properties” or repositioning properties. We optimise them, reduce vacancies, and thereby leverage their potential for value growth. Subsequently, we reclassify them as hold assets or we offer them for sale, so that the capital tied up can be released for the acquisition of further properties with potential for value growth. In this way, we have a guarantee of a continuous, value-adding rotation of properties.

REGULAR PORTFOLIO REVIEW CREATES FLEXIBILITY

We perform a regular review of our property portfolio and analyse whether the properties should continue to be classified as hold assets, repositioning properties or potential properties for sale.

We carry out revitalisation, conversion and enhancement measures on the assets we classify as repositioning properties. In addition, we reduce vacancies, and thus improve their valuation potential. Subsequently, these properties are classified as hold assets or marketed as potential properties for sale.

THOROUGH REVITALISATION OF “AM SEESTERN 1” PROPERTY IN DÜSSELDORF

One example of a successful revitalisation project is the “Am Seestern 1” property in Düsseldorf. In December 2014, we completed extensive conversion and modernisation measures. “Am Seestern 1” is a modern landmark building in a prime infrastructure location, due to the very good transport facilities in Düsseldorf’s Seestern district. The building, which has a lettable area of approx. 36,100 square metres and a big underground car park with 714 parking spaces, has been awarded the “BREEAM DE Bestand” sustainability certificate. It includes modern, well-equipped step-free rental units of between 460 square metres and a maximum of 2,710 square metres on each floor, characterised by highly efficient use of space and cost-effectiveness. Following comprehensive revitalisation, especially in and around the lobby and the atrium, the property has been placed on the market for the conclusion of new leases, also including leases for small units.

FURTHER EXPANSION OF OUR MARKET POSITION

It is our declared intention to expand our portfolio to a volume of approx. EUR 3 billion in the medium or long term and to continue to strengthen our market position as a leading office property company in Germany. In addition, we want to play an active part in consolidating the German office property sector in the coming years.

WALT

4.7 years

WALT stands for Weighted Average Lease Term. With a WALT of 4.7 years, our portfolio is perfectly matched with our financing structure.

MULTI-TENANT

38 properties

or approx. 75 percent of our properties have a multi-tenant structure with tenants from different sectors and with different lease terms.

We are building up a sustainably strong portfolio in terms of both yields and dividends, with which we will be able to leverage the value-adding potential of properties in different yield and risk classes.

Due to our predominant multi-tenant structure, with tenants from different sectors and a weighted average lease term of around five years, we are generating stable rental income, which will be the basis for growing cash flows, high and growing profitability and sustainable dividend potential.

Currently, our loan-to-value ratio is below 55 percent, and the average interest rate is down at 3.4 percent. The fact that interest and financing levels have fallen yet again will provide opportunities for us to reduce the interest rate further.

GROWING IMPORTANCE OF OFFICE RENTAL SPACE WITH SUSTAINABILITY CERTIFICATES

A total of approx. 228,000 square metres of lettable space – i.e. roughly 24 percent of our total portfolio – is in properties which have been awarded sustainability certificates, such as the LEED certificate (U.S. Green Building Council), the BREEAM certificate (BRE Environmental Assessment Method) and the DGNB certificate (Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB e.V.). Seven of our properties have so far been awarded such certificates, and further properties are currently going through the certification process or are scheduled for certification in the near future. However, obtaining sustainability certificates for leased properties is not an end in itself because sustainability is becoming more and more important for some of our tenants.

SUSTAINABILITY CERTIFICATE FOR KASTOR TOWER

KASTOR TOWER, an office building in Frankfurt/Main with an impressive glass façade and built in an architectural style of timeless elegance, was awarded the LEED Gold certificate by the U.S. Green Building Council in August 2014. The office tower scored particularly well under the headings of “energy and atmosphere” and “indoor climate”. The 24-storey building on “Platz der Einheit” has a total lettable area of 30,630 square metres and 344 parking spaces in its underground car park. KASTOR TOWER was certified under the LEED procedure for existing buildings and achieved a much higher score than the minimum required for the gold certificate in all categories: sustainable site, water efficiency, energy and atmosphere, materials and resources, indoor climate, innovative operation and regional priorities.

WELL POSITIONED FOR THE FUTURE

WITH ITS STABLE AND WIDELY DIVERSIFIED PORTFOLIO, DEUTSCHE OFFICE IS WELL POSITIONED FOR THE FUTURE, BASED ON AN ATTRACTIVE AND LONG-TERM FINANCING STRUCTURE.

INGERSHEIMER STRASSE 20,
STUTTGART

PORTFOLIO

DEUTSCHE OFFICE HAS A STABLE AND WIDELY DIVERSIFIED OFFICE PROPERTY PORTFOLIO IN GERMANY WITH AN ATTRACTIVE POTENTIAL FOR VALUE GROWTH.

KEY PORTFOLIO INDICATORS

	2014	PRO FORMA 2013	CHANGE
Property portfolio at 31 December (number)	54	60	−10 %
Assets held for sale (number)	3	3	0 %
Investment properties (number)	**51**	57	−11 %
Fair value (in EUR million)	1,781	1,904	−6 %
Net (annual) income from rent roll (in EUR million)[1]	109	112	−3 %
Gross initial yield (as a percentage)	6.1	5.9	
Lettable space (in square meters)	898,672	951,790	−6 %
Vacancy rate (as a percentage of lettable space)	16.4	19.9	
WALT (in years)	4.7	5.0	−6 %
Average value per square metre (in EUR)	1,981	2,001	−1 %
Average rent per square metre (in EUR/month)	10.15	9.81	4 %

[1] Annualized

PORTFOLIO CHANGES

IN EUR K

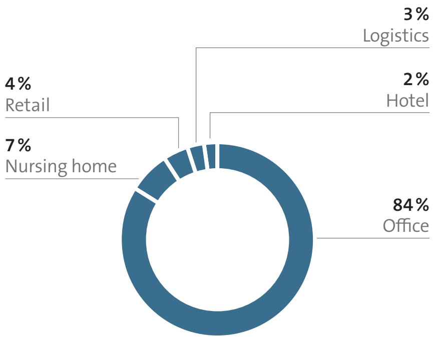
	2014
Investment properties as of 1 January 2014 (pro forma)	**1,904,110**
Reassessment on first-time consolidation	**−25,562**
Investments	**20,359**
of which refurbishments	11,843
of which tenant-specific improvements	6,108
of which agent fees/marketing	2,407
Valuation result	**−5,612**
Transactions	**−111,489**
of which disposals	−18,689
of which reclassified as “assets held for sale”	−92,800
Rent smoothing	**−1,146**
Investment properties as of 31 December 2014	**1,780,660**

STABLE, WIDELY DIVERSIFIED PORTFOLIO OF OFFICE PROPERTIES IN GERMANY

Our nation-wide office property portfolio is characterised by a widely diverse tenant base with a strong credit standing. The properties we manage are mainly located in Germany's metropolitan regions ("Big 7") and major conurbations, primarily in the western part of Germany where market prospects are particularly favourable. The tenant structure is spread across different sectors, securing the basis for stable rental income and high yields. In addition, our property portfolio has the potential to generate significant value combined with adequate risk diversification, which the Deutsche Office management platform has complemented with attractive cost structures and a solid financing structure in order to create sustainable dividend potential.

Deutsche Office's property portfolio, currently comprises 51 properties with a market value of approx. EUR 1.8 billion and total lettable space of approx. 900,000 sq.m. With more than 550 lease contracts under management and a weighted average lease term of 4.7 years, we earn an annual net income from rental contracts of EUR 109 million. This generateds a gross initial yield of approx. 6.1 percent and a net yield of 5.1 percent at 31 December 2014. At the close of 2014, EPRA net yield was 5.2 percent, and the EPRA vacancy rate was 17 percent.

TYPE OF USE OF OUR PORTFOLIO (BASED ON ANNUAL NET RENTAL INCOME)

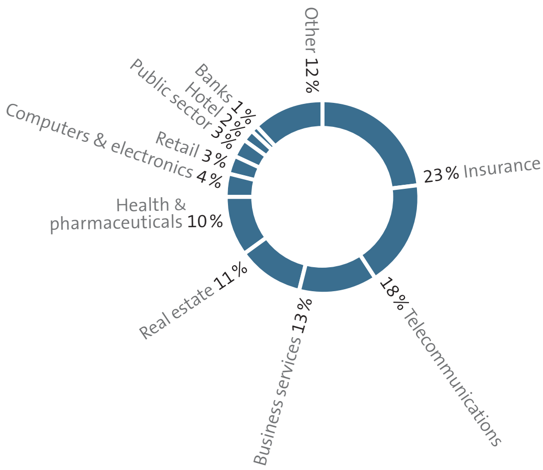


FOCUS ON OFFICE USE AND THE WESTERN REGION OF GERMANY

Offices accounts for about 84 percent of the portfolio. Three properties have been leased to operate as nursing homes. About 4 percent is taken up by the retail trade and 3 resp. 2 percent by logistics and hotels.

Our regional focus is on the "Big 7", the seven biggest office locations in Germany, and on the metropolitan areas. A total of 50 of the 51 properties we currently own are in the western part of Germany, in particular Düsseldorf, Frankfurt and Stuttgart. One major complex – Treptowers – is in Berlin. The vast majority of our properties are located in towns with a population of more than 100,000.

TENANT BASE BY SECTOR (BASED ON ANNUAL NET COLD RENT)



ATTRACTIVE MULTI-TENANT STRUCTURE AND PROMISING SECTORS

Another advantage of our property portfolio is its tenant structure: 75 percent of our properties are already multi-tenant. 25 percent of our properties have so far had only one tenant or else a dominant principal tenant. Most of the properties have been let to more than five tenants – and with about 550 leases under management and tenants from different sectors, there is well-balanced diversification. Approx. 23 percent of our net income from basic rent is generated with companies from the insurance sector, 18 percent with companies in telecommunications industry, and 13 percent with service companies.

BALANCED PORTFOLIO WITH A LONG-TERM FINANCE STRUCTURE

After completing the refinancing for our Homer and Herkules portfolios in Q1/2014 and bringing forward the repayment of several relatively expensive financing programmes, we have put in place an attractive finance structure with a weighted average term to expiry on our loans of approx. 4.2 years and an average interest rate of currently approx. 3.4 percent. The continuing fall in the interest rate combined with our selected interest rate hedges have further boosted earnings. Moreover, we now have opportunities to cut our interest expense further.

SUSTAINABLE LETTING PERFORMANCE

In fiscal year 2014, we achieved a letting volume of approx. 170,700 sq.m., or 18 percent of the total lettable space in our portfolio. New leases accounted for about 45,400 sq.m., while 125,300 sq.m. were re-let to existing tenants.

In the past year, we continued to pursue our successful letting strategy. Among the new leases, for example, a 5-year lease was secured with the Free State of Bavaria for approx. 3,400 sq.m. of space in the "Sigmund-Schuckert-Haus" property in Nuremberg, and a 10-year lease for approx. 1,400 sq.m. in the KASTOR-Tower property in Frankfurt. Other successful transactions include a 6-year lease with the Federal Institute for Materials Research and Testing for approx. 1,200 sq.m. in the "Heerdter Lohweg" property in Düsseldorf and lets amounting to approx. 4,900 sq.m. in Neuss to tenants such as Emerson and 3M. In November, we concluded an agreement for a total of 5,200 sq.m. at our "Feldstrasse/Gutenbergstrasse" property in Weiterstadt with a

WESTEND ENSEMBLE, FRANKFURT
SUCCESSFULLY SOLD
IN JANUARY 2015

major German logistics company. As a result, the lettable space in this property has now been fully rented. Our office building on Martinistrasse/Balgebrückstrasse in Bremen has now also been fully let after concluding a five-year agreement for a space of 1,375 sq.m. The same applies to the ARCUS in Neuss Hammfeld, where just over a year ago, on 31 December 2013, the occupancy rate was 41 percent. In December 2014, we achieved full occupancy status by signing an agreement for the last available space – a considerable accomplishment for the year 2014, when a total of approx. 7,500 sq.m. of space was let to various tenants.

We have been similarly successful with our lease renewals. Zurich Insurance extended a lease for another six years at the "Olof-Palme-Strasse" property in Frankfurt and also took on the last remaining units in the property, so that the lettable space of around 10,400 sq.m. is now fully under contract. In addition, renewals were concluded ahead of expiry with DPD in Ludwigsburg for approx. 17,000 sq.m. of storage and office space over another ten years and with Deutsche Telekom (GMG) for approx. 13,700 sq.m. of office and storage space at the "Heerdter Lohweg" poperty in Düsseldorf. Early renewals were likewise signed in Bonn, where BDO, Itenos and a law firm will continue to rent a total of approx. 5,800 sq.m. of our "Potsdamer Platz" property.

2015 also offers potential for new and renewed leases. At the close of 2014, with a total of approx. 900,000 sq.m. of lettable space in our portfolio, the vacancy rate in square metres was 16.4 percent. The EPRA vacancy rate, which is the vacancy rate based on market rents, was 17 percent.

VACANCY CHANGES

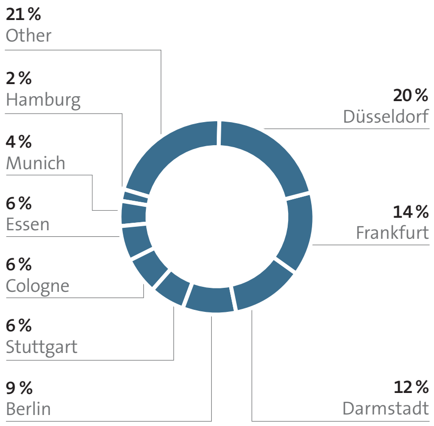
	SPACE SQ.M.	VACANT SQ.M.	IN %
Investment properties at 1 January 2014 (pro forma)	951,790	189,406	19.9
Space sold	**−53,122**	**−38,672**	**72.8**
of which disposals	−11,944	−539	4.5
of which reclassified as "assets held for sale"	−41,178	−38,134	92.6
Letting result	**–**	**−3,352**	
Expiry after renewal	–	52,105	
New leases beginning in 2014	–	−55,457	
Space adjustment	**4**	**0**	
Investment properties at 31 December 2014	**898,672**	**147,382**	**16.4**

EPRA VACANCY RATE

17.0 %

The EPRA vacancy rate valuates the vacancies of the property portfolio based on the market rent. Deutsche Office reduced the EPRA vacancy rate to 17 percent.

REGIONAL DISTRIBUTION OF THE PORTFOLIO (BASED ON LETTABLE AREA IN SQ.M.)



EPRA VACANCY RATE

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013	CHANGE
Estimated rental income based on stabilised occupancy rate[1]	124,780	125,986	−1 %
Estimated rents for vacant space[1]	21,226	22,676	−6 %
EPRA vacancy rate	17.0 %	18.0 %	

[1] Based on market rent determined by appraiser (EUR k p.a.)

SUCCESSFUL PROPERTY DISPOSALS OF OVER EUR 153 MILLION AS PART OF SUSTAINED PORTFOLIO OPTIMISATION

The properties in our portfolio are regularly reviewed from a strategic perspective. Between January 2014 and January 2015, we sold seven properties under attractive terms with a sales volume of approx. EUR 146 million. The properties selected had either been stabilised and sold at a profit, or they were non-strategic properties which were sold to streamline our portfolio.

The “Westend-Ensemble” property in Frankfurt/Main, which had been vacant for several years, was prepared for conversion to residential use in 2014. It was then sold through a bidding process to a private consortium. The contract was signed in January 2015. The sale reduced the vacancy rate by 3 percentage points, which also led to a significant reduction of the vacancy costs. In addition, it has improved our capital structure and our liquidity.

The properties in Leipzig, Essen and Cologne were sold after new leases or long-term renewals had been successfully signed. The property in Frankfurt/Main, where we sold a vacant office building on Gutleutstrasse to a company that lets apartments, was sold for strategic reasons to optimise our portfolio. Overall, the sale of these five properties has resulted in slight gains in book value – an external endorsement of the market values attributed to our properties.

PORTFOLIO OVERVIEW

CBRE VALUATION REPORT – DO DEUTSCHE OFFICE AG PORTFOLIO – 31 DECEMBER 2014

CITY	ADDRESS	LETTABLE AREA		WALT
		TOTAL (SQ.M.)	VACANCY RATE (PERCENT)	(IN YEARS)
Berlin	An den Treptowers	84,632	0.1	4.4
Böblingen	Hanns-Klemm-Strasse 45	14,888	0.0	2.5
Bonn	Potsdamer Platz 5	10,382	14.5	6.9
Bremen	Balgebrückstrasse 13–15	4,081	3.1	3.7
Bremen	Lötzener Strasse 3	4,953	11.9	4.5
Bruchsal	Vichystrasse 7–9	20,159	69.3	6.5
Darmstadt	Deutsche-Telekom-Allee 7	24,686	0.0	5.4
Darmstadt	T-Online-Allee 1	72,528	0.0	4.9
Darmstadt	Wilhelminenstrasse 25/ Elisabethenstrasse 20–22	8,461	13.4	2.6
Dortmund	Kampstrasse 36/ Petergasse 2	3,162	29.7	3.9
Dreieich	Hauptstrasse 45/Schulstrasse 1+3/ Pestalozzistrasse 1+1A	8,109	4.7	12.7
Düsseldorf	Am Seestern 1	36,079	79.3	0.4
Düsseldorf	Gartenstrasse 2/ Kaiserstrasse 48–50	5,059	15.6	3.7
Düsseldorf	Graf-Adolf-Strasse 67–69	5,247	30.9	3.2
Düsseldorf	Heerdter Lohweg 35	37,691	26.2	3.0
Düsseldorf	Immermannstrasse 65	22,010	7.2	4.2
Erlangen	Nägelsbachstrasse 26/ Nürnberger Strasse 41	11,595	0.0	2.0
Eschborn	Frankfurter Strasse 71–75	6,723	0.0	7.3
Eschborn	Mergenthaler Allee 45–47	5,079	59.5	0.5
Essen	Alfredstrasse 234–238	30,314	0.0	5.0
Essen	Opernplatz 2 etc.	24,531	0.0	8.0
Filderstadt	Kurze Strasse 40/ Hornbergstrasse 45	5,264	21.9	1.9
Frankfurt/Main	Am Hauptbahnhof 6/ Münchener Strasse 56	7,700	7.2	5.7
Frankfurt/Main	Berner Strasse 119	14,852	33.5	4.1
Frankfurt/Main	Eschersheimer Landstrasse 55	8,722	46.7	4.4
Frankfurt/Main	Platz der Einheit 1	30,630	75.2	4.0
Frankfurt/Main	Olof-Palme-Strasse 37	10,423	0.0	6.0
Frankfurt/Main	Solmsstrasse 27–37	29,759	0.0	3.0
Frankfurt/Main	Westerbachstrasse 162–166	5,873	10.2	4.7

(ANNUAL) GROSS RENTAL INCOME		MARKET VALUE		GROSS INITIAL YIELD		GROSS RENT MULTIPLIER	
ACTUAL (EUR/P.A.)	POTENTIAL (EUR/P.A.)	TOTAL (EUR)	EUR/SQ.M. (EUR)	ACTUAL (PERCENT)	POTENTIAL (PERCENT)	ACTUAL	POTENTIAL
14,230,944	14,230,944	228,200,000	2,696	6.2	6.2	16.0	16.0
1,896,696	1,896,696	23,000,000	1,545	8.3	8.3	12.1	12.1
1,516,176	1,710,708	22,400,000	2,084	6.8	7.6	14.8	13.1
325,140	335,052	3,700,000	907	8.9	9.1	11.4	11.0
311,520	358,140	3,500,000	706	8.9	10.2	11.2	9.8
536,160	1,269,960	12,900,000	640	4.2	9.8	24.1	10.2
3,469,680	3,469,680	52,400,000	2,123	6.6	6.6	15.1	15.1
12,040,368	12,040,368	170,700,000	2,354	7.1	7.1	14.2	14.2
1,246,332	1,424,784	22,600,000	2,671	5.5	6.3	18.1	15.9
520,872	627,048	9,900,000	3,130	5.3	6.3	19.0	15.8
1,343,028	1,408,296	20,500,000	2,528	6.6	6.9	15.3	14.6
717,084	4,945,092	59,500,000	1,649	1.2	8.3	83.0	12.0
843,684	948,012	12,100,000	2,392	7.0	7.8	14.3	12.8
425,088	600,756	7,400,000	1,410	5.7	8.1	17.4	12.3
4,539,924	5,975,724	80,700,000	2,141	5.6	7.4	17.8	13.5
3,605,352	3,826,584	59,200,000	2,690	6.1	6.5	16.4	15.5
1,467,528	1,467,528	18,800,000	1,621	7.8	7.8	12.8	12.8
1,169,076	1,169,076	17,200,000	2,558	6.8	6.8	14.7	14.7
236,172	599,700	5,800,000	1,142	4.1	10.3	24.6	9.7
5,664,624	5,664,624	74,300,000	2,451	7.6	7.6	13.1	13.1
2,556,408	2,556,408	36,100,000	1,472	7.1	7.1	14.1	14.1
485,160	606,636	6,400,000	1,216	7.6	9.5	13.2	10.5
1,424,556	1,533,024	23,100,000	3,000	6.2	8.9	16.2	15.1
1,300,824	1,872,372	21,100,000	1,421	6.2	8.9	16.2	11.3
1,532,388	2,377,956	28,600,000	3,279	5.4	8.3	18.7	12.0
2,089,344	7,988,472	109,600,000	3,578	1.9	7.3	52.5	13.7
1,495,644	1,495,644	20,600,000	1,976	7.3	7.3	13.8	13.8
7,102,368	7,102,368	94,200,000	3,165	7.5	7.5	13.3	13.3
342,519	371,973	4,160,000	708	8.2	8.9	12.1	11.2

CBRE VALUATION REPORT – DO DEUTSCHE OFFICE AG PORTFOLIO – 31 DECEMBER 2014

CITY	ADDRESS	LETTABLE AREA		WALT
		TOTAL (SQ.M.)	VACANCY RATE (PERCENT)	(IN YEARS)
Hamburg	Borsteler Chaussee 111–113/ Brödermannsweg 1, 5–9	6,785	3.1	2.1
Hamburg	Heidenkampsweg 51–57	9,834	0.6	1.5
Heilbronn	Bahnhofstrasse 1–5	14,750	0.0	5.2
Ismaning	Gutenbergstrasse 1	12,219	69.4	1.9
Ismaning	Oskar-Messter-Strasse 22–24	12,417	17.7	5.6
Kaiserslautern	Stiftsplatz 5	9,279	33.5	3.6
Cologne	An den Dominikanern 6	27,462	0.0	5.6
Cologne	Maarweg 165	22,803	23.8	3.4
Ludwigsburg	Carl-Benz-Strasse 15/Junkersstrasse	32,538	5.3	7.0
Meerbusch	Earl-Bakken-Platz 1	8,038	0.0	4.7
Munich	Taunusstrasse 34–36	11,196	0.0	5.2
Neuss	Carl-Schurz-Strasse 2	12,650	2.1	2.4
Nuremberg	Lina-Ammon-Strasse 19, 19a, 19b	11,495	24.8	4.0
Nuremberg	Richard-Wagner-Platz 1	6,445	38.6	4.7
Ratingen	Berliner Strasse 91	33,900	21.3	9.3
Ratingen	Pempelfurtstrasse 1	19,147	45.4	4.3
Recklinghausen	Josef-Wulff-Strasse 75	19,855	0.0	6.2
Stuttgart	Ingersheimer Strasse 20	12,326	4.6	2.4
Stuttgart	Kupferstrasse 36	5,407	16.4	2.7
Stuttgart-Möhringen	Breitwiesenstrasse 5–7	25,256	0.0	4.8
Trier	Frauenstrasse 5–9/ In der Olk 10–16	17,103	5.9	4.7
Weiterstadt	Feldstrasse 16/ Gutenbergstrasse	14,178	30.3	4.1
		898,672	16.4	4.7

(ANNUAL) GROSS RENTAL INCOME		MARKET VALUE		GROSS INITIAL YIELD		GROSS RENT MULTIPLIER	
ACTUAL (EUR/P. A.)	POTENTIAL (EUR/P. A.)	TOTAL (EUR)	EUR/SQ.M. (EUR)	ACTUAL (PERCENT)	POTENTIAL (PERCENT)	ACTUAL	POTENTIAL
746,016	773,256	11,000,000	1,621	6.8	7.0	14.7	14.2
1,584,516	1,602,348	23,800,000	2,420	6.7	6.7	15.0	14.9
2,152,932	2,152,932	31,400,000	2,129	6.9	6.9	14.6	14.6
340,956	1,194,468	10,900,000	892	3.1	11.0	32.0	9.1
1,235,088	1,505,400	17,000,000	1,369	7.3	8.9	13.8	11.3
810,372	1,077,576	12,200,000	1,315	6.6	8.8	15.1	11.3
3,696,000	3,696,000	58,100,000	2,116	6.4	6.4	15.7	15.7
2,470,092	3,411,948	45,500,000	1,995	5.4	7.5	18.4	13.3
1,642,560	1,682,532	19,300,000	593	8.5	8.7	11.7	11.5
1,380,840	1,380,840	16,400,000	2,040	8.4	8.4	11.9	11.9
1,744,008	1,744,008	26,300,000	2,617	6.6	6.6	15.1	15.1
1,286,004	1,311,444	13,800,000	1,091	9.3	9.5	10.7	10.7
1,193,172	1,507,944	16,100,000	1,401	7.4	9.4	13.5	10.7
104,460	856,296	12,400,000	1,924	0.8	6.9	118.7	14.5
3,444,840	4,260,732	50,200,000	1,481	6.9	8.5	14.6	11.8
1,309,860	2,331,432	25,500,000	1,332	5.1	9.1	19.5	10.9
2,100,000	2,100,000	31,500,000	1,587	6.7	6.7	15.0	15.0
1,668,180	1,748,484	23,800,000	1,931	7.0	7.4	14.3	13.6
469,404	540,456	6,300,000	1,165	7.5	8.6	13.4	11.7
3,036,264	3,036,264	44,500,000	1,762	6.8	6.8	14.7	14.7
2,037,744	2,126,052	28,500,000	1,666	7.2	7.5	14.0	13.4
517,536	717,492	7,500,000	529	7.0	9.7	14.5	10.5
109,405,503	**130,631,529**	**1,780,660,000**	**1,981**	**6.1**	**7.3**	**16.3**	**13.6**

SHARE

DEVELOPMENT OF THE DEUTSCHE OFFICE SHARE

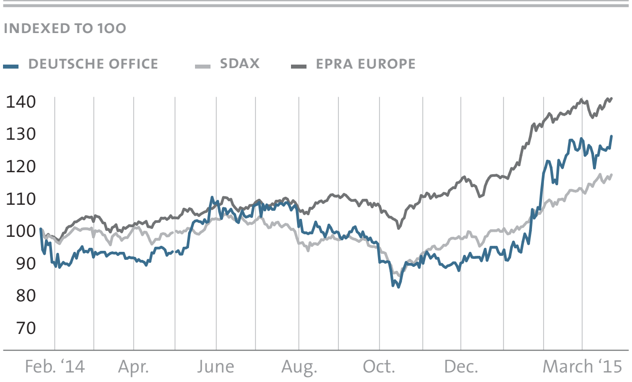
The merger of Prime Office REIT-AG with OCM German Real Estate Holding AG became effective on 21 January 2014. Trading of the share commenced on 22 January 2014, and since 7 July 2014, the company has traded under the name of DO Deutsche Office AG.

DEVELOPMENT IN TURBULENT MARKETS POSITIVE OVERALL IN 2014

The capital market environment was predominantly positive in the first half of 2014. This environment was supported by a prime rate which continued at a low level and by the ongoing pursuit of a broadly expansive monetary policy by major central banks, which obviously kept up the pressure on investors to invest.

On the other hand, the events in Ukraine and the resulting tensions with Russia had an adverse impact. The stock markets were adversely affected by turmoil in some emerging nations and an initially weaker US economy due to seasonal effects. In the second half of 2014, the capital market environment was increasingly overshadowed by geopolitical crises and concerns about the performance of the economy. These concerns had been prompted by the conflict in Ukraine and unrest in Iraq and Syria in connection with activities by the radical Islamist terrorist organisation Islamic State (IS). The developments in the Near and Middle East were seen to pose a potential risk to the development of oil prices and hence to the global economy. Uncertainty about the referendum on Scottish independence also had a negative impact on stock markets.

SHARE PRICE PERFORMANCE VS. SDAX AND EPRA EUROPE INDEXES (AS OF 22 JANUARY 2014)



At the end of the second half of 2014, the markets continued to perform inconsistently; stabilising and adverse effects temporarily cancelled each other out. Positive effects included the robust US economy, falling prices of commodities (in particular oil) and low interest rates in the major industrialised nations. Negative effects included, in particular, fears of major technical stock market corrections, the weakness of the economies in Europe, Japan and China, as well as geopolitical risks.

However, in the middle of Q4, these adverse factors were outweighed by investor hopes that measures introduced by the European Central Bank would further stimulate the markets. On 15 October 2014, the ECB adopted a decision on the implementation of a third covered bond purchase programme, which boosted the markets at the end of the year. The overall picture can therefore be described as unsettled with some periods of weakness, but with a positive development overall.

DEUTSCHE OFFICE SHARE WITH VOLATILE PERFORMANCE IN 2014

The share price of Deutsche Office showed a high degree of volatility in fiscal year 2014. The performance of the share price was slightly negative in the course of the year. However, since the beginning of 2015, the share price has recovered significantly, growing by over 30% to approx. EUR 4.00, accompanied by very high trading volumes.

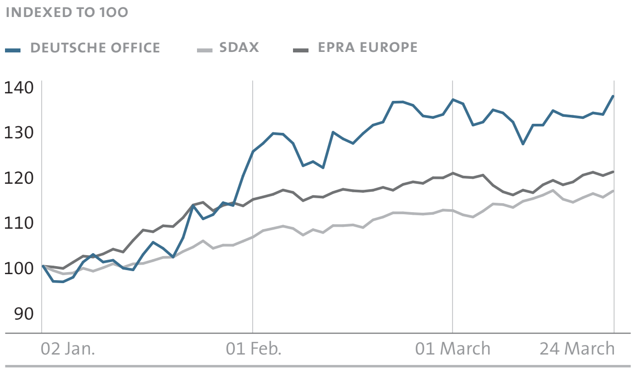
Starting from EUR 3.26 – the XETRA opening price on 22 January 2014, when trading in the share commenced, the share price initially came under downward pressure. In this context, the cash capital increase announced by Deutsche Office, which was implemented in the first half of February 2014, initially depressed the share price. In the course of this capital increase, which was successfully implemented, a total of 46.6 million new shares were issued, yielding gross proceeds of approx. EUR 130.4 million. In the course of Q1, the share price recovered as expected and settled at a relatively constant level.

At the beginning of Q2, the share price performance was very positive. The announcement of the quarterly earnings of Deutsche Office on 13 May 2014 led to a further increase in the share price so that the share reaches is annual high of EUR 3.49 on 29 May 2014. After minor profit taking at the end of Q2, the share price stabilised at approx. EUR 3.30. The strong letting performance, the continued improvement of the financing structure and the financing costs, as well as the integration at the site in Cologne, which was completed faster than expected, provided positive stimuli. However, volatility increased once again, in particular towards the end of Q3, so that the share price came under pressure along with the overall market at the end of Q3. As a result, the Deutsche Office share could not stay above the EUR 3 mark at the end of September.

The share price reached its all-year low of EUR 2.61 on 15 October 2014. In the course of Q4, the share price recovered with the brightening of the capital market environment and reached its quarterly high of EUR 3.00 on 23 December 2014.

Starting from the quarterly low to the end of the period under review, the share price increased by approx. 12.3%, but failed to return to the annual high. The XETRA closing price of fiscal 2014 amounted to EUR 2.93 on 30 December 2014. Overall, the share price performance in the course of the year was negative, with a decline of approx. 10.2%.

ENCOURAGING START TO THE YEAR 2015



ENCOURAGING START TO THE YEAR LEADS TO MUCH BETTER VALUATION

In contrast, the year 2015 began with a significant recovery of the Deutsche Office share price, which increased by approx. 40% by the end of March 2015, accompanied by very high trading volumes. While the performance of Germany's listed office sector was positive overall at the beginning of the year, the Deutsche Office share clearly surpassed the sector's performance. The outperformance of the Deutsche Office share compared with the sector as a whole was also due to the sale of the "Westend Ensemble" property, which was published on 29 January 2015 within the framework of a bidding process.

In the management's view, the share price did not yet reflect the actual value, the operational performance and the letting volume of Deutsche Office in fiscal year 2014. This was demonstrated by the high discount on the company's Net Asset Value (NAV), which affected the share price performance throughout fiscal 2014. Although the share has made up for a large part of the NAV discount since the beginning of 2015, there is still a gap compared with the companies of the peer group, which is not justified in the opinion of the Executive Board of Deutsche Office in view of the FFO performance above guidance and the reduction of the loan-to-value ratio (LTV) to 53.5%. In fiscal 2015, the Executive Board will therefore continue to concentrate on achieving a fair valuation of Deutsche Office in the capital market and on making up for the valuation difference which is still manifest now and then.

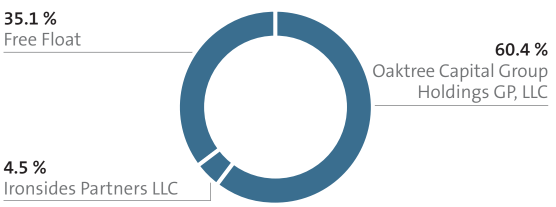
THE SHARE OF DO DEUTSCHE OFFICE AG AT A GLANCE

XETRA opening price on 22 January 2014	EUR 3.26
XETRA closing price on 30 December 2014	EUR 2.93
Low/high price in period under review	EUR 2.61/EUR 4.09
Market capitalisation on 30 December 2014	EUR 528.9 million
XETRA closing price on 24 March 2015	EUR 4.09
Market capitalisation on 24 March 2015	EUR 738.2 million
Market segment	Regulated Market/Prime Standard, Frankfurt and XETRA
Index	FTSE EPRA/NAREIT Global Real Estate Index Series
	FTSE EPRA/NAREIT Europe Index Series
	SDAX Index
Number of shares	180,529,633
Securities identification number (WKN)	PRME02
ISIN	DE000PRME020

As of 31 December 2014, the shareholder structure of Deutsche Office was as follows:

THE SHAREHOLDER STRUCTURE OF DEUTSCHE OFFICE

As of 31 December 2014



PROPERTY INVESTORS SHOW GREAT INTEREST IN THE BUSINESS MODEL OF DEUTSCHE OFFICE

As of the 31 December 2014 reporting date, the shareholder structure of Deutsche Office was as follows: Oaktree Capital Group Holdings GB, LLC holds 60.4% and Ironsides Partners LLC holds 4.5% of the shares of Deutsche Office. In addition, the Company's shareholder base is characterised by a high share of international and specialised institutional investors with a primary investment focus on property companies.

Free float amounted to approx. 40% of the shares of DO Deutsche Office AG as of 31 December 2014.

OUR INVESTOR RELATIONS WORK – WE SHOW INTERNATIONAL PRESENCE

In the past fiscal year, the investor relations activities of Deutsche Office were focused as usual on a continual and transparent exchange with its stakeholders. In the first half of 2014, investor relations were mainly focused on intensive road show activities in connection with the capital increase and the company's Annual General Meeting, which was held on 20 May 2014 in Cologne. At the AGM, the vast majority of the shareholders (99.9%) approved the change of the company's name to DO Deutsche Office AG.

In the second half of 2014 and at the beginning of 2015, external investor relations activities were intensified by the company's participation in a total of eight investors' conferences, including the major conferences organised by Goldman Sachs/Berenberg and Baader in Munich, by Société Général and Commerzbank in London, and by Kepler Cheuvreux/UniCredit in Frankfurt. In addition, the Executive Board held approx. 150 meetings with investors and analysts during roadshows in Germany, Europe and North America. Furthermore, various field trips were organised with investors and analysts.

Overall, reporting by analysts was intensified once again in fiscal year 2014. In February 2015, a total of nine analysts were monitoring the Deutsche Office share:

ATTRACTIVE DIVIDEND PROPOSAL OF EUR 0.15 PER SHARE

At the Annual General Meeting on 17 June 2015, the Executive Board and the Supervisory Board of Deutsche Office will propose to the shareholders that a dividend of EUR 0.15 per outstanding share be paid out for fiscal year 2014. The proposed dividend is therefore significantly above the payout of between EUR 0.10 and EUR 0.11 that was originally announced.

Furthermore, the Executive Board and the Supervisory Board of Deutsche Office in future intend to increase the dividend payout, which had previously been within a range of approx. 40 to 45% of Funds from Operations (FFO), to a range of 50 to 55% of FFO.

BROKER	ANALYST	RECOMMENDATION	PRICE TARGET	DATE
Kepler Cheuvreux	Dr Dirk Becker	Buy	4.80	6 March 2015
Deutsche Bank	Markus Scheufler	Buy	4.50	19 Feb. 2015
Bankhaus Lampe	Dr Georg Kanders	Buy	4.30	12 Feb. 2015
BAADER Helvea	Andre Remke	Buy	4.25	3 Feb. 2015
SRC Research	Stefan Scharff	Overweight	4.25	2 Feb. 2015
Kempen & Co	Boudewijn Schoon	Buy	4.20	10 Feb. 2015
Berenberg	Kai Klose	Buy	4.10	30 Jan. 2015
ODDO Seydler	M. Martin, F. Parmantier	Buy	4.00	30 Jan. 2015
VICTORIAPARTNERS	Bernd Janssen	n. a.	3.70 – 4.40	18 Jan. 2015

The outlook for the share of Deutsche Office is positive, with price targets of between EUR 4.00 and EUR 4.80 and a fair value range of between EUR 3.70 and EUR 4.40. With one recommendation to overweight the share, seven banks and analysts issued a buy recommendation.

2014 BUSINESS PERFORMANCE, INCLUDING EPRA FIGURES

INFORMATION ON PRO FORMA REPORTING

The merger and hence the combination of Prime Office REIT-AG (PO REIT) with OCM German Real Estate Holding AG (OCM Group) to establish DO Deutsche Office AG (formerly: Prime Office AG) became effective with the entry in the Commercial Register on 21 January 2014. For this reason, the Consolidated Financial Statements for the period ended 31 December 2014 reflect the business combination for a period of eleven months only. The figures specified in the Consolidated Financial Statements for the period ended on 31 December 2013 do not reflect the business combination; instead, they represent only the figures for the OCM Group.

To permit an economically sensible discussion of the Company's performance in fiscal 2014, the 2013 figures presented below on the Company's net assets, financial position and results from operations are provided on a pro forma basis. Since the two companies previously had no business relationship, the pro forma figures are based on the sum of the financial statements separately prepared as of 31 December 2013, without taking into account effects of the first-time consolidation, which was not implemented until 21 January 2014. For the 2014 figures, the earnings contributions of PO REIT in January 2014 were not added to the 2014 results from operations; instead, they are only shown in specific selected cases.

DO Deutsche Office AG is a member of EPRA (European Public Real Estate Association). To present its business performance in a transparent and comparable manner, Deutsche Office reports important performance indicators in accordance with the standards recommended by EPRA.

RESULTS FROM OPERATIONS

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013	CHANGE
Rental income from investment properties	105,528	135,061	−22%
Service charge income	23,045	25,704	−10%
Property operating expenses	− 34,417	−40,303	−15%
Net rental income	**94,156**	**120,462**	**−22%**
Administrative expenses	−10,352	−11,782	−12%
Other income	117,526	7,317	> +100%
Other expenses	−25,158	−15,794	59%
Intermediate result	**176,172**	**100,204**	**76%**
Investment property disposal proceeds	125,285	215,575	−42%
Investment property disposal expenses	−124,181	−219,902	−44%
Profit/loss from disposal of investment properties	**1,104**	**−4,327**	**n. a.**
Gain/loss on measurement at fair value	−5,612	−115,699	−95%
Profit/loss before finance costs	**171,664**	**−19,822**	**n. a.**
Financial result	−43,999	−106,766	−59%
Profit/loss before taxes	**127,665**	**−126,588**	**n. a.**
Income taxes	−2,746	1,313	n. a.
Net income	**124,919**	**−125,275**	**n. a.**
Earnings per share:			
Undiluted and diluted earnings per share[1] (in EUR)	0.73	−0.94	n. a.

[1] Based on an average number of 172,067,410 shares in 2014 (2013: pro forma 133,941,345 shares after merger)

Although pro forma figures have been provided for 2013, the two fiscal years are not directly comparable. The Consolidated Financial Statements for 2014 are characterised by income of EUR 115,388 k from the business combination due to the merger of Prime Office REIT-AG with the Company on 21 January 2014 as well as expenses of EUR 24,157 k in connection with the merger, in particular as a result of provisions accrued for the property transfer tax due on the fictitious acquisition of the Prime Office REIT-AG properties.

Since the first-time consolidation did not take effect until 21 January 2014, nearly all the earnings contributions of Prime Office REIT-AG for January 2014 are disregarded, amounting to EUR 2,827 k in rental income from investment properties and EUR 2,382 k in net rental income. The 12-month pro forma rental income from investment properties therfore amounts to EUR 108,355 k, and the pro forma net rental income totals EUR 96,538.

Due to the sale of three properties in 2013 and six properties in 2014, the investment portfolio comprises only 51 properties as of 31 December 2014, compared with the pro forma portfolio in 2013, which alone leads to a decline in rental income of EUR 20,795 k. Furthermore, the "Am Seestern 1" property in Düsseldorf was still fully let in Q1/2013, and the "Platz der Einheit 1" property in Frankfurt (KASTOR) was nearly fully occupied in 2013. The main tenants of the two properties moved out at the end of Q1/2013 and in Q4/2013, respectively, so that the rental income for both properties decreased by a total of EUR 7,248 k in the 2014 reporting period.

EPRA-LIKE-FOR-LIKE RENTAL DEVELOPMENT

IN EUR K	2014	2013	CHANGE
Rental income from investment properties			
As reported in the Consolidated Financial Statements	105,528	89,346	n. a.
Pro forma adjustments PO REIT	2,827	45,715	n. a.
Pro forma Rental income	**108,355**	135,061	**−20%**
"Like-for-Like" adjustments	−1,285	−20,795	n. a.
EPRA Rental income "Like-for-Like"	**107,070**	114,266	**−6%**

Unlike the two "Hainstrasse" properties in Leipzig and the "Altenessener Strasse" property in Essen, the selling prices for the other three properties sold in 2014 had already been recognised as of 31 December 2013 and as of the first-time consolidation date, respectively, so that the property disposal proceeds were offset by corresponding expenses. The sale of the properties in Leipzig and Essen led to a gain on disposal of EUR 2,445 k. In addition, follow-up costs for property sales in the previous year amounted to EUR 1,341 k.

EPRA EARNINGS

EPRA earnings show the operating earnings generated by property companies, where the net profit for the period is adjusted for valuation effects, special items and property sales.

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013	CHANGE
Result for the period	**124,919**	**−125,275**	**n. a.**
(a) Changes in value of investment properties	5,612	115,699	−95%
(b) Gains/Losses on the disposal of investment properties	−1,104	4,327	> −100%
(c) Special items related to the merger	−91,231	11,220	> −100%
(d) Special items from the redemption of financial instruments	5,796	32,875	−82%
(e) Deferred tax related to EPRA adjustments	−5,453	−25,972	−79%
EPRA earnings	**38,539**	**12,874**	**> +100%**
EPRA earnings per share[1] (in EUR)	0.22	0.10	> +100%
Group-specific adjustments:			
Interest expense for interest-bearing loans from related entities	0	4,160	−100%
Earnings after Group-specific adjustments	**38,539**	**17,034**	**> +100%**
Earnings after Group-specific adjustments per share[1] (in EUR)	0.22	0.13	76%

[1] Calculated on the basis of average number of 172,067,410 shares in 2014 (2013: pro forma 133,941,345 shares after merger)

After adding or subtracting special items, EPRA earnings after Group-specific adjustments increased by EUR 21,505 k, compared with 2013. Lost earnings contributions due to the divestment of properties as well as vacancy in the "Am Seestern" and "KASTOR" properties were more than offset by an improved financial result. Disposal proceeds and proceeds from the cash capital increase were, to a large extent, used to repay loans, so that – in conjunction with the refinancing of the Homer and Herkules portfolios and the associated improvement of terms – the financial result improved significantly in 2014.

Special items in connection with the merger include income from the first-time consolidation (EUR 115 million) less transaction costs (in particular property transfer tax) (EUR 24 million). Deferred tax related to EPRA adjustments is not the tax recognised in the Group and is provided for information only.

FUNDS FROM OPERATIONS (FFO)

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013	CHANGE
Rental income	**94,156**	120,462	−22%
Administrative expenses[1]	−9,370	−11,782	−20%
Other net income/expenses[1]	65	2,977	−98%
Financial result[1]	−38,203	−69,731	−45%
Funds from operations (FFO)	**46,648**	41,927	11%
FFO per share[2] (in EUR)	**0.27**	0.31	−13%

[1] Adjusted for one-off and special items
[2] Average number of shares issued in 2014: 172,067,410 (2013 pro forma: 133,941,345 shares after merger)

In 2014, funds from operations (FFO) amounted to EUR 46,648 k, which was EUR 4,721 k or 11% above the pro forma FFO for 2013. The reduction of net operating income due to property sales and vacancies was more than offset by the improved financial result.

FFO were adjusted for non-sustained effects such as income from first-time consolidation (EUR 115 million), transaction costs (in particular property transfer tax) in connection with the merger (EUR 24 million; 2013: EUR 7 million) and costs of terminating loans and swaps early (EUR 6 million; 2013: EUR 3 million). In the previous year, FFO were adjusted for non-cash interest expenses for a loan which was contributed to equity at the end of 2013 (EUR 4 million).

EPRA EXPENSE RATIO

The purpose of the EPRA expense ratio is to make operating and administrative expenses of listed properties comparable by relating them to rental income. Relevant operating expenses include, for instance, contractual and non-recoverable property-related costs due to vacancies.

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013	CHANGE
Non-recoverable property operating expenses	−11,372	−14,598	−22%
Administrative expenses[1]	−9,370	−11,782	−20%
EPRA costs (including vacancy costs)	**−20,742**	−26,380	−21%
Vacancy costs	6,519	6,324	3%
EPRA costs (excluding vacancy costs)	**−14,223**	−20,056	−29%
Rental income	**105,528**	135,061	−22%
EPRA cost ratio (as a percentage) (including vacancy costs)	**19.66**	19.53	
EPRA cost ratio (as a percentage) (excluding vacancy costs)	**13.48**	14.85	
of which:			
Property operating expenses (as a percentage)	4.60	6.13	
Administrative expenses (as a percentage)	8.88	8.72	

[1] Adjusted for one-off and special items

Due to the higher average vacancies in 2014, compared with 2013, vacancy costs increased slightly. Consequently, the EPRA expense ratio (including vacancy costs) also increased slightly although property-related operating expenses and administrative expenses decreased in proportion to rental income. To some extent, the utilisation of synergies from the merger of PO REIT with the Company was already reflected by the reduction in administrative expenses, which will continue in 2015.

With an expense ratio of below 20% and an administrative expense ratio of below 9%, with the objective of reducing it to below 8%, Deutsche Office demonstrates its cost leadership.

EPRA NET INITIAL YIELD

The EPRA net initial yield (EPRA NIY) is calculated as the annualised rental income less non-recoverable property operating expenses, divided by the market value of the property portfolio including acquisition costs. The EPRA topped-up net initial yield is calculated by making an adjustment to EPRA NIY in respect of lease incentives such as rent-free periods.

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013	CHANGE
Investment properties	1,780,660	1,904,110	−6%
Estimated transaction costs	121,028	120,526	0
Total real estate portfolio (gross)	**1,901,688**	**2,024,636**	**−6%**
Annualised rental income	106,798	104,397	2%
Non-recoverable service charge expenses[1]	−8,614	−9,247	7%
Annualised net rental income	**98,184**	**95,150**	**3%**
Rent for expiring rent-free periods	1,454	4,214	−65%
Topped-up annualised net rental income	**99,638**	**99,364**	**0%**
EPRA net yield as a percentage	5.16%	4.70%	
EPRA topped-up net yield as a percentage	5.24%	4.91%	

[1] Based on percentage assumptions of IAS 40 valuation

NET ASSET VALUE AND EPRA NET ASSET VALUE

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013	CHANGE
Investment properties	1,780,660	1,904,110	−6%
Assets held for sale	92,800	104,441	−11%
Interest-bearing loans	−1,050,452	−1,318,494	−20%
Cash and cash equivalents	63,503	80,223	−21%
Other assets and liabilities	−83,487	−62,967	33%
Net asset value (NAV)	**803,024**	**707,313**	**14%**
Net asset value (NAV) per share[1] (in EUR)	4.45	5.28	−16%
Effects from the exercise of options, profit participation rights and other equity rights	0	0	n.a.
Diluted NAV after exercise of options, profit participation rights and other equity rights	**803,024**	**707,313**	**14%**
Fair value of derivative financial instruments	51,879	44,083	18%
Diluted EPRA NAV	**854,903**	**751,396**	**14%**
Diluted EPRA NAV per share[1] (in EUR)	4.74	5.61	−16%
Fair value of derivative financial instruments	−51,879	−44,083	18%
Diluted EPRA NNNAV	**803,024**	**707,313**	**14%**
Diluted EPRA NNNAV per share[1] (in EUR)	4.45	5.28	−16%

[1] Calculated on the basis of 180,529,633 shares issued as of 31 December 2014 (2013: pro forma 133,941,345 shares after merger)

On the one hand, net asset value (NAV) increased by EUR 128 million due to the cash capital increase in February 2014. On the other hand, NAV decreased as a result of the reduction in the property portfolio's value as well as the valuation of derivatives in connection with the first-time consolidation and the subsequent valuation as of 31 December 2014.

The EPRA NAV per share was diluted due to the cash capital increase at a share price of EUR 2.80 and amounted to EUR 4.45 as of the balance-sheet date on 31 December 2014.

The change in investment properties results from, on the one hand, the disposal of two properties in Leipzig and one property in Essen as well as the reclassification of three properties held for sale as of the balance sheet date. Furthermore, the acquired assets and liabilities were revalued in connection with the first-time consolidation of PO REIT. As a result of this revaluation, the value of the "Ludwig-Erhard-Anlage" property in Frankfurt ("Westend Ensemble") was reduced by EUR 25.9 million, and the value was reduced again by EUR 12.5 million due to the signed sales contract.

LOAN TO VALUE RATIO (LTV)

IN EUR K (UNLESS OTHERWISE STATED)	2014	PRO FORMA 2013
Balance sheet total	1,951,295	2,119,774
Equity	803,024	707,313
Interest-bearing loans (bank loans)	1,050,452	1,318,494
Other liabilities	97,819	93,967
Leverage	**58.8%**	**66.6%**
Equity ratio	**41.2%**	**33.4%**
Investment properties	1,780,660	1,904,110
Assets held for sale	92,800	104,441
Bank loans[1]	1,050,452	1,318,494
Cash and cash equivalents[2]	48,836	80,237
Net liabilities to banks	1,001,616	1,238,257
Net Loan to value	**53.5%**	**61.6%**

[1] including loans of properties sold
[2] in 2014, less funds earmarked for property transfer tax payment (2013 including cash and cash equivalents of properties sold)

The repayment of loans from the proceeds of the property disposals, as well as scheduled loan repayments and the successful refinancing of the Homer and Herkules acquisition loans using nearly all of the proceeds from the cash capital increase led to an improvement in the loan-to-value ratio (LTV) as of 31 December 2014 by 8.1 percentage points, compared with 31 December 2013.

CASH FLOW

The cash flow from operating activities of EUR 70 million was mainly used for investments (EUR 20 million) and current interest payments (EUR 41 million). In 2014, the cash flow from operating activities was adversely affected by cash outflows in connection with the transaction costs for the merger. Disposal proceeds (EUR 125 million), proceeds from the business combination (EUR 45 million) and net inflows from the cash capital increase (EUR 127 million) were used almost entirely to repay loans and to redeem financial instruments. Following payments of EUR 8.0 million, cash funds include an amount of EUR 14.7 million as of 31 December 2014 earmarked for the property transfer tax payable as a result of the merger with PO REIT.

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

1. COMPANY FUNDAMENTALS

DO Deutsche Office AG (formerly: Prime Office AG), Cologne, (hereinafter referred to as "Deutsche Office" or the "Company") is a leading office property company with a focus on German metropolitan regions and conurbations. The Deutsche Office Group has been operating in the German market for office properties since 2006. At the time this report was prepared, the geographically diversified office property portfolio of the Deutsche Office Group comprised 51 investment properties with a total lettable area of nearly 900,000 sq.m as well as three properties held for sale and had an attractive, widely diverse tenant base. According to the CBRE market valuation report of 31 December 2014, the market value of the investment properties amounted to EUR 1.8 billion, with annual net rental income totalling EUR 109 million. The majority are multi-tenant properties. Deutsche Office's business model is focused on yield-driven asset management, in particular for office properties located in German metropolitan regions and conurbations. Part of Deutsche Office's strategy is to acquire properties with the potential for value growth and making value-adding investments in the properties of its portfolio. In addition, Deutsche Office takes advantage of sales opportunities over the property cycle to generate attractive proceeds from sales.

Deutsche Office was listed on the stock exchange on 20 January 2014. On 21 January 2014, Prime Office REIT-AG (hereinafter referred to as "PO REIT"), Munich, as the transferring entity, was merged with the acquiring entity. On 20 May 2014, the Annual General Meeting resolved to change the Company's name to "DO Deutsche Office AG". The new name was entered in the register of companies of the Cologne District Court on 7 July 2014.

1.1. BUSINESS MODEL

Deutsche Office is focused on yield-driven asset management of office properties in conurbations and metropolitan regions, based on the following three pillars:

ACTIVE ASSET MANAGEMENT

The core of active asset management is to reduce the vacancy rates of our properties and to ensure that the properties are fully let on an ongoing basis through new and follow-on leases. Due to the highly competitive environment in the letting markets, the properties and the letting performance of the Deutsche Office Group have to stand out from offers made for properties of comparable quality and at comparable locations. Against this background, we optimise the rental services available in order to meet the market's needs, and we maintain permanent and intensive contact with our tenants and prospective tenants to meet their specific expectations quickly and efficiently.

PROPERTY PURCHASES

Deutsche Office sreens the market on an ongoing basis to identify attractive opportunities to invest in new properties with a potential for value growth. When acquiring properties, we give priority to conurbations and locations in which the Company has the best possible opportunities to add value by letting and optimising the properties. The expansion of the portfolio is based on a solid financing structure within the framework of the target corridor for the debt-to-equity ratio.

PROPERTY SALES

To free up capital for purchasing additional properties, we take advantage of opportunities to sell properties within the framework of our active portfolio management approach to achieve attractive proceeds from sales within the property cycle. This applies primarily to properties made available to the investment market after implementing measures designed to generate maximum value, so as to add value by rotating properties.

1.2. OVERVIEW OF THE PORTFOLIO

In addition to the 49 properties held by Deutsche Office as of 31 December 2013, eleven properties were acquired within the framework of the merger with PO REIT, and a total of six properties were sold and the associated rights and obligations were transferred in 2014. As of 31 December 2014, the Group's portfolio included a total of 54 properties, of which three properties were classified as Assets Held for Sale. Through two wholly-owned subsidiaries, Deutsche Office owned 44 properties indirectly and ten properties directly as of 31 December 2014.

Most of the properties are used as office properties. Three properties are rented out as nursing homes, and two are primarily used as hotels. While the properties are spread out over various regions, 53 of the total of 54 properties are located in the western part of Germany, and one in Berlin. Furthermore, the majority of the properties (36 of 54) are located in cities with more than 100,000 inhabitants. The tenant base varies, depending on the property. The majority of the properties are used by more than five tenants.

Relative to the number of investment properties, as much as approx. 75% of the portfolio consists of multi-tenant properties, while only about 25% is made up of single-tenant properties. The weighted average lease term or "WALT" amounted to 4.7 years as of 31 December 2014.

1.3. OBJECTIVES AND STRATEGIES

In combination with the regionally diversified portfolio, the widely diverse tenant base with a strong credit standing and from a wide variety of sectors provides the basis for stable rental income and high profitability with a reasonable risk profile.

In addition, the property portfolio has a high potential for value growth, which Deutsche Office as a management platform complements with attractive cost structures and the opportunity to achieve economies of scale by internalising all the major management functions.

Our objective is to continue to reduce the loan-to-value ratio (ratio of interest-bearing loans less cash and cash equivalents to the value of properties, or "LTV ratio") from 53,5% reached as of 31 December 2014 to approx. 50%. Owing to its financing structure and its reduced interest burden, the Deutsche Office Group is able to finance investments in its portfolio from its operating cash flow.

For the most part, we see our properties as a long-term investment, i.e. as portfolio properties which guarantee a continuous cash flow. The more management-intensive properties with higher potential for value growth account for approx. 20 to 25% of the overall portfolio, while approx. 10 to 15% is made up of properties held for sale. These properties have already been stabilised and will be sold to realise profits or to streamline the portfolio.

In future, we want to continue to grow the portfolio; in the medium term, we envisage a portfolio volume of approx. EUR 3 billion, and we plan to reduce the current vacancy rate of approx. 16% to approx. 10%. We expect that efficient asset management and the associated economies of scale will lead to a significant increase in margins. We want Deutsche Office to play an active role in the consolidation of the German office property sector and to be one of the market leaders.

1.4. CORPORATE SUCCESS FACTORS

We are convinced that we have significant competitive advantages. The Deutsche Office Group operates in the office property market in Germany, a country with attractive prospects for strong GDP growth and growing employment. This should lead to further vacancy reductions, in particular at leading office locations, and – due to a growing interest in Germany's property investment market – to increasing property market prices, as yield expectations of buyers decrease in view of the low interest-rate environment ("yield compression"). The Group has a diversified portfolio with a current market value of approx. EUR 1.8 billion, a solid financing structure with an LTV of 53.5% and a market capitalisation of approx. EUR 700 million. On this basis, the Company (which is listed in the SDAX) has attractive growth prospects, in particular due to the ability to finance growth by both equity and debt measures because of its access to the capital market.

In our opinion, the success factors of Deutsche Office can be described as follows:

- We have a strong asset management team owing to the many years of expertise of our employees who benefit from a broad network and have access to decision-makers.
- Through asset management, we manage and control the value chain from acqusition to sales and use this to add value.
- We have a profitable portfolio with adequate risk diversification and high earnings power.
- The scalable and efficient management platform leads to an attractive cost structure.

- By reducing vacancies, the Deutsche Office Group can continue to improve its profitability and cash flow.

- We have an attractive financing structure with low-cost financing terms, which we intend to improve further by taking advantage of the very favourable current environment.

- Our structure is tax-efficient.

- We have the prerequisites to enable our Company to grow through acquisitions.

In summary, rental income growing continuously on a stable basis, combined with a cost-effective and scalable management platform and a further improving financing structure, provide the basis for growing dividends as well as further growth of the Net Asset Value of the Deutsche Office Group.

1.5. CORPORATE GOVERNANCE AND VALUE-BASED MANAGEMENT

MANAGEMENT AND CONTROL

EXECUTIVE BOARD

The Executive Board of Deutsche Office manages the Company in accordance with the provisions of German company law, the Articles of Association and the Rules of Procedure adopted by the Supervisory Board. The Executive Board is responsible for the corporate strategy, for corporate planning and for the implementation of an effective and adequate risk management system.

In fiscal 2014, Jürgen Overath was in charge of the Company's management; after the entry of the merger with Prime Office REIT-AG in the Commercial Register on 21 January 2014, he was joined by Alexander von Cramm on the Executive Board.

SUPERVISORY BOARD

The Supervisory Board supervises and advises the Executive Board in its business management in accordance with the provisions of German company law. The Supervisory Board appoints the members of the Executive Board, and major business transactions of the Executive Board require the Supervisory Board's approval. In 2014, the Supervisory Board initially consisted of three members. After the entry of the merger with PO REIT in the Commercial Register, the Supervisory Board was expanded to six members.

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289A GERMAN COMMERCIAL CODE AND OTHER INFORMATION

The Corporate Governance Statement was published on the Company's website at *www.deutsche-office.de* under "Investors/Corporate Governance/Declaration of Compliance". The Statement is also part of the Corporate Governance chapter. This chapter also includes additional information on corporate governance, such as the composition and operation of the Executive Board and the Supervisory Board. Furthermore, this chapter also contains the report on the remuneration of the Executive Board and the Supervisory Board. The Group's control system is explained in detail in the Report on Risks and Opportunities.

CORPORATE GOVERNANCE

The key objective of the Deutsche Office Group's activities is to optimise the property portfolio's added value to generate stable and growing cash flows in the interest of the Company's shareholders and business partners. The central Group-wide planning and management system is designed to achieve this objective and is structured accordingly. The Executive Board is responsible for the management of Deutsche Office.

OPERATIONAL PERFORMANCE INDICATORS

The operational performance indicators for the Executive Board and the Managing Directors of the Group's subsidiaries include, in particular, the development of vacancy rates by property and in the overall portfolio, and the rent per square metre by property. In addition, other parameters such as the re-letting performance and the associated costs, as well as maintenance and operating expenses, rental defaults and marketing expenses also play a role. Deutsche Office analyses performance data on a monthly basis and compares them with budgeted figures, while at the same time analysing potential new lease agreements.

On this basis, measures are developed to achieve the primary operational management objectives, i.e. reducing vacancy rates and exploiting potential rent increases, while controlling the development of expenses and continuously improving the operating results and the key performance indicators.

CORPORATE PLANNING

The point of departure for managing the activities of the Deutsche Office Group is detailed corporate planning, which starts from the level of individual properties and then aggregates the planning data at the level of the portfolio (bottom-up planning). This plan is revised once a year and adjusted to reflect the current market conditions.

As a first step, Deutsche Office prepares a detailed business plan which primarily includes the rental income expected over time, the development of maintenance and operating expenses, marketing expenses as well as planned investments.

The operational targets are defined on this basis, and suitable measures are planned for each individual property, taking into consideration the operational performance indicators.

After the completion of the operational corporate planning process, Deutsche Office plans the administrative expenses and the financial result and reconciles these data with the results of the planned measures reported for tax purposes within the framework of an integrated financial and liquidity planning process. Planning the finance costs is of major importance because of their significant impact on the Company's consolidated net income and liquidity. A detailed liquidity plan is prepared with a time horizon of 36 months and is monitored and updated on a rolling basis.

The final corporate plan is submitted to the Supervisory Board for approval, usually in the fourth quarter of a given year for the following years.

PERFORMANCE INDICATORS

The rental income earned from operating activities as well as the funds from operations (FFO) are supervised and monitored within the Group. Regular reporting of these performance indicators ensures that the Executive Board and the Managing Directors of the Group's subsidiaries can always assess the Group's financial performance based on up-to-date information and can prepare countermeasures in the event of a negative development. In addition, the Group's loan-to-value ratio (LTV) is regularly monitored. Apart from these financial ratios, the weighted average lease term (WALT) and the vacancy rate are other key metrics which are monitored on an ongoing basis.

1.6. CORPORATE STRUCTURE

DO Deutsche Office AG is the lead company of the Deutsche Office Group. The Deutsche Office Group acquires and manages properties and property investment companies. The principal focus of the Group's business operations is Germany. As of 31 December 2014, two German subsidiaries and 101 sub-subsidiaries were part of the Deutsche Office Group. The German subsidiaries, which are wholly owned by the Company, are:

- German Acorn PortfolioCo I GmbH, Cologne (hereinafter referred to as "PortfolioCo I"), and

- German Acorn PortfolioCo II GmbH, Cologne (hereinafter referred to as "PortfolioCo II")

PortfolioCo I (Homer Portfolio) and PortfolioCo II (Herkules Portfolio) primarily serve as management holding companies. Their property investments are made via real estate companies, in which they directly or indirectly hold 100% of the shares. Deutsche Office is responsible for defining the corporate strategy, corporate planning and implementing an effective and adequate risk management system and, hence, for managing the Deutsche Office Group. In addition, Deutsche Office directly holds ten properties due to the merger with PO REIT.

Only after the entry of the merger in the register of companies on 21 January 2014 did the Company acquire control over PO REIT, and the business combination was therefore recognised as of this date. For the purposes of German commercial law, the merger took effect retroactively as of 1 July 2013, so that the merger was already recognised in the Financial Statements dated 31 December 2013.

Due to the mergers with PO REIT and German Acorn, Deutsche Office took on 34 employees after the entry of both mergers. As of 31 December 2014, the Company had 39 employees.

2. ECONOMIC REVIEW

The Consolidated Financial Statements for 2014 are comparable with the previous year's Consolidated Financial Statements to a limited extent only because the merger with PO REIT was not recognised until the end of January 2014, so that, in 2013, the scope of consolidation was different from that in 2014. Only after the entry of the merger in the register of companies had the requirements been met for consolidating PO REIT.

The 2014 Financial Statements of Deutsche Office are also comparable to the previous year's Financial Statements to a limited extent only because the mergers with PO REIT, German Acorn and FinCo GmbH already took effect as of 1 July 2013 for the purposes of German commercial law, and the accretion of FinCo KG became effective as of 15 November 2013. While the Company was engaged in full business operations in 2014, it had a pure holding function for half of the year 2013 and did not begin full business operations until the second half of the year.

2.1. GENERAL STATEMENT ON THE BUSINESS PERFORMANCE AND ON THE BUSINESS SITUATION OF DEUTSCHE OFFICE GROUP

Fiscal year 2014 was characterised by the completion of the merger with PO REIT and the subsequent integration. In addition, a cash capital increase was implemented, and the refinancing of the Homer and Herkules portfolios was completed.

In addition, many leases were renewed in 2014, and the re-letting performance increased by 63% (in sq.m) compared with the previous year. Based on square metres, the vacancy rate of the Deutsche Office Group decreased to 16.4% (2013: 17.8%), including properties sold, but not yet de-recognised.

Due to a significantly lower interest burden as a result of substantial loan repayments from the sale of properties, FFO increased relative to the previous year by approx. 15% to EUR 47 million (2013: EUR 41 million), which was above the most recently published FFO forecast of between EUR 44 million and EUR 46 million for fiscal 2014.

2.2. MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

MACROECONOMIC DEVELOPMENT

According to the International Monetary Fund (IMF), global economic growth amounted to 3.3% in 2014, while the overall growth of world trade (3.1%) was somewhat slower than in the previous year.

In the developed economies, growth totalled 1.8%, while the economies in the euro area grew at 0.8%, after a slight decline in the previous year (2013: –0.5%). Germany continues to be the key engine of growth in the euro zone, with a rate of 1.6% for the full year 2014.

In its 2015 Annual Economic Report, the German government stated that, overall, Germany's economy and labour market were in good shape. After a period of stagnation in Q2 and Q3/2014, the economy returned to a moderate growth path, based on a record level of employment and the continued positive labour market development, which facilitated significant pay increases. Overall, the Gross Domestic Product increased by 1.6% in 2014, i.e. 120 basis points over 2013. The ground for this GDP growth was prepared on the demand side, in particular by the increase in consumer spending and in investments in buildings and equipment.

THE OFFICE PROPERTY MARKET IN GERMANY

The German market for commercial properties is subdivided into regional and local markets. These market segments, in turn, can be broken down into the properties' type of use, with the markets for office and retail properties being regarded as the principal markets.

In fiscal 2014, the investment market for commercial properties once again grew significantly (by approx. 30%): The transaction volume in Germany's commercial property segment, for instance, increased from EUR 30.8 billion in 2013 to EUR 39.8 billion in 2014. Q4/2014 was the strongest quarter of the year. In fact, the final quarter of 2014 contributed more than one-third (over EUR 14 billion) to the annual volume. According to the publication of BNP Paribas Real Estate, a leading real estate consulting firm, all asset classes and locations participated in the positive development of the German investment market. Overall, the share of foreign investors continued to grow and now amounts to nearly 50%. The locations Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne and Munich accounted for significantly more than half of the sales volume.

According to Jones Lang LaSalle (JLL), an international real estate service, consulting and investment management firm, office properties continue to be the strongest segment (accounting for a share of 44% of total sales), followed by retail properties with 22% and logistics properties with a share of 9%. Overall, portfolio transactions continued to gain ground in 2014 and now account for a share of approx. 30%.

According to "Trendbarometer Immobilien-Investmentmarkt Deutschland 2015" (Barometer of Trends in the German Property Investment Market 2015), a report published by Ernst & Young Real Estate GmbH in January 2015, demand in 2014 was once again strongest for office properties when compared with other types of property use. In this context, there is a particularly strong interest in multi-tenant properties. According to the "Barometer of Trends", Munich, Hamburg and Berlin are the preferred locations for investments in office properties. While opportunistic investors and open-ended funds were the strongest group of sellers, private and international investors were the most active group of buyers.

According to the Emerging Trends in Real Estate Europe 2015 study, Berlin is Europe's most attractive metropolis. Overall, the city thus benefits from the pressure on investors to invest. Compared with other European cities, Hamburg – which ranked fourth – also did very well. From the perspective of investors, however, Munich dropped out of the top 10 locations in Europe because of the price level and now ranks 11th of a total of 27 European cities.

In Q4/2014, the office performance index "Victor", which is published by JLL, increased by 2.2% to 132.3 compared with the previous year. In the course of last year, the index increased by 5.1%, which was much more significant than in 2013 (+3.6%). The performance development, which is referred to as yield on change in value, benefited in particular from a demand-driven investment market at the prime sites of Germany's major office property locations. Victor provides information on increases in rents and property values for prime office sites in the cities of Berlin, Hamburg, Frankfurt, Munich and Düsseldorf. In Q4/2014, rents and values increased most rapidly in Düsseldorf's banking district and in Munich's city centre, where the growth rate amounted to 2.3%. This was followed by Frankfurt's banking district (+2.2%), Berlin's city centre (+2.0%) and Hamburg's city centre (+1.7%). Year-on-year, Munich is at the top (+7.3%), followed by Hamburg (+6.6%), Düsseldorf (+5.5%), Frankfurt (+3.5%) and Berlin (+3.4%).

In 2014, Germany's office letting market increased by 3% to 3.02 million sq.m. However, the development in the local markets varied widely: While the take-up in Berlin (more than 616,000 sq.m, +36%) was almost equal to the take-up in Munich (approx. 641,000 sq.m, +2.6%), take-up fell by –22% in Düsseldorf (to just below 324,000 sq.m), by –14% in Frankfurt (to approx. 378,000 sq.m) and by –13.2% in Cologne (to approx. 261,000 sq.m). On the other hand, the office space take-up in the top office property locations Hamburg and Stuttgart grew significantly, at a rate of +19.3% and +8.1%, respectively.

The vacancy rates in Germany's seven most important office locations continued to decline in 2014 and fell by 70 basis points, from 8.3% at the end of 2013 to 7.6% at the end of 2014. Vacancies dropped below the 7-million-square-metre mark to 6.8 million sq.m at the end of 2014.

Overall, the volume of completions increased by 11% in 2014. However, this meant that the increase in the volume of new-builds was lower than had been expected at mid-year. A total of approx. 988,000 sq.m of office space was completed in the course of the year. Two locations accounted for more than half of the volume of new-builds: Frankfurt (approx. 300,000 sq.m) and Munich (approx. 204,000 sq.m). In 2015, the volume of new-builds will increase to just above 1 million sq.m, also as a result of the postponement of some projects which had been scheduled for 2014.

Prime rents increased by 0.6% in the city centres of the "Big 7". Prime rents increased most rapidly in Munich (+4.8%), followed by Stuttgart (+2.7%) and Hamburg (+2.1%). Prime rents only declined in Düsseldorf (–5.5%), while they remained stable in Berlin, Frankfurt and Cologne.

2.3. BUSINESS PERFORMANCE OF DEUTSCHE OFFICE GROUP

LETTING PERFORMANCE

In 2014, the Deutsche Office Group once again performed strongly in terms of the volume of new lease agreements (45,400 sq.m). Compared with the previous year, the number of new lease agreements concluded increased by nearly 10% (2014: 107; 2013: 98). Although only one large-scale leasing agreement of more than 5,000 sq.m was concluded in 2014, the previous year's volume of new lease agreements (27,800 sq.m) was clearly surpassed because of a large number of agreements ranging between 1,500 and 3,500 sq.m.

In addition, the Deutsche Office Group successfully extended leases for 125,300 sq.m (2013: 114,700 sq.m) which were due to expire shortly. This reflects our incumbent tenants' satisfaction and loyalty due to the intensive and customer-oriented support we provide. The extension rate amounted to 70%.

Overall, approx. 18% of the portfolio space was let in 2014 (2013: approx. 20%). The percentage decline was due to the addition of the PO REIT properties and the associated increase in the basis of assessment.

STRUCTURE OF LEASES IN 2014

In fiscal 2014, lease agreements for space of more than 1,500 sq.m played a key role, accounting for 59% (2013: 38%) of the total letting performance. Lease agreements for space of less than 500 sq.m accounted for 20% (2013: 35%).

In 2014, the three largest individual lease agreements included a lease of approx. 5,200 sq.m in the "Feldstrasse" property at Weiterstadt to a logistics company, a lease of approx. 3,400 sq.m in the "Richard-Wagner-Platz" property in Nuremberg to a public authority, and a lease of approx. 2,400 sq.m in the "Carl-Schurz-Strasse" property at Neuss to an international corporation. The average space of new leases amounted to approx. 424 sq.m per lease (2013: approx. 284 sq.m per lease). A total of 35.2% of the new lease agreements concluded for 45,400 sq.m of space were not concluded in Germany's seven major office locations, but in cities like Bremen, Darmstadt, Erlangen, Heilbronn, Kaiserslautern, Neuss, Nuremberg, Ratingen and Weiterstadt.

Since prospective tenants still have a preference for shorter leases, the average term of new lease agreements amounted to approx. 4.6 years (2013: approx. 6.2 years).

AVERAGE LEASE TERM

The weighted average lease term (WALT) for all lease agreements amounted to 4.7 years, which is slightly lower than in the previous year (4.9 years).

EXPIRING LEASES

Due to the follow-on leases achieved and the properties sold in 2014, the volume of leases which would potentially expire in 2015 was reduced from EUR 8.2 million to EUR 4.5 million in annual rental income.

KEY FIGURES AND ACHIEVEMENT OF TARGETS

IN EUR K (UNLESS OTHERWISE STATED)	2014	2013	CHANGE
Rental income from investment properties	105,528	89,346	18%
FFO	46,649	40,580	15%
EBITDA[1]	177,276	70,381	> +100%
EBIT	171,664	44,378	> +100%
EBDA[2]	130,531	28,978	> +100%
EBT	127,665	−449	> −100%
Consolidated net income	124,919	1,013	> +100%
Consolidated net income per share (in EUR)	**0.73**	**0.01**	**> +100%**
FFO per share (in EUR)	**0.27**	**0.49**	**−45%**

[1] EBITDA = EBIT adjusted for the result on measurement at fair value
[2] EBDA = Consolidated net income adjusted for the result on measurement at fair value

2.4. NET ASSETS, FINANCIAL POSITION AND RESULTS FROM OPERATIONS OF DEUTSCHE OFFICE GROUP (IFRS)

The Consolidated Financial Statements for 2014 are comparable to the previous year's statements to a limited extent only. Due to the first-time consolidation based on the merger with PO REIT, a total of eleven properties with a market value of EUR 579,138 k were added to the Group at the end of January 2014. On the other hand, the Group sold three poperties in 2013 and six properties in 2014. Although the resulting change in the net number of properties was only marginal, the Group's property assets and hence all the performance indicators are hardly comparable. In addition, the property in the Group's portfolio with the third largest revenue potential has had a significant vacancy rate since the principal tenant moved out at the end of 2013. Finally the effects from the first-time consolidation of PO REIT and the transaction costs associated with the merger and the subsequent capital increase also make it difficult to compare 2014 with the previous year's figures.

For the year 2014, rental income from investment properties of between EUR 112 million and EUR 114 million was forecast, taking into consideration the inclusion of PO REIT for the whole twelve-month period and excluding property sales. In the Group's reports in the second half of the year, this forecast was reduced to between EUR 109 million and EUR 111 million because of disposals and re-letting delays. Rental income from investment properties of EUR 105.5 million and non-consolidated PO REIT income of EUR 2.8 million in January 2014 added up to a total of EUR 108.3 million, just short of the updated forecast. This difference was mainly due to lease agreements which did not materialise, the redesign of a property in Düsseldorf which took longer than expected and therefore delayed the conclusion of lease agreements, along with a difference in variable rents.

With Funds from Operations (FFO) of EUR 47 million, the Group surpassed the forecast of between EUR 44 million and EUR 46 million for 2014 despite lower rental income from investment properties. The increase in FFO was mainly due to much lower finance costs as a result of improved interest terms.

FUNDS FROM OPERATIONS (FFO)

FFO, which are cash inflows from the operational management of the property portfolio and are therefore adjusted for special items, can be broken down as follows:

IN EUR K	2014	2013	CHANGE
Net rental income	94,156	80,827	16%
Administrative expenses¹	−9,370	−4,943	90%
Other income/other expenses¹	66	2,454	−97%
Financial result¹	−38,203	−37,759	1%
Funds from Operations (FFO)	**46,649**	**40,580**	**15%**

¹ After adjustment for special and one-off items

FFO were adjusted for one-off effects such as income from first-time consolidation (EUR 115,388 k; 2013: EUR 0), transaction costs (in particular property transfer tax) in connection with the merger (EUR 23,175 k; 2013: EUR 7,365 k) and expenses for the redemption and valuation of derivative financial instruments (EUR 5,796 k; 2013: 2,909 k). In the previous year, FFO were adjusted for non-cash interest expenses for a loan which was converted to equity at the end of 2013 (EUR 4,159 k).

In 2014, Net Rental Income increased compared with 2013, mainly due to property additions from the merger (EUR +25 million) despite property disposals and changes in vacancy rates.

Within the framework of the merger, the Executive Board was enlarged by one member, and the workforce increased by seven employees. In connection with the merger, the Company was also listed, with the associated follow-up costs. The increase in administrative expenses was mainly due to higher personnel expenses, legal and consulting fees, as well as higher communication and travel costs.

Within the framework of the merger, the Group assumed loans of approx. EUR 330 million. Proceeds from property sales and substantial proceeds from the cash capital increase in February 2014 were used to repay bank loans. Overall, these loan repayments and better refinancing terms have led to only a minor increase in finance costs, while the Group's property assets grew significantly.

OPERATING EXPENSE ITEMS

IN EUR K (UNLESS OTHERWISE STATED)	2014	2013	CHANGE
Rental income from investment properties	105,528	89,346	18%
Non-recoverable service charge expenses	−11,372	−8,519	33%
Administrative expenses¹	−9,370	−4,943	90%
Total operating expenses	−20,742	−13,462	54%
Operating expenses as a percentage of rental income from investment properties	**19.66%**	**15.07%**	

¹ After adjustment for special and one-off items

The ratio of operating expenses to rental income from investment properties deteriorated by 4.59 percentage points, mainly due to the merger with PO REIT and the cost structures assumed in connection with the merger. Compared with the pro forma figures for 2013, the ratio deteriorated only slightly due to the one-off costs of integration, so that the ratio will improve again in 2015. Deutsche Office underscores its cost leadership with a cost ratio of below 20% and an administrative expense ratio of below 9%, with the aim of reducing it to 8%.

PROFIT ON DISPOSAL OF PROPERTIES

In the year under review, the "Yorckstrasse" property in Düsseldorf, the "Gotenstrasse" property in Hamburg, the "Philipp-Reis-Strasse" property in Stuttgart/Fellbach, the two "Hainstrasse" properties in Leipzig and the "Altenessener Strasse" property in Essen (2013: "Hesslinger Strasse" in Wolfsburg, "Kiesstrasse" in

Darmstadt and “Königsallee” in Düsseldorf) were sold, and their rights and obligations were transferred to the acquirers. Through these property sales, the Company generated property disposal proceeds of EUR 125,285 k (2013: EUR 30,975 k) and achieved a profit on disposal of properties of EUR 1,104 k (2013: EUR −358 k).

In addition, the Company concluded agreements in 2014 for the sale of the “Gutleutstrasse” property in Frankfurt and the “Hohenzollernring” property in Cologne, and in 2015 for the sale of the “Ludwig-Erhard-Anlage” (Westend Ensemble) in Frankfurt. The rights and obligations for the “Hohenzollernring” property were transferred on 30 January 2015. The rights and obligations for the two other properties are expected to be transferred in Q2/2015. The sales prices of the properties classified as assets held for sale as of 31 December 2014 totalled EUR 92,800 k. The book value includes selling expenses of EUR 1,000 k.

RESULT ON MEASUREMENT AT FAIR VALUE

As of the balance sheet date, the result on measurement at fair value amounted to EUR −5.612 k (2013: EUR −26,003 k). Gains on measurement at fair value amounted to EUR 32,097 k and resulted from increases in the value of many properties due to, inter alia, much lower interest rates and an associated reduction of the discount and capitalisation rates. On the other hand, losses totalled EUR 37,709 k. The “Ludwig-Erhard-Anlage” property and the “Gutleutstrasse” property in Frankfurt, as well as the “Hohenzollernring” property in Cologne, which are classified as assets held for sale and which are recognised at their selling prices less selling expenses, account for EUR 13,438 k of these value reductions. The “Platz der Einheit” property in Frankfurt and the “Am Seestern” property in Düsseldorf accounted for EUR 15,940 k of the decreases in value. This was due to a delayed reduction of vacancy rates and to investments made which have not yet been reflected by an increase in the value of these properties. In addition, increases in property transfer tax in Germany’s federal states Berlin, Bremen, Hesse and North-Rhine Westphalia had an adverse impact on the result on measurement at fair value.

FINANCIAL RESULT

The financial result of EUR −43,999 k was below the previous year’s level (EUR −44,826 k) despite the assumption of loans from the merger. In the previous year, the financial result included EUR 4,159 k in non-cash interest expenses for subordinated interest-bearing loans to related entities until the date of contribution to equity. The finance costs were significantly reduced by loan repayments of EUR 262,344 k and the improved terms obtained after refinancing the Homer and Herkules loans.

Expenses from the redemption of swaps and loans (EUR 1,366 k; 2013: EUR 2,909 k) also decreased. On the other hand, expenses from the ineffective portion of derivative instruments increased to EUR 4,430 k (2013: EUR 3 k).

INCOME TAXES

In 2014, income taxes amounted to EUR −2.746 k (expense) (2013: EUR 1,462 k) and consisted almost exclusively of deferred taxes.

INVESTMENT PROPERTIES

The increase in investment properties is mainly due to the merger with PO REIT. The increase in the number of properties was reduced, as described above, by the disposal of assets due to property sales and a slightly negative valuation result. The following overview shows the development in 2014:

IN EUR K	2014
Investment properties as of 1 January 2014	**1,299,410**
Additions due to first-time consolidation of PO REIT	579,138
Investments	20,359
Valuation result	−5.612
Transactions	−111,489
of which disposals from sales	−18,689
of which reclassification to ‘assets held for sale’	−92,800
Rent smoothing	−1,146
Investment properties as of 31 December 2014	**1,780,660**

NET ASSET VALUE (NAV)

With the merger with PO REIT and the subsequent cash capital increase the Net Asset Value (NAV) more than doubled. However, the NAV per share decreased compared with the previous year, mainly due to the cash capital increase implemented in February 2014 with an issue price of EUR 2.80 per share, i.e. below the NAV per share.

IN EUR K (UNLESS OTHERWISE STATED)	2014	2013	CHANGE
Investment properties	1,780,660	1,299,410	37%
Assets held for sale	92,800	70,441	32%
Interest-bearing loans	−1,050,452	−927,562	13%
Cash and cash equivalents	63,503	37,606	69%
Other assets and liabilities	−83,487	−84,886	−2%
Net Asset Value (NAV)	**803,024**	395,009	> +100%
Net Asset Value (NAV) per share (in EUR)	4.45	4.82	−8%

LOAN-TO-VALUE RATIO (LTV)

The equity ratio improved significantly due to the merger with PO REIT and due to the associated cash capital increase, whose funds – together with the proceeds from sales – were mainly used to reduce bank loans; at the end of the year, the equity ratio amounted 41%.

In 2014, the loan-to-value ratio was already reduced to a level within the medium-term target corridor of between 50 and 55%.

IN EUR K (UNLESS OTHERWISE STATED)	2014	2013	CHANGE
Balance sheet total	1,951,295	1,425,505	37%
Equity	803,024	395,009	> +100%
Interest-bearing loans[1]	1,050,452	989,390	6%
Other liabilities	97,819	41,106	> +100%
Debt ratio	**58.8%**	72.3%	
Equity ratio	**41.2%**	27.7%	
Property investments	1,780,660	1,299,410	37%
Assets held for sale	92,800	70,150	32%
Interest-bearing loans[1]	1,050,452	989,390	6%
Less cash and cash equivalents[2]	48,836	37,606	30%
Net liabilities to banks	1,001,616	951,784	5%
Loan-to-value ratio	53.5%	69.5%	

[1] Including loans of properties sold
[2] In 2014, less funds reserved for payment of property transfer tax (in 2013, including cash and cash equivalents of properties sold)

INTEREST-BEARING LOANS

The Herkules acquisition loan, which amounted to EUR 472 million as of 31 December 2013, was repaid on 20 February 2014 and replaced by the Herkules refinancing loan, amounting to EUR 425 million.

The Homer acquisition loan, which amounted to EUR 456 million as of 31 December 2013, was granted by Landesbank Hessen-Thüringen (hereinafter referred to as "HeLaBa") with the sub-participation of Deutsche Pfandbriefbank (pbb). The loan was repaid on 19 February 2014 and replaced by the Homer refinancing loan, amounting to EUR 370 million.

The business combination with PO REIT, which took effect on 21 January 2014, resulted in the assumption of secured loans with a fair value of EUR 330,413 k which, to some extent, were refinanced or extended in 2014. These loans are associated with specific properties and were concluded with different banks.

The terms of the loans range from one to five years. More details are described in the Notes to the Consolidated Financial Statements. We refer to the Risk Report under 3.1. for information on compliance with financial covenants.

INVESTMENTS

In fiscal 2014, the Company implemented value-enhancing measures amounting to EUR 20,359 k (2013: EUR 10,846 k). Most of these investments were made within the framework of new leases. As of 31 December 2014, investment obligations amounted to EUR 4,723 k (2013: EUR 2,403 k) for measures to be implemented in the Group's property portfolio. The Group will be able to finance these measures from its own resources.

CASH FLOW

IN EUR K	2014	2013	CHANGE
Cash flow from operating activities	70,342	71,940	−2%
Cash flow from investing activities	149,701	19,873	> +100%
Cash flow from financing activities	−194,146	−171,683	13%
Change in cash and cash equivalents	**25,897**	**−79,870**	**> −100%**
Reclassification of cash and cash equivalents from disposal group	0	−14	n. a.
Cash and cash equivalents as of 31 December	**63,503**	**37,606**	**69%**

Cash flow from operating activities was nearly constant despite a significantly higher Net Rental Income due to the transaction costs of the merger paid in 2014 and higher administrative expenses.

Cash flow from investing activities increased significantly due to the sale of properties (receipts of EUR 125,285 k; 2013: EUR 30,975 k). In addition, the business combination resulted in a net addition of EUR 45,000 k in cash and cash equivalents. On the other hand, the Group – as in previous years – made every effort to optimise the quality of the facilities of the property portfolio and to create incentives to attract new tenants and invested a total of EUR 20,359 k (2013: EUR 10,846 k) in its property assets.

Cash flow from financing activities was mainly influenced by the redemption of loans (net repayments) amounting to EUR 262,344 k (2013: EUR 127,814 k) and net inflows of EUR 127,418 k (2013: EUR 0) from the cash capital increase. Proceeds from property sales and, to some extent, the proceeds from the cash capital increase were used to redeem the loans.

Cash and cash equivalents include an amount of EUR 5,852 k (2013: EUR 3,865 k) for the next interest and principal payment to banks. Credit balances of EUR 14,786 k (2013: EUR 15,891 k) are liquidity reserves under loan agreements, earmarked for investments in buildings. In addition, cash and cash equivalents include EUR 2,565 k (EUR 2,421 k) in rent deposits received from tenants and held in trust by the Group.

2.5. NET ASSETS, FINANCIAL POSITION AND RESULTS FROM OPERATIONS OF DO DEUTSCHE OFFICE AG (YEAR-END FINANCIAL STATEMENTS) UNDER THE GERMAN COMMERCIAL CODE (HGB)

RESULTS FROM OPERATIONS

The net loss for fiscal 2014 amounts to EUR 21,6 million, following a loss of EUR 29.4 million in 2013. This increase is mainly due to impairments of EUR 52,4 million taken in the property portfolio, transfers of EUR 11.6 million to provisions for contingent losses from financial instruments, and EUR 5.0 million for the early redemption of loans and derivatives. The previous year was also adversely affected by one-off effects from the transaction costs of the merger (EUR 34.4 million) and financial expenses from the redemption of loans and derivatives (EUR 35.6 million). Both in 2014 and in 2013, the Company received income from write-ups on investments (EUR 51.3 million; 2013: EUR 55 million). Without these special items, the Company would have achieved a break-even result in the fiscal year, as predicted.

Due to the internal mergers with economic effect as of 1 July 2013 (effective merger date), all the business transactions of FinCo GmbH, German Acorn and PO REIT in the period from 1 July to 31 December 2013 (and hence only for the second half of fiscal

2013, and for FinCo KG as of 15 November 2013) were included in the 2013 Financial Statements of Deutsche Office. Due to the mergers, Deutsche Office, which originally operated exclusively as a holding company, was engaged in operational business over a period of six months in 2013. The disclosures in the Income Statement for fiscal 2014 (twelve months of operational activities) are therefore comparable to the disclosures of the previous year to a limited extent only.

Revenues from leasing properties were generated by the 13 office properties acquired through the merger with PO REIT, two of which were sold in the second half of 2013 and another in Q1/2014, so that revenues from leases increased by only 76%.

Due to the Company's operational activities over a period of twelve months, personnel expenses nearly doubled, while the headcount remained almost constant.

In view of the ongoing sales negotiations on the reporting date and a notarised purchase contract signed on 29 January 2015, EUR 43 million was written down for the "Ludwig-Erhard-Anlage" property (Westend Ensemble), Frankfurt/Main, from the scheduled carrying amount of EUR 121 million under German GAAP to the lower purchase price. In addition, impairments totalling EUR 9 million were taken on four additional properties because of the planned divestment of all the properties to separate property companies, all of which are wholly-owned subsidiaries of Deutsche Office.

Other Operating Expenses mainly include legal and consulting fees (EUR 1.3 million) and the transaction costs of the merger (EUR 1.0 million), which were not capitalised as incidental acquisition costs of the transaction, but were recognised immediately as expenses. In the previous year, these expenses amounted to EUR 34.4 million because, for the purposes of the German Property Transfer Tax Act, the merger is a taxable acquisition, so that property transfer tax of approx. EUR 23 million is due on the acquisition of the ten properties in the portfolio on the date when the merger is entered in the Commercial Register. In addition, costs of a total of EUR 11.4 million were incurred from the due diligence process, the company's valuation, the merger audit, an M&A fee, for the issue of a comfort letter, as well as legal and consulting fees.

The financial result improved in 2014 due to loan repayments as a result of property sales and due to improved interest conditions. In addition, the financial result for 2013 had been burdened by expenses of EUR 28.6 million for the early redemption of financial instruments in connection with the repayment of loans as a result of property sales and unscheduled repayments of PO REIT. In addition, an amount of EUR 7.0 million had to be transferred for the first time to provisions for contingent losses for an interest-rate swap as of 31 December 2013 because the effectiveness test had been negative.

FINANCIAL POSITION

Despite the net loss of EUR 21,6 million, the equity reported as of 31 December 2014 increased to EUR 816 million (2013: 707 million) due to the cash capital increase of EUR 130 million implemented on 14 February 2014 by issuing 46.6 million shares at a subscription price of EUR 2.80 per share. (The position "Contributions made to carry out the authorised increase in capital", reported as of 31 December 2013, was attributable to equity). In the Financial Statements under German GAAP, the equity ratio is approx. 71%, with a balance sheet total of approx. EUR 1,151 million.

Other accruals mainly include provisions of EUR 12.5 million (2013: EUR 23.0 million) for the property transfer tax payments still outstanding, provisions of EUR 23.8 million (2013: EUR 7.5 million) for derivative financial instruments, and property-related provisions of EUR 3.5 million (2013: EUR 3.6 million).

Liabilities to banks are related to the financing of PO REIT's properties and have maturities of up to six years. For short-term liabilities to banks, we refer to financing and liquidity risks under "3.2. Risk Report".

NET ASSETS

After regular write-downs and impairments, the value of the property assets of Deutsche Office, including property under construction, amounted to EUR 537 million as of 31 December 2014. According to CBRE, the market value of these properties, including the purchase price for the "Ludwig-Erhard-Anlage (Westend Ensemble)" property in Frankfurt/Main amounted to a total of EUR 575 million.

The change in financial assets was mainly due to the increase in loans to affiliated companies, due to the transfer of cash and cash equivalents from the cash capital increase to repay bank loans. The loans to affiliated companies were transferred to the capital reserves of these companies as of 31 December 2014 and led to additions of EUR 489 million to shares in affiliated companies. Furthermore value adjustments (EUR 51 million) done in the past on the shares of PortfoliCo II were released due to the positive development.

3. REPORT ON RISKS AND OPPORTUNITIES

Risks and opportunities are assessed separately in gross terms.

3.1. RISK MANAGEMENT

Deutsche Office or the Deutsche Office Group has a risk management system. The purpose of the risk management system is to identify and assess risks early and completely, mainly at the level of Deutsche Office and at the level of the two subgroups PortfolioCo I and PortfolioCo II. The risk management system fulfills a safeguarding function for the Company to achieve sustainable growth and a sustained increase in enterprise value. To this end, identified risks are linked to operational metrics and financial ratios, focusing on performance indicators for vacancies and leases, cash flow, liquidity and balance sheet ratios.

Through intensive communication within the Group's top management, all decision-makers are informed, at all times, about all relevant developments in the Company and within the Group. Developments which diverge from assumptions and emerging risks which may also threaten the Company as a going concern can thus be detected in time, so that the necessary countermeasures can be adopted. At each of its meetings, the Supervisory Board is given extensive information on all the issues and developments that are relevant to the Group.

With reference to the financial reporting process, risk management sees itself as part of the internal control system. The key features of the internal control system and the risk management system in respect of the (consolidated) financial reporting system are listed below.

- Clearly defined organisational, corporate, control and monitoring structures,
- Coordinated Group-wide planning, reporting, controlling and early warning systems and processes for an in-depth analysis and management of earnings-critical risk factors,
- Clear assignment of responsibilties in all areas of the financial reporting process (e. g. financial accounting, controlling),
- Protection of IT systems used in accounting against unauthorised access,
- Predominant use of standard software in the financial systems implemented,
- Establishment of a system of internal guidelines,
- Regular reviews of the completeness and accuracy of accounting data by sampling data and checking their plausibility,
- Regular reviews of processes that are relevant for financial reporting,
- Application of the dual control principle to all processes that are relevant for financial reporting,
- The Group uses an external agency to assess the creditworthiness of prospective tenants before accepting a new tenant,
- The Supervisory Board deals with key issues pertaining to financial reporting, risk management, audit assignments and priority areas of audits,
- The Group-wide risk management system is continually adjusted in response to new developments and its operability is reviewed on an ongoing basis.

The internal control and risk management system for financial reporting processes ensures that facts are correctly recorded, processed, assessed and thus included in the external financial reporting process and that financial reporting is consistent and in compliance with legal and statutory requirements and with the Company's Articles of Association.

The following measures are adopted by the Executive Board with regard to financial risk management. Financial instruments used by the Deutsche Office Group mainly include bank loans, cash and cash equivalents, and derivative financial instruments. The primary purpose of these financial instruments is to finance properties. The Group has other financial assets and liabilities, such as trade receivables and payables, which arise directly from its operations. Furthermore, the Deutsche Office Group also enters into derivative contracts in the form of interest-rate swaps and interest-rate caps. The purpose of these derivative financial instruments is to manage interest-rate risks arising from associated loan agreements concluded with variable interest rates. The Deutsche Office Group does not trade in interest-rate swaps or caps and will not do so in the future.

3.2. RISK REPORT

GENERAL AMENDMENTS TO LEGISLATION IN THE PROPERTY SECTOR

The Company's business activities are limited to the German property market. Consequently, Deutsche Office is subject to the statutory rules applying in Germany, in particular in the fields of tenancy law, construction law and environmental law. Amendments to this legislation at national or at European level and changes in the interpretation and application of current provisions, in particular due to new rulings by courts and administrative authorities, might have an adverse impact on the Company's business operations. Changes in tenancy law provisions, for instance, might mean that the Company will no longer be able to charge expenses for the renovation and modernisation of buildings or ancillary costs to tenants in the same manner as before, or that increasing rents or terminating leases will be more difficult or more expensive for the Company.

General amendments to legislation in the property sector cannot be directly influenced by Deutsche Office so that, if legislative amendments enter into force which require investments, attention will be focused on business aspects such as supplier screening, tenders and cost control, which will limit the risk under such circumstances.

If one or more of the risks cited above materialise or if other changes in the legal and fiscal environment impinge upon the Company's business operations, this might have significant adverse effects on the Company's net assets, financial position and results from operations.

MACROECONOMIC ENVIRONMENT IN THE PROPERTY SECTOR

The German market for commercial properties has historically been subject to significant fluctuations which were related to, among other things, general economic trends in Germany. Negative developments during this period of time temporarily led to high vacancy rates and impairments in the office property segment. Due to Deutsche Office's focus on the German commercial property market, and in particular the office property market, adverse trends in this market cannot be offset by positive trends in other markets, countries or in other property sectors. Factors which influence the Company's success include the quality and financial strength of current and future tenants of the Company's properties, the theoretical option to acquire additional attractive properties at reasonable prices, the relevant legal and fiscal framework for such an acquisition, the general performance of Germany's economy and local conditions. An unfavourable development of one or several of these factors could have significant adverse effects on the Company's net assets, financial position and results from operations.

INVESTMENT/DIVESTMENT RISKS

In line with its strategy, the Company will continue to expand its portfolio in the future by adding suitable office properties which meet its quality requirements in terms of location, property quality, tenants and cash flow, and make selective property sales to free up tied-up capital for additional property purchases. Property transactions are associated with the risk that decisions may be taken on the basis of incomplete information, i.e. without having identified all the risks and obligations. The Company addresses this risk by applying the greatest possible care within the framework of a proper due diligence process, to some extent with the support of external consultants to deal with all material property-related and legal issues.

In addition, the Company plans to implement extensive revitalisation and conversion measures in various properties in connection with current re-letting requirements. Delays in the execution of conversion measures can lead to longer vacancy periods or claims for damages from third parties (e.g. tenants) if contractually agreed completion deadlines are not met. In addition, there is a risk that budgets may be overrun. The Company addresses the risks associated with investments by means of a comprehensive budgeting process and thorough project controlling, combined with a careful selection of suppliers.

FINANCING AND LIQUIDITY RISKS

As at the balance sheet date of 31 December 2014, the Deutsche Office Group had liabilities from bank loans amounting to EUR 1,050 million.

The Herkules refinancing loan, which was granted in February 2014 initially in the amount of EUR 425 million, has a term of five years for an amount of EUR 202 million and a term of seven years for an amount of EUR 223 million. The Homer refinancing loan, which initially amounted to EUR 370 million, will run until 30 September 2018.

The property-related loans of the PO REIT portfolios have terms of between one and five years. The loan of EUR 10 million for the "Meerbusch, Earl-Bakken-Platz" property will run until 31 December 2015. The Company is currently in negotiations to prolong the loan. Currently there is no evidence to suggest that this loan will not be prolonged on fair market terms.

Deutsche Office maintains contacts with various banks which qualify as alternative providers of refinancing loans and always examines alternatives to bank loans. No additional funds will have to be borrowed for the vacancies in the portfolio and the planned revitalisation investments because the Company has sufficient cash and cash equivalents. Investment plans are always matched with the liquidity plans to ensure the Company's solvency at all times. The Executive Board expects that the Company can meet its financial commitments at any time.

COVENANT RISK

The Company's loan agreements include typical financial covenants like a debt service cover ratio (DSCR), a loan-to-value ratio (LTV) and a gross yield ratio (GYR).

If borrowers fail to comply with the financial covenants, the financing banks have the right to terminate the loan agreements prematurely. Compliance with the financial covenants is carefully monitored on an ongoing basis; if necessary, countermeasures are prepared at an early point in time, and talks are conducted with the financing banks. As of 31 December 2014, Deutsche Office complied with all the financial covenants, and the Executive Board expects that the Company will also continue to comply with the current financial covenants in the future.

INTEREST-RATE RISK

The Deutsche Office Group pursues a security-oriented financing policy. The loans for the Homer and Herkules portfolios were based on EURIBOR rates. As part of the refinancing process carried out in February 2014, derivative instruments were acquired for 80% of the amount of the loan to hedge against a large part of the interest-rate risk. As a rule, the interest-rate hedges related to the PO REIT loans were concluded so that the total rate of interest was fixed. The major risks arising from the financial instruments for the Company and the Group are interest-related cash flow risks, liquidity risks and default risks. There is an ongoing review of the financial instruments acquired in terms of their mark-to-market valuation and their suitability as a hedge against interest-rate changes as well as the unhedged portion. Depending on interest-rate movements, additional interest-rate hedges will have to be concluded for the unhedged portion, based on the loan agreements. In this way, the Group protects itself against higher finance costs due to a potential increase in interest rates, which would have an adverse impact on the return on equity. With reference to the effects from potential changes in market value, please refer to the information provided in the Notes to the Financial Statements of Deutsche Office and in the Notes to the Consolidated Financial Statements as of 31 December 2014.

It cannot be ruled out that follow-on loans will only be available at higher interest rates than expected. Interest-rate movements are mainly influenced by the capital market and the macroeconomic environment. A poorer credit rating for Deutsche Office could have an adverse impact on the terms for follow-on loans or the extension or renewal of credit lines. The terms of the loan agreement of EUR 35.4 million fixed for the “Ludwig-Erhard-Anlagen” property in Frankfurt/Main will end on 30 April 2015. The contractual term of the loan will end on 31 December 2017.

LEGAL RISKS

Overall, amendments to legislation, e.g. in tenancy law and environmental law, might have an adverse impact on the Company’s business operations. In addition, claims might be made against Deutsche Office for failure to comply with requirements under construction law, or the Company might have to bear the costs for contaminated sites, environmental pollution and unhealthy hazardous building mateials which have not yet been identified, or other unplanned costs.

In connection with the purchase of new properties, Deutsche Office might be exposed to legal risks, in particular risks under construction law, and may suffer damage that is not, or not sufficiently covered by insurance.

Deutsche Office carefully weighs up legal risks, primarily by assessing them internally and, if necessary, also by means of scenario simulations. In particular circumstances, the Company also has legal transactions assessed by external experts.

LEGAL TENANT RISKS AND RISKS ARISING FROM THE SALE AND THE DEVELOPMENT OF PROPERTIES

Deutsche Office might be confronted with claims from warranties associated with the lease or sale of properties and with the development of properties, without having adequate rights of recourse against third parties. If contract clauses are faulty or if there are changes in legislation, the use of standardised contracts may lead to claims against Deutsche Office from a variety of contracts, as well as bad debt losses and higher expenses for the Company.

Deutsche Office assesses tenant risks, as well as risks from the sale and the development of properties primarily internally and, in particular circumstances, reviews matters and legal transactions with the involvement of third parties.

VACANCY RISKS

The income of Deutsche Office largely depends on the rental income from office properties in the Company’s portfolio. If the vacancy rates of the Company’s properties increase because one or more tenants are unable over a longer period of time to meet their payment obligations, entirely or in part, or terminate long-term leases prematurely due to extraordinary circumstances, this might lead to a significant reduction of the Company’s rental income.

At the time of reporting, the weighted average lease term (WALT) of the overall portfolio of Deutsche Office was 4.7 years. The “Am Seestern 1” property (0.4 years) in Düsseldorf and a properaty in Eschborn, “Mergenthaler Allee” (0.5 years) have the shortest (weighted) lease maturities.

Deutsche Office has an experienced active asset management team with long-standing expertise. The Company maintains close contacts with its tenants and optimises properties available for lease in line with tenant expectations, which leads to high tenant satisfaction and, consequently, a high extension rate.

PERSONNEL RISKS

Deutsche Office limits personnel risks such as staff turnover or loss of know-how, lack of motivation, insufficient qualifications, and competition for professionals and executives by pursuing an active HR policy and by communicating openly with its employees. The Company provides attractive remuneration systems as well as personalised training and development programmes to retain employees.

IT RISKS

Deutsche Office uses Datev, LucaNet and Datawarehouse as IT applications Group-wide.

Theoretically, there is a risk of a total failure of these applications which might result in significant disruptions to business processes. For this reason, Deutsche Office has contractually agreed with its service providers to ensure fully functional operating, maintenance and administration processes as well as effective monitoring mechanisms which prevent system failure and a potential loss of data.

RISKS ASSOCIATED WITH THE MERGER

Some shareholders of PO REIT, which was dissolved due to the merger, have taken the view that the exchange ratio set for former PO REIT shares to shares of the Company was too low at their expense. For this reason, they decided to have the fairness of the exchange ratio reviewed in judicial arbitration proceedings and have filed the necessary applications to the Munich District Court for the initiation of such proceedings. After an exchange of various written pleadings by the parties to the proceedings, a first court hearing was held on 12 February 2015. In the event that the court rules in a final decision that the exchange ratio has to be improved by means of a cash payment to be made by the Company, such a decision will be effective for and against all the shareholders of PO REIT in accordance with Section 13 of the German Arbitration Proceedings Act. This means that the additional cash payment fixed by the court will also be paid to shareholders who have not filed an application in the arbitration proceedings. As of the date of the merger notice published by the acquiring entity in the Commercial Register, the additional cash payment will have to be made with an annual interest of five percentage points above the base lending rate effective at that time. This right to an additional payment of an unlimited amount with interest, which in itself may be substantial due to the length of the proceedings and the level of the statutory interest rate, might result in a significant financial burden and hence have a considerable adverse impact on the net assets, financial position and results from operations of the Deutsche Office Group. Mutual due diligence was performed prior to the merger, and the Company obtained an expert opinion with a view to establishing the enterprise values and the exchange ratio. Subsequently, the calculated exchange ratio was subject to a mandatory merger audit by an independent expert, as prescribed by law. In addition to measures implemented before the litigation to reduce the risk of an additional cash payment, the Company is receiving legal support from external advisors in the current proceedings.

GENERAL STATEMENT ON RISK EXPOSURE

Within the framework of our risk management, individual risks are combined in a general risk overview. With reference to the individual risks described in this report (taking into account the probability of occurrence and the potential scale) as well as the total aggregated risk, we assume that these risks do not pose a direct threat to the Company's future development. Overall, we were able to improve the risk exposure in the course of fiscal 2014 compared with the previous year, mainly due to the conclusion of the refinancing loans for the Homer and the Herkules portfolios. The merger with PO REIT and the associated stock market listing in January 2014 along with the capital increase in February 2014 also helped to improve the Company's risk exposure, although these measures also resulted in new risks. The sale of the "Westend Ensemble" property in Frankfurt/Main (a notarised contract was concluded on 29 January 2015) has also led to an improvement in the risk exposure of Deutsche Office. Expenses affecting cash flows and net income as well as non-recoverable vacancy-related ancillary costs will decrease as a result of the sale.

3.3. OPPORTUNITIES FOR THE COMPANY'S FUTURE DEVELOPMENT

Overall, the Executive Board believes that the Group is well positioned to capitalise on emerging opportunities in the property letting and investment markets. The Deutsche Office Group is focused on enhancing the value of its property portfolio by pursuing a tenant-oriented and professional asset management approach for the properties in its portfolio. Thanks to our efficient asset management, we will be able to seize opportunities in an environment which will continue to be competitive.

Our business model is based on an active asset management, with the objective of reducing vacancy rates in the properties and to ensure that the properties are let on an ongoing basis. With an EPRA vacancy rate of 17%, based on the potential rent for vacant space, revenue growth can be achieved merely by reducing this vacancy rate. Larger contiguous vacancies could be let, within a short period of time, to single tenants or to a small number of tenants, reducing the Company's vacancies by approx. 51,600 sq.m, i.e. by approx. 5.7%. In addition, the reduction of vacancies would reduce vacancy costs and, combined with revenue growth, would have a positive impact on the FFO performance.

Due to its underlying financing structure, the Deutsche Office Group has the necessary flexibility to sell selected properties at a point in time which will generate optimum returns. At the same time, we monitor the market continuously in search for attractive buying opportunities so as to make investments in new properties that add value to our portfolio. Combined with our active asset management approach, this can generate long-term value growth.

The principal loans and associated derivative financial instruments were refinanced or adjusted in 2014. However, this does not apply to all the loans. This means that the Group's existing loan agreements hold the potential for further improvements in the financial result. Due to the stock market listing in 2014 and the company's strong performance, Deutsche Office has access to long-term financing on the very attractive market terms currently available.

4. REMUNERATION REPORT AND LEGAL DISCLOSURES

The Remuneration Report summarises the principles applied in determining the total remuneration of the members of the Executive Board of Deutsche Office and explains the structure as well as the amount of the Executive Board members' remuneration. In addition, the Report describes the principles and the amount of the remuneration paid to the members of the Supervisory Board. The Remuneration Report forms part of the Combined Management Report and is included in the Corporate Governance Report under "Remuneration Report".

The Corporate Governance Statement pursuant to Section 289a German Commercial Code is included in the Corporate Governance Report under "Corporate Governance Statement pursuant to Section 289a German Commercial Code".

5. DISCLOSURES REGARDING TAKEOVERS PURSUANT TO SECTIONS 289(4) AND 315(4) GERMAN COMMERCIAL CODE (HGB)

5.1. COMPOSITION OF SHARE CAPITAL

As of 31 December 2014, the share capital totalled EUR 180,529,633 and consisted of 180,529,633 no-par-value bearer shares with a pro-rata amount of the share capital of EUR 1.00 per share. The share capital is fully paid up. There are no other classes of shares. All shares carry the same rights and obligations. Each share grants one vote at the Annual General Meeting, except treasury shares as these do not confer any shareholder rights on the Company. The voting rights commence when the statutory minimum investment in the shares has been made. The rights and obligations associated with the shares are described in detail in the provisions of the German Stock Corporation Act (AktG), in particular in Sections 12, 53(a) ff., 118 ff. and 186.

At the Company's Extraordinary Annual Meeting on 23 September 2013, the shareholders resolved to increase the share capital by EUR 51,941,345 for the purpose of the merger with PO REIT. The capital increase was entered in the Company's Commercial Register on 21 January 2014, the day of PO REIT merger.

Based on the authorisation granted by an amendment to the Articles of Association on 23 September 2013 (Authorised Capital 2013), the share capital was increased on 14 February 2014 by issuing 46,588,288 shares within the framework of a cash capital increase by EUR 46,588,288.

5.2. SIGNIFICANT SHAREHOLDINGS

As of 31 December 2014, six Luxembourg companies together held more than 50% of the Company's shares.

For information on the shareholding structure based on the available voting right announcements, please refer to the Notes to the Financial Statements of Deutsche Office.

5.3. PROVISIONS ON THE APPOINTMENT AND DISMISSAL OF EXECUTIVE BOARD MEMBERS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Executive Board is subject to Sections 84, 85 Stock Corporation Act (AktG) and Article 7 of the Articles of Association. In accordance with Article 7(1) of the Articles of Assciation, the Company's Executive Board shall consist of at least two persons. The Supervisory Board appoints the Executive Board members and determines the number of members. The Articles of Association do not contain any specific provisions for the appointment and dismissal of individual or all members of the Executive Board.

In accordance with Section 179 of the Stock Corporation Act, amendments to the Articles of Association require a resolution to be adopted by the Annual General Meeting. The Annual General Meeting's resolution has to be adopted by a majority of the shareholders who comprise at least three-quarters of the share capital represented when passing the resolution. In accordance with Article 11(4) of the Articles of Association, the Supervisory Board is entitled to make changes which only affect the wording of the Articles of Association. This also include adjustments to the scope of a capital increase from any authorised or conditional capital.

5.4. EXECUTIVE BOARD'S POWERS, IN PARTICULAR THE POWER TO ISSUE OR BUY BACK SHARES

All the powers of the Company's Executive Board to issue or buy back shares are based on appropriate authorising resolutions adopted by the Annual General Meeting. The key provisions of such resolutions are listed below.

AUTHORISATION TO ACQUIRE AND SELL TREASURY SHARES

The Annual General Meeting of 23 September 2013 adopted the following resolution, which entered into force on the effective date of the capital increase in connection with the merger:

a) The Company is authorised to acquire treasury shares of up to 10% of the share capital at the time when the resolution was passed. The shares acquired under this authorisation, together with other treasury shares which the Company had already acquired or still possesses or which are attributable to the Company pursuant to Sections 71d and 71e AktG, must not at any time account for more than 10% of the share capital. The authorisation may also be exercised by dependent entities or by entities in which the Company holds a majority interest or by third parities for the Company's account or for the account of dependent companies or entities in which the Company holds a majority interest. The authorisation, which may be utilised on one or several occasions, in whole or in partial amounts, extends until 22 September 2018.

b) The acquisition shall be effected in compliance with the principle of equal treatment (Section 53a AktG) via the stock exchange or by way of a public purchase offer to all shareholders or an invitation to all shareholders of the Company to submit offers to sell, which must also comply with the principle of equal treatment (Section 53a AktG), subject to the approved exclusion of the right to tender, as specified under (b) (2) below. An acquisition via the stock exchange may be effected via a bank or another enterprise meeting the requirements of Section 186(5) sentence 1 AktG (hereinafter collectively: "underwriting bank") by mandating the underwriting bank to acquire the shares under a specific buy-back programme.

(1) If the shares are acquired via the stock exchange, the purchase price (not including transaction costs) shall not be more than 10% above or below the arithmetic mean of the share prices (closing auction prices for Deutsche Office in XETRA trading or a comparable successor system) on the Frankfurt stock exchange on the ten consecutive trading days prior to the purchase or the date of entering into a commitment to purchase the shares.

(2) If the acquisition is effected by way of a public purchase offer to all shareholders or or an invitation to all shareholders of the Company to submit offers to sell, the purchase price paid to the shareholders (excluding transaction costs) shall not be more than 10% above or more than 20% below the arithmetic mean of the share prices (closing auction prices of the shares of Deutsche Office AG in XETRA trading or a comparable successor system) on the Frankfurt stock exchange during the ten consecutive trading days prior to the publication of the offer or, if the shares are acquired in any other way, prior to the acquisition. If, after publication of the Company's public offering, there are substantial deviations from the offered purchase price or the limits of the price range, the offer can be adjusted. In this case, the relevant amount shall be determined by the price on the last trading day prior to the publication of the adjustment; the limit of 10 above and 20 below the arithmetic mean shall also be applied to this amount. The volume of the purchase offer may be limited. If the shares offered by shareholders for acquisition by the Company exceed the total amount of the offer made by the Company, the acquisition may be effected at the ratio of the aggregate of the purchase offer to the total amount of shares offered by the shareholders. Provision can also be made for privileged acceptance of a small number of shares (up to 50 shares offered per shareholder) and for rounding in accordance with commercial principles so as to avoid fractional shares. Any further right of the shareholders to tender shares shall be excluded. The purchase offer may specify additional conditions.

c) The authorisation may be exercised for any legally admissible purpose, in particular to pursue one or more of the objectives cited under (d) to (i) below.

d) With the approval of the Supervisory Board and without requiring another resolution by the Annual General Meeting, the Executive Board is authorised to retire the treasury shares acquired on the basis of this authorisation under Section 71(1) No. 8 AktG. The retirement may be limited to a portion of the shares acquired. The authorisation to retire treasury shares can be utilised on one or more occasions. A retirement of shares shall always lead to a capital reduction. In derogation of the above, the Executive Board may resolve that the share capital will remain unaffected by such retirement and that, pursuant to Section 8(3) AktG, the retirement instead will lead to an increase in the pro rata amount of the share capital represented by the remaining shares. In this case, the Executive Board is authorised to adjust the number of shares specified in the Articles of Association.

e) The Executive Board is authorised to resell the Deutsche Office shares acquired on the basis of the above purchase authorisation via the stock exchange.

f) The Executive Board is authorised to offer the Deutsche Office shares acquired on the basis of the above purchase authorisation to shareholders by way of an offer addressed to all shareholders while safeguarding their pre-emptive rights and respecting the principle of equal treatment (Section 53a AktG).

g) The Executive Board is authorised, with the approval of the Supervisory Board, to sell the shares acquired under the above purchase authorisation in a way other than via the stock exchange or by offering them to all shareholders, provided that the shares purchased are sold for cash at a price that, within the meaning of Section 186(3) sentence 4 AktG, is not significantly below the market price for Company shares of the same class at the time of the sale. This authorisation is limited to a maximum of 10% of Deutsche Office's share capital at the time when the resolution for this authorisation is adopted at the Annual General Meeting, or – if this amount is lower – 10% of the share capital at the time when the shares are sold. The authorised volume shall be reduced by the pro rata amount of the share capital attributable to shares or the option and/or related conversion rights or obligations arising from bonds or profit participation rights with conversion and/or option rights (or a combination of these instruments) that have been issued or sold since the issuance of this authorisation while excluding pre-emptive rights in accordance with Section 186(3) sentence 4 AktG, whether applied directly, analogously or mutatis mutandis.

h) The Executive Board is authorised, with the approval of the Supervisory Board, to offer and/or grant Deutsche Office shares acquired on the basis of the above purchase authorisation to third parties as part of company mergers or the acquisition of companies, parts thereof or equity interests in companies, including increases in investment holdings, or of other contributable assets such as properties, property portfolios and receivables from the company.

i) The Executive Board is authorised to use Deutsche Office shares, acquired on the basis of the above purchase authorisation, to settle option and/or conversion rights or obligations under options and/or convertible bonds and participation rights with conversion or option rights (or a combination of these instruments) issued by the Company directly or via a (direct or indirect) company in which it holds a majority interest.

j) The pre-emptive rights of shareholders are excluded, provided that the Executive Board uses the Deutsche Office shares pursuant to the authorisations under (e), (g), (h) and (i). In addition, the Executive Board may, in the event of a disposal of Deutsche Office shares as part of a sales offering addressed to shareholders under (f) above, exclude the shareholders' pre-emptive rights for fractional amounts with the approval of the Supervisory Board.

k) The above authorisations may be utilised on one or more occasions, individually or collectively, for all or part of the volume of the shares acquired.

As at 31 December 2014, the Company held no treasury shares. It had not made use of the authorisation described above.

AUTHORISED CAPITAL

On 23 September 2013, the Annual General Meeting adopted a resolution creating an authorisation which was entered in the Commercial Register immediately after the entry into effect of the merger on 21 January 2014 and thus became effective. Under this authorisation, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital on one or more occasions by a maximum of EUR 66,970,672 (Authorised Capital 2013) until 22 September 2018 by issuing up to 66,970,672 new no-par-value bearer shares against cash and/or non-cash deposits. The Authorised Capital 2013 was partly utilised in connection with the cash capital increase carried out in February 2014.

On 20 May 2014, the Annual General Meeting adopted a resolution to cancel all of the remaining Authorised Capital (Authorised Capital 2013). At the same time, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the share capital on one or more occasions by a maximum of EUR 90,264,816 (Authorised Capital 2014) until 19 May 2019 by issuing up to 90,264,816 new no-par-value bearer shares against cash and/or non-cash deposits.

Shareholders will always be granted pre-emptive rights. Said rights may also be granted in such a manner that the new shares are underwritten by a bank or a company operating pursuant to Section 53(1) sentence 1 or Section 53b (1) sentence 1 or Section 53b (7) of the German Banking Act, with the obligation to offer the shares to the shareholders. The Executive Board is authorised to exclude the shareholders' pre-emptive rights, with the approval of the Supervisory Board, on one or more occasions, entirely or in part, while not exceeding 36,105,926 new no-par-value bearer shares,

- to exclude fractional amounts resulting from the subscription ratio from the shareholders' pre-emptive rights;

- if the capital increase is made against cash contributions, if the issue price of the new shares is not significantly below the market price of shares of the same class at the time of the final determination of the issue price, and if the attributable share of capital of the new shares issued while excluding the shareholders' pre-emptive rights does not exceed 10% of the share capital, either at the effective date or at the time this authorisation is exercised. This limitation to 10% of the share capital includes the pro-rata amount of the share capital attributable to shares, under Section 71(1) No.8 (5), Section 186(3) sentence 4 AktG, sold during the term of the Authorised Capital 2014 under an authorisation to sell treasury shares while excluding the shareholders' preemptive rights. The limit of 10% of the share capital shall also include the pro rata amount of the share capital which is attributable to shares issued during the term of the Authorised Capital 2014 under other authorisations to issue Company shares while excluding the shareholders' pre-emptive rights in accordance with Section 186(3) sentence 4 AktG, whether applied directly or analogously. Furthermore, the limit of 10% shall also include the pro rata amount of the share capital attributable to shares that may be issued to service bonds with conversion or option rights or conversion or option obligations, where the bonds are issued during the term of the Authorised Capital 2014, while excluding the shareholders' pre-emptive rights in accordance with Section 186(3) sentence 4 AktG applied analogously;

- to fulfil the Company's obligations from convertible bonds and warrant bonds issued by the Company;

- in the event of capital increases against non-cash contributions, implemented to issue shares for the purpose of acquiring companies, parts thereof, interests in companies, other assets related to an acquisition project, properties and property portfolios.

The Executive Board is authorised, with the approval of the Supervisory Board, to define the content of the rights attached to the shares as well as the other conditions governing their issuance.

The cancellation and the creation of the Authorised Capital as well as the amendent to the Articles of Association were entered in the Commercial Register on 7 July 2014.

CONDITIONAL CAPITAL

Based on a resolution adopted by the Annual General Meeting on 23 September 2013 and its entry in the Commercial Register on 21 January 2014, the Company's share capital was conditionally increased by up to EUR 25,000,000 by issuing up to 25,000,000 new no-par-value bearer shares (Conditional Capital 2013). The purpose of the Conditional Capital 2013 is to issue shares for holders and creditors of convertible bonds and warrant bonds issued by the Company until the close of 22 September 2018 under the authorisation granted by the Annual General Meeting on 23 September 2013.

The new shares are to be issued at the conversion or option price to be set in accordance with the detailed provisions of the "Authorisation to issue convertible bonds and similar debt" below. The conditional capital increase will only be implemented if conversion or option rights from issued bonds are exercised or if conversion or option obligations under such bonds are fulfilled, and only insofar as conversion or option rights or conversion or option obligations are not serviced by treasury shares, by shares from Authorised Capital or by other methods of performance.

The new shares are entitled to dividend as of the beginning of the fiscal year in which they are created as a result of the exercise of conversion or warrant rights or the fulfillment of conversion obligations; in derogation of the above, the Executive Board may, with the approval of the Supervisory Board, decide that the new shares are entitled to dividend as of the beginning of the fiscal year for which, at the time when conversion or warrant rights are exercised or conversion obligations are fulfilled, the Annual General Meeting has not yet adopted a resolution on the appropriation of the distributable profit for the fiscal year.

The Executive Board is authorised to determine the additional details with regard to the implementation of the conditional capital increase.

AUTHORISATION TO ISSUE CONVERTIBLE BONDS AND SIMILAR DEBT

On 23 September 2013, the Annual General Meeting adopted the following resolution:

(1) Nominal amount, authorisation period, number of shares

The Executive Board is authorised with the approval of the Supervisory Board to issue, on one or more occasions, convertible bearer bonds and/or registered bonds and/or bonds with warrants and/or profit participation rights with option and/or conversion rights (or a combination of these instruments) with a nominal value of up to EUR 500,000,000 with or without a specific maturity (hereinafter collectively the "Bonds") until 22 September 2018 and to grant to the holders of such convertible bonds the right to convert these bonds into new shares at a pro-rata value of the Company's share capital of up to EUR 25,000,000 as detailed in the respective terms for option or convertible bonds or profit participation (hereinafter "Terms"). The relevant terms may also provide for mandatory conversion at the end of the term or at other times, including the obligation to exercise the conversion or option rights. The Bonds will be issued against payment in cash.

The Bonds may be denominated in euros or or in the legal currency of an OECD country, provided that the equivalent euro amount is not exceeded. The Bonds can also be issued by entities that are dependent on the Company or in which the Company holds a majority interest; in this case, the Executive Board is authorised to assume the guarantee for the Bonds for the entity and to grant shares of the Company to the holders of such bond conversion or option rights. The issuance of the Bonds can be divided into equal tranches of bonds.

(2) Pre-emptive rights and exclusion of pre-emptive rights

Shareholders will generally be granted pre-emptive rights to the Bonds. The Bonds may also be underwritten by one or more banks, with the obligation to offer the Bonds indirectly to shareholders for subscription within the meaning of Section 186(5) AktG (so-called "indirect pre-emptive rights"). However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' pre-emptive rights for the Bonds

i. to exclude fractional amounts from the pre-emptive rights;

ii. where this is necessary to grant pre-emptive rights to the holders or creditors of conversion and/or option rights, or creditors of bonds with conversion and/or option obligations and/or participation rights issued or to be issued by the Company or a wholly-owned direct or indirect subsidiary, to the extent to which they would be entitled as shareholders after exercising the conversion and/or option rights or after fulfilling the conversion and/or option obligations, and

iii. provided that the issue price is not significantly lower than the theoretical value of the Bonds determined in accordance with generally accepted actuarial methods within the meaning of Sections 221(4) (2), 186(3) sentence 4 AktG. However, this authorisation to exclude pre-emptive rights applies only to bonds with rights to shares which, together, must not exceed 10% of the share capital, neither at the time at which this authorisation takes effect nor at the time at which it is exercised. The sale of treasury shares shall be included within this limit, provided that the shares are sold during the term of this authorisation while excluding the shareholders' pre-emptive rights in accordance with Sections 71(1) No. 8 sentence 5 clause 2, 186(3) sentence 4 AktG. The limit of 10% shall also include shares issued from Authorised Capital during the term of this authorisation while excluding pre-emptive rights in accordance with Sections 203(2) sentence 2, 186(3) sentence 4 AktG or under other authorisations to issue shares of the Company while excluding pre-emptive rights of the shareholders in accordance with Section 186(3) sentence 4 AktG, whether applied directly or analogously.

The above authorisations to exclude pre-emptive rights are generally limited to the issue of bonds with conversion or option rights to shares of the Company accounting for a pro-rata amount not exceeding 20% of the share capital, neither at the time at which this authorisation takes effect nor at the time at which it is exercised.

(3) Conversion rights, conversion obligations

If bonds are issued with conversion rights, creditors may convert their bonds or participation rights into shares of the Company in accordance with the Terms. The pro-rata amount of the share capital attributable to the shares to be issued upon conversion shall not exceed the nominal amount of the convertible bond or convertible participatory rights or an issue price below the nominal amount. The exchange ratio is calculated by dividing the nominal amount or an issue price below the nominal amount of a bond by the fixed conversion price for one share of the Company. The exchange ratio may be rounded up or down to a whole number; furthermore, an additional payment in cash may also be stipulated. In addition, provisions may be made for fractions to be combined and/or to be compensated in cash. The Terms may provide for a variable exchange ratio.

In the case of a conversion obligation, the Company may be authorised in the Terms to compensate in cash, entirely or in part, for any difference between the nominal amount of the convertible bond or participation right with conversion obligation and the result obtained from multiplying the exchange ratio with the market price of the shares, to be specified in the Terms, at the time of the mandatory exchange. Within the meaning of the sentence above, the market price to be used in the calculation shall be at least 80% of the market price for the shares relevant for the lower limit of the conversion price in accordance with (5) above.

(4) Option rights

If bonds with warrants are issued, one or more warrants will be attached to each bond entitling the holder to subscribe for shares of the Company in accordance with the terms and conditions as determined by the Executive Board. The pro-rata amount of the share capital attributable to the shares to be subscribed for per bond must not exceed the nominal amount of the warrant bond.

(5) Conversion/option price

The conversion or option price to be determined for one share must either be at least 80% of the average closing auction price of Deutsche Office's shares in XETRA trading (or a comparable successor system) on the ten trading days in Frankfurt/Main prior to the day of the Executive Board's resolution on the issue of Bonds, or at least 80% of the average closing auction price of Deutsche Office's shares in XETRA trading (or a functionally comparable successor system) during (i) the days on which the subscription rights are traded on the Frankfurt stock exchange, with the exception of the last two days of subscription rights trading, or (ii) the days from the beginning of the subscription period until the date of the final determination of the subscription price.

If Bonds are issued with a conversion/option obligation, the conversion/option price can at least amount to the above mentioned minimum price or the average closing price of Deutsche Office's shares in XETRA trading (or a comparable successor system) before or after the date of maturity of the Bonds, even if this average price is below the above-mentioned minimum price (80%).

Without prejudice to the provisions of Section 9(1) AktG, the Terms of the Bonds may provide for anti-dilution clauses in the event that the Company increases its share capital during the conversion or option period while granting pre-emptive rights to its shareholders, or if the Company issues additional convertible bonds, bonds with warrants and/or participation rights with option or conversion rights, or grants or guarantees other option rights, where the holders of conversion or option rights are not granted pre-emptive rights to the extent they would be entitled to after exercising their conversion or option rights or after fulfilling a conversion/option obligation. The Terms may also provide for the conversion and/or warrant price to be adjusted if the Company implements other measures that might lead to a dilution in the value of conversion or option rights. In any case, the pro-rata amount of the share capital attributable to the shares to be subscribed for per Bond must not exceed the nominal amount of the Bond.

(6) Other structuring options

The Terms may provide that, when conversion or option rights are exercised, the Company may also award treasury shares, shares from the Company's Authorised Capital or other benefits. The Terms may also provide that the Company will not award shares of the Company to holders of conversion and/or option rights, but shall pay the equivalent in cash. The Terms of the Bonds may also stipulate that the number of shares or conversion rights to be subscribed for upon exercise of the option or conversion rights or after fulfilment of the conversion or option obligations is variable and/or that the option or conversion price can vary within a fixed range to be defined by the Executive Board depending on the share price performance or due to anti-dilution provisions during the term of the issue.

(7) Authorisation to establish the other terms and conditions of the Bonds

The Executive Board is authorised to establish the additional details for issuing and structuring the Bonds, including the interest rate, issuing price, term and denomination, the conversion and/or option price and the conversion and/or option period, or to do so in agreement with the executive bodies of the Group companies issuing the Bonds.

The Executive Board has not made use of the authorisation to issue the above convertible bonds and/or warrant bonds.

5.5. AGREEMENTS PROVIDING FOR THE EVENT OF A CHANGE IN CORPORATE CONTROL

In the event of a change in control, all amounts outstanding under the Herkules refinancing loan concluded on 18 December 2013 will be due for immediate repayment. Under the loan agreement, such change of control is triggered, among other things, (i) if a third party (with the exception of Oaktree Fund Capital Group LLC) directly or indirectly purchases at least 50% of the shares of the Company, (ii) another third party (directly or indirectly) holds more than 50% of the voting rights in the Company, holds more than 50% of the shareholder loans taken out by the Company or has the right to appoint more than half of the members of the Executive Board, or the PortfolioCo II is no longer fully held (directly or indirectly) by the Company.

In the Homer refinancing agreement of 19 December 2013, a change-in-control clause was agreed which entitles the consortium leader to terminate the loan agreement without notice if a party other than Oaktree Capital Group LLC gains control over a borrower or certain subsidiaries of the Company without prior approval by the consortium leader. In this context, control means that a person or group of persons acting together, directly or indirectly, holds more than 50% of the shares and/or the voting rights or has the authority to appoint the majority of the members of the management or of the Executive Board and/or the shareholders' representatives on the Supervisory Board. Furthermore, a company is regarded as controlled, directly or indirectly, by a person if said company is included in the consolidated financial statements of that person in accordance with the accepted accounting principles of the home country.

In addition, a loan agreement which was concluded to finance the "Essen, Opernplatz" property also contains a change-in-control clause according to which the loan shall be repaid with an early prepayment penalty if the borrower and the bank cannot agree on how to deal with a change in the shareholder structure.

5.6. COMPENSATION AGREEMENTS WITH THE EXECUTIVE BOARD AND EMPLOYEES IN THE EVENT OF A TAKEOVER BID

Mr Overath has the right to terminate his contract of employment in the event of a change in control. When this right is exercised, the compensation paid will amount to three years' remuneration, however not exceeding the gross remuneration for the remaining term of the employment contract.

The management contract with Mr von Cramm contains a commitment for payments to be made in the event of a premature termination of his service as a member of the Executive Board due to a change in control. These payments shall not exceed 150% of the cap on severance payments or the sum total of his remuneration until the end of the agreed residual term of the contract.

5.7. OTHER DISCLOSURES

The other disclosures required under Sections 289(4) and 315(4) HGB relate to circumstances that do not apply to Deutsche Office. There are no restrictions on voting rights or on the transfer of shares, and there are no holders of shares which confer special control rights, or controls on voting rights by employees holding equity in the Company.

6. RELATED PARTY DISCLOSURES

The Executive Board has prepared a separate report, pursuant to Section 312 AktG, on its relations with affiliated companies which ends with the following statement:

"Under the circumstances known to the Executive Board at the time when legal transactions were executed with affiliated companies, DO Deutsche Office AG (formerly: Prime Office AG), Cologne, received appropriate consideration for each legal transaction and did not suffer any disadvantages as as result of the measures specified in the report."

Information about related companies and persons can be found in the Notes. Information about the remuneration of the Supervisory Board and the Executive Board members is provided in the Remuneration Report.

7. STATEMENT OF EVENTS AFTER THE REPORTING DATE

Under a purchase agreement dated 29 January 2015, the "Ludwig-Erhard-Anlage" property in Frankfurt/Main was sold for a purchase price of EUR 82,000 k. If the purchase price is fully paid prematurely by 30 April 2015, the price will be reduced to EUR 78,000 k. The rights and obligations have not yet been transferred.

The rights and obligations of the "Hohenzollernring" property in Cologne, which was sold under a purchase agreement dated 21 November 2014, were transferred on 1 February 2015.

8. OUTLOOK

MACROECONOMIC DEVELOPMENT

After a substantial increase in industrial production in Q4/2014 and significant improvement in sentiment among companies, which have led to an improvement of the key sentiment indicators such as the ifo Business Climate Index and the economic forecast of the Center for European Economic Research (ZEW), the economic recovery is expected to continue. In this context, the weak exchange rate of the euro and the low oil price have a positive impact on the economic development in Germany. In addition, the development of the labour market continues to be positive, so that the high level of employment and rising real income provide additional stimuli for domestic demand.

Leading economic researchers and economic research institutes expect growth rates of between 1.0 and 1.5% for the Gross Domestic Product in 2015. The German Council of Economic Experts expects +1.0%, the IMF +1.3%, and the ifo Institute as well as the German government expect that GDP will grow by 1.5%.

DEVELOPMENT OF THE PROPERTY SECTOR IN GERMANY

In January 2015, Ernst & Young Real Estate GmbH published the "Trendbarometer Immobilien-Investmentmarkt Deutschland 2015" (Barometer of Trends in the German Property Investment Market 2015). According to this publication, the property transaction volume will continue to increase in 2015. Overall, the "Trend Barometer" suggests that the investors' risk appetite will grow. In addition, competition will increase due to additional capital from Asia. The German property market will continue to be in the focus of international investors; there will be a growing shortage of supply, which will lead to rising prices.

According to its Property and Investment Market Report for Germany, the international property consulting firm JLL expects that prime yields will continue to decrease by 10 to 15 basis points in 2015. In 2014, the average reduction of prime yields amounted to 4.45%. Because of the continuing demand for prime office space in central locations, JLL expects that the Index for Prime Office Rental Values will continue to rise by approx. 1% in the top 7 office locations. Average rents in the seven office locations are expected to increase by approx. 2%. JLL does not expect any change in the vacancy rate for 2015, which means that it will be at approx. 7.6%, as in 2014, although JLL expects a slight increase in the volume of completions to just above 1 million sq.m.

It is not possible to predict whether political developments such as the conflict in Ukraine or the crisis in Greece will have a negative impact on economic development.

EXPECTED REVENUE AND EARNINGS IN 2014

Based on the properties sold to date, the current portfolio is expected to generate rental income from investment properties of between EUR 105 million and EUR 107 million in fiscal 2015. In this context, the Executive Board assumes that the decline in rental income due to the properties sold will be nearly offset by the reduction of vacancies. With this plan, we will move one step closer to achieving our target vacancy rate of approx. 10% by the end of 2018.

The financial result will once again improve significantly in fiscal 2015 compared with the previous year, due to loan repayments and the conclusion of refinancing loans in line with current market terms. As a result of this development and a continuing reduction of vacancies in the portfolio, the Executive Board expects that Funds from Operations will increase from approx. EUR 47 million in 2014 to at least EUR 50 million for the full year 2015, despite the properties that have been sold.

Deutsche Office plans to sell its directly held properties to wholly-owned subsidiary property companies. In line with the single-asset valuation principle, combined with the principle of prudence, the losses in book value expected from this transaction were already discounted in 2014. The sale of some properties will generate book profits in 2015. Discounting these special items, the Executive Board expects a break-even result in the financial statements under German GAAP because, in future, Deutsche Office will operate as a pure management and service company and will charge a minor profit mark-up to subsidiaries for the main costs.

EXPECTED FINANCIAL POSITION IN 2015

The planned capital expenditure required to make value-adding investments in the properties in our portfolio can be financed from operating cash flow and from available liquidity reserves. Due to loan repayments and a stablised portfolio, we expect a further improvement of the LTV, which will move closer to 50%.

Cologne, 24 March 2015

The Executive Board

Alexander von Cramm

Jürgen Overath

CONSOLIDATED FINANCIAL STATEMENTS FOR 2014

CONSOLIDATED STATEMENT OF INCOME

IN EUR K	NOTES	2014	2013[2]
Rental income from investment properties	5.1.	105,528	89,346
Service charge income		23,045	21,164
Property servicing expenses[1]	5.2.	−34,417	−29,683
Net operating income		**94,156**	**80,827**
Administrative expenses	5.3.	−10,352	−4,943
Other income	5.4.	117,526	4,872
Other expenses	5.5.	−25,158	−10,017
Interim result		**176,172**	**70,739**
Investment property disposal proceeds		125,285	30,975
Investment property disposal expenses		−124,181	−31,333
Result from disposal of investment properties	5.6.	**1,104**	**−358**
Loss on measurement at fair value	6.1.	−5,612	−26,003
Profit before interest and taxes		**171,664**	**44,378**
Financial income		72	15
Financial expenses	5.7.	−44,071	−44,842
Profit before taxes		**127,665**	**−449**
Income taxes	5.8.	−2,746	1,462
Net Profit		**124,919**	**1,013**
Of which attributable to:			
shareholders of the parent company		**124,919**	**1,013**
Earnings per share:			
basic and diluted earnings per share (in EUR)	5.9.	**0.73**	**0.01**

[1] Comparative figures as well as the name of the item have been adjusted respectively combined (prior year: recoverable service charge expenses [EUR −20,438 k] and non-recoverable service charge expenses [EUR −9,245 k]). We refer to 2.2. of the notes to the consolidated financial statements.
[2] Comparative figures adjusted due to a change in the recognition of deferred tax assets on loss carry forwards. We refer to 5.8. of the notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN EUR K	NOTES	2014	2013[1]
Net profit		**124,919**	**1,013**
Other comprehensive income to be reclassified to the income statement in subsequent periods:			
Unrecognized gains/losses from derivative financial instruments	6.10.	−12,948	23,117
Loss from measurement of loans at fair value		0	−250
Tax effects from items of other comprehensive income	5.8.	2,049	−3,865
Other comprehensive income after tax		**−10,899**	**19,002**
Consolidated total comprehensive infome		**114,020**	**20,015**
Of which attributable to:			
shareholders of the parent company		114,020	20,015

[1] Comparative figures adjusted due to a change in the recognition of deferred tax assets on loss carry forwards. We refer to 5.8. of the notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2014

IN EUR K	NOTES	31 DEC. 2014	31 DEC. 2013
ASSETS			
Investment properties	6.1.	1,780,660	1,299,410
Intangible assets		534	693
Property, plant and equipments		335	176
Derivative financial instruments, non-current portion	6.10.	2,002	0
Non-current assets		**1,783,531**	**1,300,279**
Derivative financial instruments, current portion	6.10.	493	0
Trade receivables	6.2.	9,399	7,632
Other receivables and other assets	6.3.	1,491	9,526
Income tax receivables	5.8.	78	21
Cash and cash equivalents	6.4.	63,503	37,606
Subtotal current assets		**74,964**	**54,785**
Assets held for sale	6.5.	92,800	70,441
Current assets		**167,764**	**125,226**
		1,951,295	**1,425,505**

IN EUR K	NOTES	31 DEC. 2014	31 DEC. 2013[1]
EQUITY AND LIABILITIES			
Subscribed capital	6.6.	180,530	82,000
Capital reserve	6.6.	401,930	287,432
Other reserves	6.6.	−12,049	−1,150
Retained Earnings		232,613	26,727
Equity attributable to shareholders of the parent company		803,024	395,009
Total equity		**803,024**	**395,009**
Interest-bearing loans, non-current portion	6.7.	972,279	0
Derivative financial instruments, non-current portion	6.10.	42,221	0
Deferred tax liabilities	5.8.	4,320	4,199
Non-current liabilities		**1,018,820**	**4,199**
Interest-bearing loans, current portion	6.7.	78,173	927,562
Derivative financial instruments, current portion	6.10.	12,153	6,046
Trade payables	6.8.	14,610	23,485
Income tax liabilities	5.8.	750	759
Other liabilities	6.9.	23,765	6,351
Subtotal current liabilities		**129,451**	**964,203**
Liabilities in connection with assets held for sale	6.5.	0	62,094
Current liabilities		**129,451**	**1,026,297**
		1,951,295	**1,425,505**

[1] Comparative figures adjusted due to a change in the recognition of deferred tax assets on loss carry forwards. We refer to 5.8. of the notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS

IN EUR K	NOTES	2014	2013
1. Cash flow from operating activities			
Profit before taxes		**127,665**	**−449**
Adjustments of profit/loss for non-cash transactions			
Unrealized gains on measurement at fair value	6.1.	5,612	26,003
Income for business combination	4.	−115,388	0
Other non-cash income and expenses		1,171	−38
Depreciation and loss from disposal of fixed assets		227	70
Result from disposal of investment properties	5.6.	−1,104	358
Transaction costs for refinancing		816	2
Financial expenses	5.7.	44,071	44,842
Financial income		−72	−15
Change in net current assets			
Change in trade receivables		2,614	208
Change in other receivables and assets		786	−6,117
Changes in income tax receivables		−56	75
Change in trade payables		−11,106	6,702
Change in other liabilities		15,191	740
Tax refunds/taxes paid	5.8.	−85	−441
Cash flow from operating activities		**70,342**	**71,940**
2. Cash flow from investing activities			
Proceeds from divestments of investment properties	5.6.	125,285	30,975
Payments in connections with the divestment of investment properties	5.6.	−225	−419
Payments for investments into investment properties	6.1.	−20,359	−10,846
Net cash due to business combination	4.	45,000	0
Net cash due to business combination under common control	4.	0	163
Cash flow from investing activities		**149,701**	**19,873**

IN EUR K	NOTES	2014	2013
3. Cash flow from financing activities			
Interest paid	5.7.	−40,713	−42,307
Interest received		72	15
Payments for termination/change in interest rate swaps	6.10.	−16,690	0
Proceeds from interest rate swaps	6.10.	3,730	0
Repayment of loans	6.7.	−1,057,344	−127,814
Loans	6.7.	795,000	0
Paid transaction costs for refinancing	6.7.	−5,619	−1,577
Proceeds from cash capital increase	6.6.	130,447	0
Paid transaction costs for capital increase	6.6.	−3,029	0
Cash flow from financing acitivities		**−194,146**	**−171,683**
4. Cash and cash equivalents at the end of the period			
Net change in cash and cash equivalents		25,897	−79,870
Cash and cash equivalents at the beginning of the period		37,606	117,490
Cash and cash equivalents at the end of the period		63,503	37,620
of which cash and cash equivalents from disposal group	6.5.	0	14
Reported cash and cash equivalents		**63,503**	**37,606**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF 31 DECEMBER 2014

IN EUR K	SUBSCRIBED CAPITAL	TREASURY SHARES	CAPITAL RESERVES
Notes	6.6.	6.6.	6.6.
Equity as of 31 December 2012	**84**	**−4**	**226,375**
Net profit			
Other comprehensive income			
Consolidated total comprehensive income			
Purchase treasury shares	−4	4	
Capital increase from own funds	81,920		−81,920
Increase of capital reserve from business combination			182
Increase of capital reserve from contributions of shareholders			142,795
Equity as of 31 December 2013	**82,000**	**0**	**287,432**
Net profit			
Other comprehensive income			
Consolidated total comprehensive income			
Increase of capital reserve from business combination	51,941		114,219
Cash capital increase	46,588		83,859
Costs of capital increase less tax effects			−2,613
Withdrawals for compensation of loss carried forward and net loss under German GAAP as well as distribution of a dividend			−80,967
Equity as of 31 December 2014	**180,530**	**0**	**401,930**

[1] Comparative figures adjusted due to a change in the recognition of deferred tax assets on loss carry forwards. We refer to 6.6. of the notes to the consolidated financial statements.

OTHER RESERVERS			
CASHFLOW HEDGE RESERVE	MISCELLANEOUS RESERVE	RETAINED EARNINGS[1]	TOTAL
6.6.			
−20,363	7,928	25,714	239,734
		1,013	1,013
19,213	−211		19,002
19,213	−211	1,013	20,015
			0
			0
			182
	−7,717		135,078
−1,150	0	26,727	395,009
		124,919	124,919
−10,899			−10,899
−10,899		124,919	114,020
			166,160
			130,447
			−2,613
		80,967	
			0
−12,049	0	232,613	803,024

DO DEUTSCHE OFFICE AG (FORMERLY: PRIME OFFICE AG), COLOGNE, NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2014

1. ABOUT THE COMPANY

DO Deutsche Office AG (formerly: Prime Office AG) (hereinafter "the Company" or "Deutsche Office") was founded on 20 June 2006 and has been filed with the Register of Companies of the Cologne district court under the number HRB 67370. The registered office for all companies in the Deutsche Office Group is Maarweg 165, 50825 Cologne, Germany.

The merger between the Company and Prime Office REIT-AG of Munich (PO REIT) was noted in the Commercial Register at the Cologne District Court on 21 January 2014. Upon entry in the Commercial Register the Company acquired control over PO REIT, so that the business combination between PO REIT and the Group became effective on 21 January 2014.

On 22 January 2014, the Company's share was introduced to regulated trading on the Frankfurt Stock Exchange.

Cash capital was increased on 14 February 2014, and the proceeds were used, among other things, to complete the refinancing of the Herkules and Homer portfolios. For further details please refer to "6.7. Interest-bearing loans".

On 20 May 2014, the Annual General Meeting resolved to change the Company's name to "DO Deutsche Office AG". On 7 July 2014, the Company's new name was entered in the Commercial Register at the Cologne District Court.

The Company and its subsidiaries (the "Group" or "Deutsche Office Group") operate in the business of acquisition and management of real estate and investment companies. The business activities are focused on Germany. The Group owns real estate throughout Germany. The portfolio mainly comprises office and retail space including two hotels and three nursing homes.

Of the 49 properties carried at 31 December 2013, a total of six were divested with transfer of rights and obligations in 2014. Eleven properties were acquired as a result of the business combination with PO REIT. Consequently, on 31 December 2014 the Group portfolio comprised 54 properties in total, three of which are classified as assets held for sale. We refer to the detailed descriptions in "6.5. Assets held for sale and associated liabilities".

The reporting date is 31 December 2014. The fiscal year is the calendar year.

The Consolidated Financial Statements as of 31 December 2014 were signed off by the Executive Board on 10 March 2015 and passed to the Company's Supervisory Board for approval. The Supervisory Board is expected to approve the Consolidated Financial Statements on 24 March 2015.

The financial statements for the prior year were published in the electronic German Federal Gazette.

2. ACCOUNTING AND VALUATION PRINCIPLES

2.1. BASIS FOR PREPARATION

The Consolidated Financial Statements consistently apply the principle of historical cost. Exceptions to this rule are investment properties and financial derivatives, which are recorded at fair value.

The Consolidated Financial Statements have been drawn up in euros. Unless otherwise indicated, all values have been rounded up or down to units of a thousand euros (EUR k). In some cases, this may result in minor discrepancies in the tables included in these Consolidated Financial Statements and in the totals provided in the Notes.

The Consolidated Financial Statements for the Company and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applied within the EU in conjunction with the requirements of German law pursuant to section 315a para. 1 HGB (German Commercial Code).

2.2. RECLASSIFICATION

In the present Consolidated Financial Statements service charge expenses are no longer shown separately as "Recoverable service charge expenses" and "Non-recoverable service charge expenses", but have been combined under "Property servicing expenses". The comparison period has been adjusted correspondingly in each case.

2.3. CHANGES TO ACCOUNTING POLICIES

In contrast to the IFRS Consolidated Financial Statements for the year ended 31 December 2013, the recognition of deferred tax assets from loss carryforwards takes into account the German minimum taxation rule, providing that the excess of deferred tax liabilities is an indication of recoverability. The comparison period has been adjusted correspondingly. The change in accounting policy was a consequence of the agenda decision of the IFRS Interpretation Committee as of May 2014. The adjustment was made retroactively as of 1 January 2013. We refer to "5.8 Income Taxes" and "6.6 Equity".

With the exception of this change, the same accounting policies used for the Consolidated Financial Statements as at 31 December 2013 have been applied. Other exceptions are the new standards to be applied to accounting periods beginning on 1 January 2014.

NEW AND REVISED STANDARDS AND INTERPRETATIONS

For this reporting year, the Group applied the new and revised IFRS and interpretations listed below. No or no significant effects on the Group's financials resulted from the application of these revised standards and interpretations. The changes are as follows:

AMENDMENT TO IAS 32 – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The amendment clarifies the wording "currently has a legally enforceable right of set-off". Furthermore, it is more precise about the application of offsetting criteria set out in IAS 32 to settlement systems (e.g. centralised clearing) in which non-simultaneous transactions are grossed. This amendment in no way affects the financial reporting methods applied by the Group.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10 was published in May 2011 and is to be first applied in the annual period beginning on or after 1 January 2014. The new standard replaces the provisions of the old IAS 27 *Consolidated and Separate Financial Statements* on group reporting and the interpretation SIC–12 *Consolidation – Special Purpose Entities*. IFRS 10 builds on a uniform principle of control which is applied to all companies, including special purpose entities. June 2012 then saw publication of the revised transition guidance on IFRS 10 – 12, designed to make applying the new standards easier. The changes implemented by IFRS 10 require management to use considerable discretion, compared with the previous rules, in assessing where control is exercised over a company and whether it should therefore be fully consolidated in the Consolidated Financial Statements. IFRS 10 has no impact on the classification of investees currently held within the Group.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12 sets out the obligations to disclose the interests a company holds in subsidiaries, joint arrangements, associates and structured entities. The disclosure requirements relating to subsidiaries are more comprehensive than they were under the previous rules. They include, for example, subsidiaries where the parent company does not hold a majority of voting rights (de facto control). This Group only has subsidiaries in which the Company holds the majority of voting rights. There are no unconsolidated structured entities. IFRS 12 disclosures are shown in the Annex to the Notes.

The IASB has published further new or revised standards and interpretations effective in 2014 which have no impact on the Group's financials.

STANDARDS PUBLISHED BUT NOT YET MANDATORY

Standards and interpretations announced prior to the publication of the Consolidated Financial Statements which have not yet become mandatory are listed below. The Group intends to apply these standards once they enter into force and not prematurely.

IFRS 9 – FINANCIAL INSTRUMENTS

On 24 July 2014 the IASB published the final version of IFRS 9 – *Financial Instruments*. This completes the project to replace IAS 39 – *Financial Instruments*: Recognition and Measurement. IFRS 9 introduces a logical approach for the classification and valuation of financial assets driven by cash flow characteristics and the business model in which an asset is held, and provides for a new impairment model based on expected credit losses. Furthermore, IFRS 9 includes new rules for the application of hedge accounting to better reflect a company's risk management activities, especially for non-financial risks. The new standard will have to be applied to annual periods beginning on or after 1 January 2018; an earlier adoption is permitted. The European Financial Reporting Advisory Group has delayed its recommendation on the adoption of IFRS 9. The Company is currently analysing the effects of IFRS 9 on the Consolidated Financial Statements.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 – *Revenue from Contracts with Customers* – was published on 28 May 2014. In line with the new standard, revenue is recognised to depict the transfer of committed goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised as and when the customer acquires control over the goods or services. IFRS 15 also contains requirements relating to the presentation of contract balances reflecting performance satisfaction and outstanding obligations. These take the form of contract assets or receivables and contract liabilities, depending on the relationship between the entity's performance and the customer's payment. Moreover, the new standard calls for disclosure of quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 11 – *Construction Contracts* and IAS 18 – *Revenue* with the related interpretations. The standard is to be applied to annual periods beginning on or after 1 January 2017; an earlier adoption is permitted. Except in the case of sales of properties, the application of IFRS 15 will have no significant impact, if any, on the Company's Consolidated Financial Statements, as most of the rental contracts held by the Company relate to commercial lets of the real estate it maintains as a financial investment. Rental contracts for investment properties are excluded from the scope of IFRS 15 and fall within the scope of IAS 17. The Company is currently analysing the impact on the Consolidated Financial Statements of applying IFRS 15 in relation to sales transactions.

In addition, the IASB has published other changes to (existing) IFRS which will be mandatory in future years but will have no impact on the Consolidated Financial Statements.

2.4. SCOPE OF CONSOLIDATION

The Consolidated Financial Statements represent the financial statements of Deutsche Office and its subsidiaries as at 31 December 2014. The Group controls a subsidiary when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In particular, the Group controls a subsidiary when, and only when, all the following criteria apply:

- power over the subsidiary (i. e. the Group is able, on the basis of its current rights, to influence those activities by the subsidiary which substantially affect its returns),
- exposure or rights to variable returns from involvement in the subsidiary, and
- an ability for the Group to use its powers over the subsidiary in such manner as to influence the returns of the subsidiary.

Deutsche Office exerts control over the subsidiaries included in the Consolidated Financial Statements in that it directly or indirectly holds a majority of the voting rights in these companies.

Acquisitions of companies in terms of the IFRS 3 are accounted for using the acquisition method. This method distributes the acquisition costs of the acquisition to the acquired, individually identifiable assets and liabilities and contingent liabilities according to their fair values at acquisition date. Any remaining positive difference is recognised as goodwill, any negative difference is recognised in income. Incidental acquisition costs are recognised as an expense. The disposal and acquisition of special purpose entities not constituting a business in the meaning of IFRS 3 are presented as a direct purchase or sale of property (asset deal).

Income and expenses as well as receivables and liabilities between the fully consolidated companies are eliminated. Interim results from intra-group deliveries and services that have not been realised by disposal to third parties are removed.

The Consolidated Financial Statements include the financial statements of the Company and its subsidiaries as of 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as for the parent company, using consistent accounting policies. All intra-group transactions that are recognised in the carrying amount of assets are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, i. e. the date on which the Group obtains control. Their consolidation ends as soon as the control over the subsidiary ceases.

Alongside Deutsche Office, the consolidation embraces companies in which Deutsche Office directly or indirectly holds the majority of voting rights. The consolidated entities comprise the Company, two domestic subsidiaries and 101 domestic sub-subsidiaries (previous year: two domestic subsidiaries and 107 domestic sub-subsidiaries). Five domestic sub-subsidiaries were merged into one subsidiary during the year. One domestic sub-subsidiary was divested within the framework of a share deal.

The reporting date for the Consolidated Financial Statements is the same as the reporting date for the financial statements of the Company and its consolidated subsidiaries.

2.5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

When compiling the Consolidated Financial Statements, Management applies discretionary decisions, estimates and assumptions which influence the end-of-period figures for reported earnings, expenses, assets and debts and disclosed contingencies. The uncertainties inherent in these assumptions and estimates could, however, result in future periods in substantial adjustments to the book values of the assets or debts concerned.

JUDGMENTS

The following judgments made by Management when applying the accounting policies have had the most significant effect on amounts recognised in the financial statements. Decisions based on estimates are not included.

OPERATING LEASE COMMITMENTS – GROUP AS LESSOR

The Group has entered into commercial property lease agreements on its investment property portfolio. Analysis of these agreements has shown that the Group retains all the significant risks and rewards incidental to ownership of these properties rented out as operating lease.

ESTIMATES AND ASSUMPTIONS

The notes below refer to key assumptions about the future and other significant sources of uncertainty reflected in estimates applied at the reporting date which display a considerable risk of triggering a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year. The assumptions and estimates used by the Group are based on parameters which applied when the Consolidated Financial Statements were prepared. However, these circumstances and assumptions about future developments could alter due to market developments and circumstances outside the Group's control. Such changes will only be reflected in the assumptions once they occur.

REVALUATION OF INVESTMENT PROPERTIES

The Group carries its investment properties at fair value as at the reporting date, with changes in fair value recognised in the income statement. Investment property is measured by an independent property expert on the basis of property-specific and market-oriented parameters. The main property-specific and market-oriented parameters are calculated on the basis of an assessment by the external property expert. Estimates of capitalisation rates, expected vacancy rates and future patterns of rental income are especially sensitive to valuation. The costs of rent incentives and CAPEX measures are recognised on the basis of an assessment by Management which is taken into account by the independent expert.

The fair value of the properties is measured by reflecting the ability of market participants to generate economic benefits by making the highest and best use of the property or by selling it to another market participant who finds the highest and best use for it.

The valuation as at 31 December 2014 was performed – as in the previous year – by a property expert applying the DCF ("discounted cash flow") method. The DCF method compares all cash inflows and outflows associated with the investment property over a detailed period (ten years) in order to derive the net cash flows emanating from the property for each year of the period under review. This involves considering a number of parameters, such as:

- rent levels for initial tenants and follow-on leases,
- fitting and finishing costs and lease costs for initial tenants and follow-on leases,
- vacancy rates and costs,
- non-recoverable ancillary costs and expected capital expenditures by the owner,
- total returns on the capital employed in the investment, specific to each property and lease.

At the end of the period under review, a sale of the property is simulated and the property is measured using the income capitalisation method, based on an assumption of stable rental income and an appropriate return on investment.

Contrary to the DCF method, the income capitalisation method is a static, single-period valuation technique that does not involve an explicit presentation of rent trends over time. The impact of changing rents over time and of other market and financial factors is implicitly reflected in the capitalisation rate.

Net present value is calculated by discounting the cash flow in the period under review, including proceeds from the simulated sale, to the valuation date, using an estimated discount rate derived from the capital markets.

The market value of the property is then obtained by deducting incidental acquisition costs (property transfer tax, notary fees, commission) from the net present value.

This valuation method complies with the Practice Statements contained in the Valuation Standards (VS 3.2) published by the Royal Institution of Chartered Surveyors.

The market values of Deutsche Office properties correspond to the fair value defined in IFRS 13.

We refer to the notes in “6.1. Investment properties”.

DEFERRED TAX ASSETS

Deferred tax assets are recognised for all unused tax loss carryforwards insofar as taxable profit is likely to be available against which these losses can actually be utilised in line with the minimum taxation rules in Germany. This takes account of inter alia expected earnings from operations, the effect on income of reversing taxable temporary differences, and possible taxation strategies. Based on forecasts of future taxable earnings, the Executive Board determines the value of deferred tax assets at each reporting date. As future business developments are uncertain and not entirely within management control, assumptions must be made in order to estimate future taxable income and the point in time when deferred tax assets can be realised. Estimated data will be adjusted in the period when sufficient indications are available to perform such an adjustment. If management concludes that a portion of deferred tax assets cannot be realised, whether in part or in full, this portion will not be recognised. The planning horizon for this assessment is five years.

We refer to the notes in “5.8. Income Taxes”.

2.6. SUMMARY OF KEY ACCOUNTING POLICIES

The Consolidated Financial Statements have been prepared on the assumption that the Company is a going concern.

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each reporting date. The fair value is the price that would be earned for the disposal of an asset or paid for the transfer of a liability on the valuation date between market participants during a regular business transaction. When measuring the fair value, it is assumed that the transaction during which the disposal of the asset or the transfer of the liability occurs takes place either

- on the principal market for the asset or the liability or
- on the most advantageous market for the asset or the liability, if there is no principal market.

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

The fair value of an asset or a liability is measured based on the assumptions that market participants would make when determining the price for the asset or liability. It is assumed that market participants act in their best economic interest.

The fair value of a non-financial asset is measured by taking into account the ability of market participants to generate economic benefits by making the greatest and best use of the asset or by selling it to another market participant who finds the greatest and best use for it.

The Group uses valuation techniques that are appropriate under the circumstances in question and for which sufficient data are available to measure fair value. The technique should give maximum weight to significant, observable input factors and minimum weight to unobservable input factors.

All assets and liabilities for which the fair value is determined or recognised in the financial statements are classified in the fair-value hierarchy described below, based on the input parameter of the lowest level relevant for the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – Valuation methods in which the input factor of the lowest level relevant for the fair value measurement as a whole is observable on the market, either directly or indirectly.

Level 3 – Valuation methods in which the input factor of the lowest level relevant for the fair value measurement as a whole is not observable on the market.

For assets and liabilities recognised on a recurring basis in the financial statements, the Group determines whether there have been any regroupings within hierarchy levels by checking the classification at the end of each reporting period (based on the input parameter of the lowest level relevant for the fair value measurement as a whole).

We refer to the notes in "6.1. Investment Properties" and "6.10. Financial Instruments".

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue must be measured at the fair value of the consideration received, excluding VAT or other charges. The specific recognition criteria listed below must also be met before revenue is recognised.

RENTAL INCOME

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term.

Rent incentives provided to tenants by the Group when a rental agreement is entered into or prolonged are spread evenly over the term of the underlying rental agreement, even if the actual payments occur at a different time. For these purposes, the term of the rental agreement is determined as the non-cancellable portion of the underlying lease term plus any renewal option, provided that the Executive Board can assume the tenant is more likely than not to make use of the renewal option.

SALE OF PROPERTY

Revenue generated from the sale of property is recognised when all significant risks and rewards incidental to ownership have been transferred to the buyer (transfer of title, risks and rewards).

TAXES

CURRENT TAX ASSETS AND LIABILITIES

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

DEFERRED TAXES

Deferred taxes are recognised using the liability method for temporary differences at the reporting date between the carrying amounts of recognised assets or liabilities and their respective tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the net profit or loss for the period nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforwards of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the net profit or loss for the period nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, a deferred tax asset is recognised only to the extent that it is probable that the temporary differences will not reverse in the foreseeable future and no sufficient taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed on each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed on each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) applicable on the reporting date or soon afterwards to take effect. Deferred tax relating to items recognised directly in equity or in other comprehensive income is recognised in equity or in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and if these relate to income taxes declared by the same taxable entity to the same tax authority.

INVESTMENT PROPERTIES

Upon initial recognition, investment properties are measured at cost, including transaction or production costs and ancillary costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred as well as site improvements and tenant-related investments, as long as the recognition criteria are met, and excludes the day-to-day costs of servicing of these properties.

Subsequent to initial recognition, investment properties are stated at fair value. This reflects market conditions on the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the year in which they arise. Fair values are determined on an annual basis by an accredited external independent expert in accordance with the valuation model recommended by the International Valuation Standards Committee.

Items of investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses on the retirement or disposal of investment properties are recognised through profit or loss in the respective year of retirement or disposal.

Rent incentives offered to tenants in the form of rent-free periods do not trigger impairments when measuring investment properties at fair value and are thus not reported as a separate asset but incorporated in the investment property item. Rent incentives are released consistently over the term of the underlying rental agreements and accordingly reduce the future rental income from investment properties.

Gains or losses from the disposal of portfolio properties are determined by subtracting the carrying amount of the property and the costs of disposal from the disposal proceeds.

Borrowing costs related to the acquisition of properties are recognised as an expense in the accounting period when they are incurred.

INTANGIBLE ASSETS

The Company only recognises acquired intangible assets, which are measured at cost and amortised over their respective useful lives using the straight-line method. Useful life is between three and five years.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The scheduled straight-line depreciation is based on the estimated useful lives of the assets. The useful life for movable fixed assets is three to ten years.

TRADE RECEIVABLES, OTHER RECEIVABLES AND OTHER ASSETS

Trade receivables and other receivables and assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these financial assets are subsequently measured at amortised cost using the effective interest rate method and deducting any impairment losses. If there are any objective indications of impairment, the carrying amount is reduced by using an allowance account and recognising the impairment loss in the income statement. These items, together with the associated allowance, are derecognised when there is no realistic prospect of future recovery and all collateral has been realised or liquidated.

ASSETS HELD FOR SALE

Non-current assets intended for disposal under an asset deal are reported separately as held for sale in the Consolidated Financial Statements if a notarised purchase agreement was signed while the statements were being prepared. If the disposal is to take the form of a share deal, non-current assets and also other assets and liabilities held for sale are reported separately in the Consolidated Balance Sheet.

Assets held for sale are measured at fair value after deduction of disposal costs on the date of reclassification and on each subsequent reporting date. Gains or losses from measuring individual assets held for sale and disposal groups are reported under income from continuing operations until they have been sold.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Balance Sheet comprise cash at banks and short-term deposits with a remaining term of up to three months (from date of acquisition). Cash and cash equivalents also include tenants' security deposits. These are balanced by liabilities in the same amount presented under "Other liabilities".

The cash and cash equivalents presented in the Consolidated Statement of Cash Flows reflect this definition.

FINANCIAL LIABILITIES

Financial liabilities are either "measured at fair value through profit or loss" or classified as "other financial liabilities". Further information about financial liabilities measured at fair value through profit or loss will be found in "6.10. Financial instruments".

Other financial liabilities, including borrowings, are initially recognised at fair value less transaction costs. When calculating transaction costs, services such as legal and consultancy fees which are not essential to issuing the liability are not included in determining the fair value of a financial liability. These costs are recognised immediately through profit or loss.

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expenses recognised based on the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense to the relevant accounting periods. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial liability.

The Group derecognises financial liabilities when the obligation under the liability is discharged, cancelled or expired.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group uses derivative financial instruments such as interest rate swaps and interest caps to hedge against interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are measured at fair value in subsequent periods. Derivative financial instruments are carried as assets if the fair value is positive and as liabilities if the fair value is negative.

Gains or losses from changes in the fair value of derivative financial instruments that do not meet the criteria for hedge accounting are recognised directly through profit or loss.

The fair value of interest rate swap or interest cap contracts is determined with reference to the market value of similar instruments.

Hedging instruments are classified as cash flow hedges because they address a risk of fluctuations in cash flows that is attributable to the risk incurred by an unrecognised firm commitment associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedging relationship, the Group formally determines and documents the hedging relationship and the risk management objective and strategy with respect to the hedge. The documentation includes the specification of the hedging instrument, the underlying or hedged transaction, the nature of the risk being hedged and how the entity has determined the hedging instrument's effectiveness in offsetting the risk of changes in the underlying transaction's fair value or cash flows. Such hedge relationships are considered to be highly effective in offsetting the risks from changes in fair value or in cash flows. They are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which the hedging relationship was specified.

Hedges which meet the strict criteria for hedge accounting are presented as follows:

CASH FLOW HEDGES

The effective portion of the gain or loss on the hedging instrument is recognised as other comprehensive income and reported under the "Cash flow hedge reserve", while any ineffective portion is recognised immediately through profit or loss.

Amounts recognised in other comprehensive income are transferred to the income statement in the accounting period in which the hedged transaction affects profit or loss, e.g. when the hedged financial income or financial expenses are recognised or when a forecast sale occurs. If the hedging results in the recognition of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the cost of the asset at the time of acquisition of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity or in other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover to another hedging instrument, amounts previously recognised in equity or in other comprehensive income remain in equity as a separate item until the forecast transaction or firm commitment occurs. The same applies if it is found that the hedging instrument no longer meets the criteria for hedge accounting.

LEASES

GROUP AS LESSOR

Leases where the Group does not materially transfer to the lessee all the risks and rewards incidental to ownership of the asset are classified as operating leases.

All Group properties are classified as operating leases, because all material risks and rewards incidental to the properties owned by the Group remain with the Company. Consequently, all the properties are presented in the financial statements drawn up by the Company as lessor. Income from lease operations is recognised on a straight-line basis over the term of the rental agreement after factoring in rent-free periods.

3. SEGMENT REPORTING

IFRS 8 calls for a management approach to identifying operating segments, with information presented in the same manner as for internal management reports.

The business activity of the Group consists solely of leasing out property to commercial tenants in Germany. In keeping with IFRS 8, this constitutes a single reporting segment covering all Group operations.

The reporting for this segment reflects the internal reporting submitted to the Executive Board as chief operating decision-maker.

Consequently, the Balance Sheet, the Income Statement and the Statement of Comprehensive Income prepared by the Group are consistent with the single reporting segment constituted by the operation of property leasing to commercial tenants in Germany.

We also refer to "5.1. Rental income from investment properties".

4. BUSINESS COMBINATIONS

With the entry of the merger in the register of companies, the Company acquired control over PO REIT, and the business combination is accordingly recognised as of 21 January 2014.

The acquisition costs for the undertaking (fair value of the total consideration transferred) amounted to a total of EUR 166,160 k. The acquisition cost, i.e. the consideration accorded in return for the assets and liabilities transferred from PO REIT, is determined by the value of the company's shares issued. The PO REIT merger was effected through the issue of 51,941,345 new shares in the Company. IFRS 3.33 requires that, when a business combination is effected by means of an exchange of shares, to determine the fair value of the consideration transferred, recourse should be made for calculating a possible goodwill to the fair value of the shares, as this can be determined more reliably. The Company, which was not listed on the stock exchange at the time of the merger, acquired PO REIT, which had been listed since 2011. Given the assumption of equilibrium between the two sides of the transaction, recourse is made to such values as can be more reliably determined. The PO REIT share closed trading on the day before discontinuation at EUR 3.199 (XETRA closing price on 20 January 2014). This gives rise to a market capitalisation of EUR 166,160 k which, in the valuation hierarchy, is hence the yardstick which must be applied in determining the consideration transferred. The business acquisition gave rise to a gain from first-time consolidation (negative goodwill) recognised in the Consolidated Statement of Income under other operating income and calculated as follows:

IN EUR K	FAIR VALUES AT THE DATE OF ACQUISITION
Assets	
Investment properties	579,138
Intangible assets	24
Propert, plant and equipment	202
Derivative financial instruments (non-current and current)	7,026
Trade receivables	4,382
Other assets	1,304
Income tax receivables	1
Cash and cash equivalents	45,000
Assets held for sale	34,000
	671,077
Liabilities	
Interest-bearing loans (non-current and current)	330,413
Derivative financial instruments	48,901
Trade liabilities	8,502
Other liabilities	1,713
	389,529
Total identified net assets as fair value	281,548
Transferred consideration	166,160
Gain from business combination	115,388

The gain from the business combination results from the requirement to use the low share price to determine the value of the consideration. The fair values for assets acquired and liabilities assumed set out in the table above were subjected to a reassessment at 31 March 2014, but no need for adjustment was identified.

Since the date of acquisition, the properties formerly owned by PO REIT have contributed EUR 29,346 k to Rental Income from Investment Properties. If the business had been combined as of 1 January 2014, Rental Income from Investment Properties would have amounted to EUR 108,355 k.

Following the legal merger between the companies, it is no longer possible to calculate a separate earnings contribution for PO REIT.

Transaction costs of EUR 7,365 k were recognised as expenses in 2013 and posted under Administrative Expenses. The transaction costs incurred this year, which amounted to EUR 23,175 k and consisted primarily of property transfer tax and consultancy fees, were likewise recognised as Administrative Expenses in the Statement of Income and as Cash Flow from Operating Activities in the Statement of Cash Flows.

BUSINESS COMBINATION IN THE PREVIOUS YEAR

The merger with German Acorn Real Estate GmbH, Cologne (German Acorn), showed in the financial statements for the previous reporting year as a business combination under common control.

No consideration was granted for the transfer of German Acorn's assets to the Company. Pursuant to section 68 para. 1 sentence 3 Umwandlungsgesetz ("Transformation Act"), the Company has refrained from granting shares as a consideration for the transfer of German Acorn's assets to the Company. The shareholders of German Acorn waived their right to receive shares in the Company.

The date on which the Company gained control over German Acorn was 11 November 2013, the day the merger agreement was signed. On that date, the assets and liabilities of German Acorn were first recognised at their book values in accordance with IFRS. These book values approximate to the fair value of the assets and liabilities. The difference, which was identified as the net assets of German Acorn, was allocated to the Company's capital reserve.

The book values of German Acorn's identifiable assets and liabilities at the date control was obtained are as follows:

IN EUR K	BOOK VALUES AT THE DATE CONTROL WAS GAINED
Assets	
Intangible assets	715
Propert, plant and equipment	224
Trade receivables	329
Receivables from related companies	281
Other assets and liabilities	25
Cash and cash equivalents	163
	1,737
Liabilities	
Trade liabilities	646
Liabilities to related companies	309
Other liabilities	600
	1,555
Total identified net assets at book value	182
Allocation to capital reserve	**182**

5. NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

5.1. RENTAL INCOME FROM INVESTMENT PROPERTIES

Rental income from investment properties in the reporting period breaks down as follows:

IN EUR K	2014	2013
Rental income from property leases	101,572	86,819
Rental income from garages	7,220	5,523
Rent-free periods	−3,264	−2,996
	105,528	89,346

The rental income from property leases and garages consists of the nominal rent agreed on in the contract. The negative value for rent-free periods relates to the release of the deferred rent incentives that are released consistently over the term of the underlying rental agreements, reducing revenue in the process.

The rental income generated from the net rent (excluding incidentals) received from one tenant for fiscal year 2014 amounts to 13.1% and for a second tenant to 10.5% of all rental income generated by the Group (previous year: 15.6% generated by one tenant). The two tenants have an immaculate credit rating, which means that the credit risk for the Group can be classified as minimal.

Rental income from property leases contains variable rental income amounting to EUR 5,288 k (previous year: EUR 5,264 k). These are rental agreements in which the rental payments are linked to the operating results of the tenants.

Since the date of acquisition, the properties formerly owned by PO REIT have contributed EUR 29,346 k to rental income from investment properties.

If the business combination had taken place by 1 January 2014, the rental income from investment properties would have amounted to EUR 108,355 k.

5.2. PROPERTY SERVICING EXPENSES

Unlike in the previous reporting year, recoverable service charge expenses (prior year: EUR 20,438 k) and non-recoverable service charge expenses (prior year: EUR 9,245 k) have been combined under "Property servicing expenses". We refer to the notes in "2.2. Reclassification". The comparison period has been adjusted correspondingly.

Property servicing expenses break down as follows:

IN EUR K	2014	2013[1]
Maintenance costs	6,945	5,293
Property tax	5,929	3,266
Electricity costs	3,441	3,072
Porter, reception, janitor costs, security	3,318	3,167
Hot water and heating costs	3,139	3,558
Property management	2,212	1,691
Non-deductible VAT	1,509	2,476
Cleaning costs	1,335	1,258
Insurance	1,334	869
Winter clearance, street cleaning, external maintenance, irrigation	1,099	1,022
Water	1,093	781
Refuse and waste disposal	597	544
Other	2,466	2,686
Total	34,417	29,683

[1] adjusted to reflect reclassification. We refer to 2.2. in the Notes to the Consolidated Financial Statements

Compared with the prior year, property servicing expenses increased overall, essentially due to the merger with PO REIT and the resulting increase in the number of properties. Since their acquisition, the PO REIT properties have contributed EUR 9,569 k to the expense of servicing properties. However, these costs include a property tax expense of EUR 1,987 k incurred prior to the reporting year, levied by the City of Munich following a subsequent assessment and passed on in full to the tenant.

Property servicing expenses include vacancy costs amounting to EUR 6,519 k (prior year: EUR 3,825 k), costs which are non-recoverable due to the nature of rental agreements amounting to EUR 1,558 k (prior year: EUR 1,238 k), and costs which cannot be assigned to tenants due to the ordinance regulating service charges, which amounted to EUR 3,591 k (prior year: EUR 4,182 k).

5.3. ADMINISTRATIVE EXPENSES

Administrative expenses break down as follows:

IN EUR K	2014	2013
Personnel expenses	4,944	690
Legal and consulting fees	809	196
Rental and ancillary rental costs	625	3
IT costs	607	113
Audit costs	508	246
Travel costs	335	122
Depreciation/amortisation	326	36
Insurance/contributions and levies	324	75
Other personnel costs	275	4
Management services (incl. asset management)	0	3,346
Other	1,599	112
Total	**10,352**	**4,943**

The increase in personnel expenses and depreciation are a consequence of the business combinations with PO REIT and German Acorn and the resulting assumption of existing employment contracts and furnishings and equipment. The financial statements for the prior year already included pro rata personnel expenses and depreciation following the merger with German Acorn on 11 November 2013.

Moreover, the mergers resulted in the assumption of cost of rooms, travel expenses for transferred staff and other administrative charges, which essentially accounts for the increase in Other Administrative Expenses.

Due to the closure of the Munich office as of 30 June 2014, Administrative Expenses include special items amounting to a total of EUR 673 k. These are personnel expenses and rental costs, which include not only regular rents but also unavoidable expenses for the settlement of future financial obligations from the office space rental contract which will run until 30 August 2016.

An employee participation programme was implemented in fiscal year 2014 which rewards performance in line with an assessment basis stretched over four fiscal years (Long Term Incentive – "LTI"). The first LTI payment is made after four years. The payment increases or decreases depending on the performance of funds from operations (FFO) per share, net asset value (NAV) per share and the Company share price over the next four years. This participation programme could generate personnel expenses for the Company of up to EUR 625 k in total over the next four years.

The charge for pension provisions accounted for EUR 20 k in the reporting year (prior year: EUR 2 k).

In the previous year, management services included an asset management fee of EUR 1,891 k and a service fee of EUR 1,455 k for services provided by German Acorn. Following the merger between the Company and German Acorn on 11 November 2013, these charges now fall under intra-Group expenses and income and have therefore been eliminated.

SHARE-BASED PAYMENT

Share-based payment was introduced to the Group through the merger with PO REIT, which had granted performance share units (PSU) as a form of share-based compensation. The vesting period for these commitments is three years. After the vesting period, the recipient is paid cash equivalent to the value of the vested stocks. The equivalent value is derived at the end of the vesting period from the average share price over three months. The amount of this payment also depends on two independent performance levers: the increase in FFO per share, and outperformance of the DIMAX (German real estate share index) by the Company share. These levers can increase or decrease the basic amount paid at the end of the vesting period. Share awards are unaffected if an Executive Board member is recalled by the Supervisory Board or if the recipient's contract terminates. Vested shares expire on grounds of misconduct or if the Executive Board member is dismissed or resigns.

In fiscal year 2014 PSUs fell into the following categories.

IN UNITS	PSUs
PSUs at the time of the merger	104,007
PSUs retired due to performance levers	– 19,320
PSUs maturing in 2014	– 3,680
PSUs granted for 2014	17,292
PSUs not yet payable on 31 December 2014	98,299
of which maturing in 12 months	19,000
of which maturing in 24 months	62,007
of which maturing in 36 months	17,292

The vesting period for 2,530 PSUs maturing in 2014 ended on 30 June 2014. A payment amounting to EUR 8 k was made in January 2015. The other 1,150 PSUs maturing in 2014 will be paid out in March 2015. The valuation of PSUs that had not yet matured was based on the performance levers and linked to the average daily closing price for DO Deutsche Office AG in XETRA trading with Deutsche Börse AG during the three months prior to the reporting date on 31 December 2014. A sum of EUR 107 k was accordingly allocated at the reporting date.

5.4. OTHER INCOME

The other income of EUR 117,526 k (prior year: EUR 4,872 k) mainly consists of the gain from the business combination of EUR 115,388 k. We refer to the notes in "4. Business combination". Other major components are income from a warranty claim worth EUR 661 k (prior year: EUR 0 k), gains from the derecognition of time-barred or lapsed liabilities amounting to EUR 577 k (prior year: EUR 1,038 k), income from insurance payouts worth EUR 382 k (prior year: EUR 317 k) and gains from the settlement of outstanding restoration obligations amounting to EUR 298 k (prior year: EUR 2,334 k).

5.5. OTHER EXPENSES

Other expenses break down as follows:

IN TEUR	2014	2013
Transaction costs for merger with PO REIT	23,175	7,365
Valuation allowances on receivables and losses on receivables	746	744
Non-deductible VAT	573	147
Expenses for refinancing of loans	572	234
Other	92	1,527
Total	**25,158**	**10,017**

The increase in other expenses relates directly to the transaction costs for the merger with PO REIT. In particular, it includes a provision for future property transfer tax expected to amount to EUR 22,623 k. The transaction costs incurred in the previous year were associated with preparing and implementing the merger with PO REIT. This included in particular the costs of due diligence, the business valuation, the merger audit, legal counselling, confirmation services and the transaction fee to the consulting bank.

The valuation allowances on receivables and losses on receivables relate mainly to tenants who are subject to insolvency or eviction proceedings. The item also includes valuation allowances related to disputed invoicing of ancillary costs.

The expenses for refinancing of loans comprise in particular consultancy fees in connection with the new loans taken out as follow-on financing for the expired acquisition loans.

5.6. PROFIT ON DISPOSAL OF PROPERTIES

The reporting year saw disposal of the properties on "Yorkstrasse" in Düsseldorf (transfer of rights and obligations on 1 January 2014), on "Gotenstrasse" in Hamburg (transfer of rights and obligations on 31 January 2014), on "Philipp-Reis-Strasse" in Stuttgart/Fellback (transfer of rights and obligations on 18 February 2014), of the two properties on "Hainstrasse" in Leipzig (transfer of rights and obligations on 1 August 2014) and on "Altenessener Strasse" in Essen (transfer of rights and obligations on 1 December 2014).

The sales prices of the properties sold in 2014 amounted to a total of EUR 125,285 k (prior year: EUR 30,975 k), with carrying amounts of EUR 122,840 k (prior year: EUR 30,915) and expenses from the disposal of the properties amounting to EUR 1,341 k (prior year: EUR 418 k).

5.7. FINANCE COSTS

Finance costs in the reporting year break down as follows:

IN TEUR	2014	2013
Interest expenses for Herkules portfolio loan	13,786	20,887
Interest expenses for Homer portfolio loan	10,505	20,539
Interest expenses for Prime Office portfolio loan	13,975	0
Expenses from derivative financial instruments	5,796	2,912
Other	9	504
Total	**44,071**	**44,842**

The significant decrease of interest expenses for the Homer and Herkules loans is mainly due to repayments and improved credit terms following the refinancing carried out during the reporting period. Besides, in the previous year interest of EUR 4,159 k was posted for a loan of initially EUR 150,000 k, raised to finance the Herkules portfolio, which shareholders allocated to the Company's capital reserve on 26 November 2013.

Interest expenses for loans for properties in the Prime Office portfolio result from liabilities to banks derived from the business combination with PO REIT and reflect interest incurred since the acquisition.

The expenses for derivative financial instruments include both the reversal through income of the loss recognised in Other reserves (cumulative equity) from the instrument formerly used to hedge the acquisition loan for the Homer portfolio (EUR 1,366 k; prior year: EUR 2,909 k) and expenses from adjustments to the fair value of the hedging transactions assessed as ineffective (EUR 4,430 k; prior year: EUR 3 k). We refer to the notes in "6.10. Financial instruments".

5.8. INCOME TAXES

Income tax is attributed as follows:

CONSOLIDATED STATEMENT OF INCOME

IN EUR K	2014	2013[1]
Current tax expenses	−85	−441
Deferred tax result		
from temporary differences	−2,661	1,903
Tax result	**−2,746**	**1,462**

[1] comparative figures adjusted due to a change in the recognition of deferred tax assets from loss carry forwards

The deferred tax result reflects not only the tax effect of gains and losses from the cash flow hedge (ineffective portion) but also the expense for the transaction costs of the cash capital increase worth EUR 491 k, which has been deducted from the capital reserve.

OTHER COMPREHENSIVE INCOME (CURRENT INCOME TAX RELATED TO ITEMS RECOGNISED DIRECTLY IN EQUITY)

IN EUR K	2014	2013
Tax effect on gains/losses from cash flow hedges by way of interest hedges	2,049	−3,865
Tax result recognised in equity	**2,049**	**−3,865**

As in the previous year, the reconciliation between theoretical income tax based on pre-tax earnings and reported income tax is based on a taxation rate of 15.83% (15.0% as the rate of corporate income tax and 5.5% solidarity surcharge):

IN EUR K	2014	2013[1]
Profit/loss before income taxes	127,665	–449
Average tax rate	15.83%	15.83%
Theoretical tax income (+)/ tax expense (-)	–20,203	71
Effect of (un)recognised deferred tax assets due to temporary differences	–2,028	280
Effect of (un)recognised deferred tax assets on loss carryforwards	1,365	2,361
Non-deductible interest expenses	–333	–720
Permanent differences	–102	–476
Taxes for prior years	–3	–6
Effect of business combination	18,657	0
Other	–99	–48
Income tax income (+)/ expense (-)	**–2,746**	**1,462**

[1] comparative figures adjusted due to a change in the recognition of deferred tax assets from loss carry forwards

Deferred tax assets and deferred tax liabilities from temporary differences between the carrying amounts in the consolidated financial statements and the tax base of individual assets and liabilities in 2014 and 2013 reflect the following data:

IN EUR K	CONSOLIDATED BALANCE SHEET 31 DEC. 2014	CONSOLIDATED STATEMENT OF INCOME 2014
Deferred tax assets		
Tax loss carryforwards	9,012	2,714
Measurement of an interest rate swap (ineffective portion)	752	11
Measurement of an interest rate cap (ineffective portion)	315	315
Deferred transaction costs	0	–142
Deferred tax assets recognised in other comprehensive income		
Measurement of an interest rate swap (effective portion)	2,265	0
Total deferred tax assets	**12,344**	**2,898**
Deferred tax liabilities		
Measurement of investment properties	15,360	–5,118
Measurement of loans using the effective interest method	910	–910
Measurement of an interest rate cap (ineffective portion)	394	–394
Deferred transaction costs for refinancing	0	925
Deferred transaction costs for cash capital increase	0	429
Total deferred tax liabilities	**16,664**	**–5,068**
Deferred taxes recognised in equity		
Transaction costs for cash capital increase	491	–491
Deferred tax expense		**–2,661**
Deferred taxes (net)	**–4,320**	

IN EUR K	CONSOLIDATED BALANCE SHEET[1] 31 DEC. 2013	CONSOLIDATED STATEMENT OF INCOME[1] 2013
Deferred tax assets		
Tax loss carryforwards	6,298	2,943
Measurement of an interest rate swap (ineffective portion)	741	741
Measurement of an interest rate cap (ineffective portion)	0	−112
Deferred transaction costs	142	142
Deferred tax assets recognised in other comprehensive income		
Measurement of an interest rate swap (effective portion)	216	0
Total deferred tax assets	**7,397**	**3,714**
Deferred tax liabilities		
Measurement of investment properties	10,242	−1,057
Fair value measurement of interest-bearing loans to related parties	0	414
Measurement of loans using the effective interest method	0	185
Deferred transaction costs for refinancing	925	−924
Deferred transaction costs for cash capital increase	429	−429
Total deferred tax assets	**11,596**	**−1,811**
Deferred tax income		**1,903**
Deferred taxes (net)	**−4,199**	

[1] comparative figures adjusted due to a change in the recognition of deferred tax assets from loss carry forwards

The Executive Board plays a decisive role in establishing the value of deferred tax assets by assessing the extent to which deferred tax assets are likely to be realised. This will depend on the generation of future taxable profits during accounting periods when taxable temporary differences reverse and tax loss carryforwards can be deducted. Consideration will be given here to expected reversals of deferred tax liabilities and future taxable profits in the light of minimum taxation rules in Germany. On the basis of projected taxable profits the Company has estimated deferred tax receivables from the expected utilisation of tax loss carryforwards amounting to EUR 9,012 k (prior year: EUR 6,298 k).

EUR 12,344 k (prior year: EUR 7,397 k) of deferred tax assets worth EUR 12,344 k (prior year: EUR 7,397 k) were offset against deferred tax liabilities of EUR 16,664 k (prior year: EUR 11,596 k), resulting overall in a deferred surplus of EUR 4,320 k (prior year: EUR 4,199 k).

As of 31 December 2014, the Group has corporate income tax loss carryforwards amounting to EUR 186,098 k (prior year: EUR 168,482 k according to filed tax returns) and trade tax loss carryforwards of EUR 53,910 k (prior year: EUR 48,077 k according to filed tax returns). For corporate income tax loss carryforwards of EUR 129,150 k (prior year: EUR 128,685 k) no deferred tax assets have been recognised.

In 2014, the recognition of deferred tax assets from loss carryforwards takes into account the german minimum taxation rule, providing that the excess of deferred tax liabilities is an indication of recoverability. The comparative period was adjusted accordingly, so that in the 2013 table the deferred tax assets from loss carryforwards were adjusted by EUR 4,199 k and the resulting tax income by EUR 1,962 k.

5.9. EARNINGS PER SHARE

To determine basic earnings per share, the net profit for the year attributable to holders of ordinary shares in the parent company is divided by the weighted number of ordinary shares outstanding during the year.

Since there are no equity instruments with dilutive effect, diluted earnings per share are equal to basic earnings per share.

The table below shows the amounts used to calculate basic and diluted earnings per share:

IN EUR K	2014	2013[1]
Net profit for the year attributable to the holders of ordinary shares in the parent company (in EUR k)	124,919	1,013
Weighted average number of shares used to calculate basic earnings per share	172,067,410	82,000,000
Earnings per share (in EUR):		
Basic and diluted with reference to the net profit for the year attributable to holders of ordinary shares in the parent company	0.73	0.01

[1] comparative figures adjusted due to a change in the recognition of deferred tax assets from loss carry forwards. We refer to item 5.8. of the Notes to the Consolidated Financial Statements

The merger between PO REIT and the Company was entered in the Commercial Register at the Cologne District Court on 21 January 2014, along with equity increase by EUR 51,941,345 to EUR 133,941,345.

On 14 February 2014, an increase in share capital to EUR 180,529,633 as the result of a cash capital increase from the issue of 46,588,288 new no-par-value bearer shares was entered in the Commercial Register at the Cologne District Court.

The weighted number of shares was 172,067,410 as of 31 December 2014. In the previous reporting period, the assumption for the full year was that there would be 82,000,000.

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

6.1. INVESTMENT PROPERTIES

Changes in investment properties primarily relate to the category “Office” and are as follows:

IN EUR K	2014	2013
As at 1 January	1,299,410	1,398,268
Additions due to business combination	579,138	0
Disposals from sales	−18,689	−13,589
Value-increasing investments during the year	20,359	10,846
Adjustment of rent smoothing due to application of SIC-15	−1,146	38
Gains on measurement at fair value	32,097	18,678
Losses on measurement at fair value	−37,709	−44,681
Reclassification to assets held for sale	−92,800	−70,150
As at 31 December	1,780,660	1,299,410

During the reporting year, the value of the portfolio, adjusted for disposals and for additions due to the business combination with PO REIT with effect from initial consolidation, increased by 1.50%.

Upon change of control the properties acquired as a result of the merger with PO REIT were recognised at fair value. Apart from the property “Ludwig-Erhard-Anlage” in Frankfurt/Main, these values are equal to the fair values recorded by PO REIT as of 31 December 2013. The Executive Board concluded from their review at the time of initial consolidation that the value attributed to the “Ludwig-Erhard-Anlage” property in Frankfurt/Main should be reduced to EUR 90,000 k, EUR 25,900 k less than the fair value as of 31 December 2013.

The gains on measurement at fair value are mainly influenced by the generally lower interest level in Germany. The valuation of investment properties reflects this interest level as a significant input parameter through a reduced discount rate.

In addition, a large number of properties have increased in value following investments in upgrades, in particular in connection with rental arrangements and to ensure relettability. The biggest individual project was the fit-out for the principal tenant in the property “Breitwiesenstrasse” in Stuttgart (previous year: implementation of a fire protection strategy for the property “Am Hauptbahnhof” in Frankfurt/Main.

EUR 15,940 k of the losses on measurement at fair value relate to two properties "Platz der Einheit 1" in Frankfurt as well as "Am Seestern" in Düsseldorf. This is due to delayed vacancy reduction as well as investments which have not yet been reflected by an increase in value of these properties.

In addition, losses on measurement at fair value in the amount of EUR 13,438 k are influenced by the "Ludwig-Erhard-Anlage" property and the "Gutleutstrasse" property in Frankfurt, as well as the "Hohenzollernring" property in Cologne, which are classified as assets held for sale and which are recognised at their sales prices less costs to sell. In this regard we refer to the notes in "6.5. Assets held for sale and associated liabilities".

Further losses on measurement at fair value are directly related to the increase of transfer tax in Berlin, Bremen, Hessen and North Rhine-Westphalia. The fair value of the properties is measured by taking account the deduction of aqusition costs, e.g. transfer tax. The increase of transfer tax and the resulting impairment of the affected properties is a further driver of losses on measurement at fair value as the company owns 31 properties in Berlin, Bremen, Hessen and North Rhine-Westphalia.

During the previous year, the key contributing factors to losses from measurement at fair value were the lower valuation for the properties "Heerdter Lohweg" in Düsseldorf and "Platz der Einheit" in Frankfurt/Main. The main reason for this were vacancy rates, which were high in some cases at the time of measurement.

Like last year, all investment properties measured at fair value are classified as level 3 in the hierarchy of fair values.

During the fiscal year, there were no reclassifications between measurements at fair value of levels 1, 2, and 3.

The table below sets out key assumptions used by the independent expert to determine fair value with the aid of the discounted cash flow method:

CATEGORY	FAIR VALUE AS AT 31 DEC. 2014 IN EUR K	FAIR VALUE AS AT 31 DEC. 2013 IN EUR K	SIGNIFICANT UNOBSERVABLE INPUT PARAMETERS	31 DEC. 2014 WEIGHTED AVERAGE	31 DEC. 2014 RANGE	31 DEC. 2013 WEIGHTED AVERAGE	31 DEC. 2013 RANGE
Office	1,630,360	1,153,310	Average market rent qm/month in EUR	12.33	4.50 – 20.00	13.01	4.50 – 22.00
			Capitalisation rates in %	5.77	5.2 – 7.1	5.90	5.2 – 7.3
			Discount rates in %	6.42	5.7 – 7.8	6.61	5.8 – 8.0
			Long-term vacancy rate in %	12.64	2.1 – 28.8	14.24	3.0 – 29.0
			Inflation forecast and annual market rent growth in %	1.96	1.6 – 2.0	1.94	1.6 – 2.0
Nursing Home	118,100	113,600	Average market rent qm/month in EUR	10.60	9.50 – 11.50	10.60	9.50 – 11.50
			Capitalisation rates in %	5.92	5.7 – 6.3	6.16	6.0 – 6.4
			Discount rates in %	6.50	6.2 – 6.9	6.85	6.7 – 7.0
			Long-term vacancy rate in %	5.96	5.0 – 6.4	5.92	5.0 – 6.0
			Inflation forecast and annual market rent growth in %	1.96	1.6 – 2.0	1.94	1.6 – 2.0
Logistics	32,200	32,500	Average market rent qm/month in EUR	4.44	4.25 – 4.73	4.81	4.25 – 5.50
			Capitalisation rates in %	6.85	6.8 – 7.0	6.94	6.9 – 7.0
			Discount rates in %	7.54	7.5 – 7.6	7.54	7.5 – 7.6
			Long-term vacancy rate in %	12.64	10.0 – 16.5	18.12	16.0 – 20.0
			Inflation forecast and annual market rent growth in %	1.96	1.6 – 2.0	1.94	1.6 – 2.0
	1,780,660	1,299,410					

All the properties are located in Germany. The average for all significant unobservable input parameters has been weighted on the basis of real estate market values as at 31 December. The range of the average long-term vacancy rate was calculated over a period of ten years.

The “office” category includes a small proportion of spaces let to retailers and hotels. The weighted average market rent for retail is EUR 16.60 qm/month (prior year: EUR 19.16 qm/month), and for the hospitality sector EUR 11.57 qm/month (prior year: EUR 12.53 qm/month).

SENSITIVITY ANALYSIS TO SIGNIFICANT CHANGES IN THE UNOBSERVABLE INPUT PARAMETERS OF HIERARCHY LEVEL 3

Key unobservable input parameters at hierarchy level 3 to determine the fair value of investment properties are:

- Average market rent in EUR/qm/month
- Capitalisation rate
- Discount rate
- Long-term vacancy rate
- Inflation forecast and annual market rent growth

A significant increase in the average market rent (EUR/qm/month) and the inflation forecast or market rent growth assuming consistency for the other input parameters leads to significantly higher fair values for the properties. A significant increase in the vacancy rate and the discount and capitalisation rates, however, leads to a significantly lower fair value assuming consistency for other input factors.

SENSITIVITY ANALYSIS TO CHANGES IN THE DISCOUNT AND CAPITALISATION RATES APPLIED

If the discount and capitalisation rates underlying the property valuation were to increase or decrease by 0.25 percentage points each, the following values would result at the reporting date:

IN EUR K	BOOK VALUE	VALUE IF DISCOUNT AND CAPITALISATION RATE INCREASE BY 0.25 PERCENTAGE POINTS	CHANGE
Investment properties	1,780,660	1,702,510	–78,150

IN EUR K	BOOK VALUE	VALUE IF DISCOUNT AND CAPITALISATION RATE DECREASE BY 0.25 PERCENTAGE POINTS	CHANGE
Investment properties	1,780,660	1,865,350	84,690

The Group has entered into commercial property lease agreements on its investment property portfolio. The following receivables exist for future minimum lease payments on the basis of non-cancellable operating leases:

IN EUR K	2014	2013
Up to 1 year	106,584	82,969
1 to 5 years	268,509	239,415
Over 5 years	129,231	91,402
Total	504,324	413,786

6.2. TRADE RECEIVABLES

Trade receivables are as follows:

IN EUR K	31 DEC. 2014	31 DEC. 2013
Trade receivables	10,013	7,870
Value adjustments	−614	−238
Total	**9,399**	**7,632**

When determining the value of trade receivables, all changes in credit ratings prior to the reporting date are taken into account. There is no significant concentration of credit risk due to the broad nature of the customer/tenant base. Management accordingly takes the view that no further risk provision is required beyond the recognised impairments.

As at 31 December 2014, value adjustment applied to trade receivables with a nominal value of EUR 1,550 k (prior year: EUR 238 k). Value adjustments have developed as follows:

IN EUR K	DEVELOPMENT OF VALUE ADJUSTMENTS
As at 31 December 2012	**249**
Utilisation	−154
Release	−95
Addtions recognised as expenses	238
As at 31 December 2013	**238**
Utilisation	−98
Release	−11
Addtions recognised as expenses	485
As at 31 December 2014	**614**

As at 31 December, the aging structure of trade receivables is as follows:

IN EUR K	TOTAL	IMPAIRED RECEIVABLE	NEITHER PAST DUE NOR IMPAIRED	PAST DUE, BUT NOT IMPAIRED			
				< 30 DAYS	30–60 DAYS	61–90 DAYS	>91 DAYS
31 Dec. 2013	7,870	238	4,308	2,321	232	70	701
31 Dec. 2014	**10,013**	1,550	6,523	1,134	127	156	523

The increase in receivables is primarily accounted for by receivables from purchase price retentions acquired from the merger with PO REIT (EUR 1,716 k). These are settled in step with the implementation of measures agreed under the purchase contract.

The decrease in receivables less than 30 days overdue, for which no value allowance is required, is primarily due to different invoicing points for ancillary costs. In the majority of cases they were drawn up in the 3rd quarter of the reporting year and settled before the end of 2014, whereas in the previous year these ancillary costs were not invoiced until the 4th quarter and were still being examined by lessees at 31 December 2013.

6.3. OTHER RECEIVABLES AND OTHER ASSETS

The other assets amounting to EUR 1,491 k (prior year: EUR 9,526 k) consist essentially of advance payments for a variety of administrative services totalling EUR 413 k (prior year: EUR 149 k) and claims for trade tax reimbursements totalling EUR 687 k (prior year: EUR 667 k).

In the previous year, other assets reported consisted essentially of deferred transaction costs for refinancing the acquisition loan worth EUR 5,847 k and deferred costs for the capital increase implemented in 2014 worth EUR 2,708 k. During the reporting year, the deferred costs of refinancing were deducted from the nominal amount of the loan on the date of disbursement by applying the effective interest method and will be amortised to income over the term. The deferred costs for the capital increase were openly deducted from the capital reserve in the reporting year at the point in time when the capital increase occurred.

For further details about capital measures and refinancing please see the notes in “6.6. Equity” and “6.7. Interest-bearing loans”.

6.4. CASH AND CASH EQUIVALENTS

This item consists of balances in current accounts totalling EUR 63,503 k (prior year: EUR 37,606 k).

Balances amounting to EUR 14,786 k (prior year: EUR 15,891 k) constitute liquidity reserves in the form of loan agreements which the Company may only draw down with the consent of the financing bank.

An amount of EUR 5,853 k (prior year: EUR 3,865 k) for the next interest and principal payment to the banks is included in cash and cash equivalents.

Likewise included here are the deposits received from lessees totalling EUR 2,565 k (prior year: EUR 2,421 k), which are held in trust by the Group. The lease deposits recorded under cash and cash equivalents have corresponding liabilities which are recognised in “Other liabilities”.

6.5. ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES

IN EUR K	31 DEC. 2014	31 DEC. 2013
Investment properties	92,800	70,150
Other assets	0	277
Liquid assets	0	14
Assets held for sale	**92,800**	**70,441**
Interest-bearing loans	0	61,828
Other liabilities	0	266
Liabilities in connection with assets held for sale	**0**	**62,094**

On the balance sheet as at 31 December 2014, the investment properties “Hohenzollernring” in Cologne (EUR 8,000 k), “Gutleutstrasse” (EUR 7,300 k) and “Ludwig-Erhard-Anlage” in Frankfurt (EUR 77,500 k) are reported as assets held for sale following purchase agreements notarised in November and December 2014 and January 2015. The risks and rewards for the two properties in Frankfurt have not yet been transferred, and this is expected to occur in the second quarter of fiscal year 2015, whereas the property in Cologne was transferred to its new owner on 1 February 2015.

The sale price agreed for the property “Ludwig-Erhard-Anlage” in Frankfurt was EUR 82,000 k. This will be reduced by EUR 3,500 k if the purchaser settles the final instalment of the purchase price due on 30 October 2015 prematurely on 30 April 2015. The Executive Board considers it more likely that the purchaser will complete the settlement early and in full on 30 April 2015, and so the property is recognised as an asset held for sale at the reduced purchase price which, after deduction of disposal costs amounting to approximately EUR 1,000 k, is EUR 77,500 k.

The recognised gain on the fair value valuation of the property in Cologne after deduction of disposal costs recognised on classification as an asset held for sale is EUR 305 k, while the two properties in Frankfurt show a loss of EUR 13,743 k. These amounts are presented in Income Statement under gain/loss on measurement at fair value.

For the properties "Gotenstrasse" in Hamburg (EUR 8,150 k) and "Yorckstrasse" in Düsseldorf (EUR 62,000 k), which were recognised under that item on 31 December 2013 and sold by purchase agreements on 17 October 2013 and 12 December 2013 respectively, the transfer of risk and reward occurred on 31 January 2014 and 1 January 2014 respectively. The property "Yorckstrasse" was sold under a share deal and the associated assets and liabilities were transferred to the purchaser.

6.6. EQUITY

Further information about changes in equity will be found in the Consolidated Statement of Changes in Equity.

ISSUED CAPITAL

The share capital as at 31 December 2014 is divided into 180,529,633 no-par value bearer shares (prior year: 82,000,000). The share capital is fully paid up.

The merger between PO REIT and the Company was entered in the Commercial Register at the District Court of Cologne on 21 January 2014 along with the increase in share capital to EUR 133,941,345.

On 14 February 2014, an increase in share capital to EUR 180,529,633 as a result of a cash capital increase from the issue of 46,588,288 new no-par-value bearer shares was entered in the Commercial Register at Cologne District Court. The cash capital increase was based on a price of EUR 2.80 per share.

AUTHORISED CAPITAL

In the light of the merger with PO REIT, the General Meeting on 23 September 2013 resolved an authorisation of capital (Authorised Capital 2013). Partial use of this was made in February 2014 for a cash capital increase.

Upon resolution by the General Meeting on 20 May 2014, the remainder of the authorised capital (Authorised Capital 2013) was cancelled in full. At the same time, the Executive Board was empowered to increase the share capital by up to EUR 90,264,816 in total until 19 May 2019, after obtaining the consent of the Supervisory Board, by making one or more issues amounting to no more than 90,264,816 new no-par-value bearer shares in return for payment in cash and/or kind (Authorised Capital 2014). The Executive Board is furthermore empowered, under certain circumstances and with the approval of the Supervisory Board, to waive the pre-emptive rights of shareholders on one or more occasions, in full or in part, for up to 36,105,926 new no-par-value bearer shares. Entries relating to the cancellation and creation of authorised capital and the amended Articles were filed in the Commercial Register on 7 July 2014.

CONTINGENT CAPITAL

Authorisation was created by resolution of the General Meeting on 23 September 2013 to conditionally increase the Company's share capital by up to EUR 25,000,000 by issuing up to 25,000,000 new no-par-value bearer shares (Contingent Capital 2013). This Conditional Capital 2013 serves to grant shares to the holders or creditors of convertible bonds and bonds with warrants, which can be issued by the Company pursuant to the authorisation of the General Meeting on 23 September 2013 until the close of 22 September 2018. The contingent capital was entered in the Company's Commercial Register on 21 January 2014.

CAPITAL RESERVE

The year-on-year changes to the capital reserve are as follows:

IN EUR K	2014	2013
As at 1 January	287,432	226,375
Contribution from the business combination PO REIT	114,219	0
Cash capital increase	83,859	0
Costs of capital increase less tax effects	−2,613	0
Withdrawals for compensation of loss carried forward and net loss under German GAAP as well as distribution of a dividend	−80,967	0
Withdrawals from company funds for the capital increase	0	−81,920
Contribution from the business combination German Acorn	0	182
Contributions of shareholders (Junior Loan)	0	135,078
Reclassification from other reserves	0	7,717
As at 31 December	401,930	287,432

On the day before its expiry the PO REIT share finished trading at a price of EUR 3.199 (XETRA closing price on 20 January 2014). The surplus value of the shares issued compared with the nominal amount, which is attributed to the merger with PO REIT on 21 January 2014, was transferred to the capital reserve (EUR 114,219 k).

The cash capital increase on 14 February 2014 was effected at a price of EUR 2.80 per share. The surplus compared with the nominal amount of the shares issued was transferred to the capital reserve (EUR 83,859 k).

The transaction costs for the cash capital increase consist essentially of transaction fees to the banking consortium.

The withdrawals from the capital reserve to compensate for the loss carried forward as of 1 January 2014 and the net loss for 2014 under German GAAP as well as the distribution of a dividend amount to EUR 80,967 k.

In the previous year OCM Luxembourg JD Herkules Investments S.à r.l. transferred its loan receivables from subsidiaries and sub-subsidiaries of Prime Office (junior loan) to the shareholders of the Company. On 26 November 2013, the Extraordinary General Meeting of the Company approved the contribution of the loan from shareholders to the capital reserve of the Company in the amount of EUR 135,078 k. A corresponding loan transfer agreement was then signed between the shareholders of the Company and the Company. Due to the loan waiver, the interest accrued on the Junior Loan in the amount of EUR 7,928 k, previously reported in “Other reserves”, was reclassified to the “Capital reserve”.

MISCELLANEOUS RESERVES (CUMULATIVE EQUITY)

Year-on-year changes to the miscellaneous reserves are shown below:

IN EUR K	2014	2013
As at 1 January	−1,150	−20,363
Profit from cash flow hedges (not recognised in income)	−14,314	20,208
Profit from cash flow hedges (recognised in income)	1,366	2,909
Changes due to deferred taxes	2,049	−3,904
As at 31 December	**−12,049**	**−1,150**

Miscellaneous reserves include gains and losses on the effective portion of cash flow hedges. The cumulative gain or loss from the hedging transaction reported in the miscellaneous reserves is transferred to the profit and loss account when the hedged transaction itself affects earnings.

The portion of the loss from the retired instrument used to hedge the Homer acquisition loan that was reported under miscellaneous reserves (cumulative equity) the previous year was reversed in full to profit and loss in the reporting year. We refer to our notes in “6.10. Financial instruments”.

RETAINED EARNINGS

In 2014, the recognition of deferred tax assets from loss carryforwards takes into account the German minimum taxation rule, providing that the excess of deferred tax liabilities is an indication of recoverability. The comparative period was adjusted accordingly, so that in the comparison period the carryforward of retained earnings as at 31 December 2012 was adjusted by EUR 2,237 k and the value as at 31 December 2013 by EUR 4,199 k. The difference of EUR 1,962 k has been deducted from net profit for 2013.

6.7. INTEREST-BEARING LOANS

PORTFOLIO/PROPERTY			CURRENT			NON-CURRENT	
IN EUR K	MATURITY IN YEARS	EFFECTIVE INTEREST RATE P.A.[1]	LOAN	DEFERRED INTEREST	TOTAL	LOAN	TOTAL, CURRENT AND NON-CURRENT
31 December 2014							
Herkules refinancing loan	5.02	EURIBOR + 2.11%	16,666	1,424	18,090	382,904	400,994
Homer refinancing loan	3.75	EURIBOR + 2.00%	7,024	864	7,888	356,052	363,940
Prime Office Portfolio							
Düsseldorf, Stuttgart, Nuremberg[2]	4.00	EURIBOR + 1.90%	1,023	0	1,023	53,187	54,210
Darmstadt, T-Online[2]	4.92	EURIBOR + 1.80%	3,687	0	3,687	80,584	84,271
Darmstadt, T-Systems[2]	5.00	EURIBOR + 1.80%	438	0	438	22,228	22,666
Essen, Alfredstrasse,[2]	2.50	EURIBOR + 1.44%	932	0	932	42,065	42,997
Essen, Opernplatz[2]	3.00	EURIBOR + 1.65%	580	0	580	18,485	19,065
Frankfurt, Ludwig-Erhard-Anlage[2]	3.00	4.35%	35,418	0	35,418	0	35,418
Meerbusch[2]	1.00	EURIBOR + 0.9%	9,745	0	9,745	0	9,745
Heilbronn[2]	2.50	EURIBOR + 1.44%	372	0	372	16,774	17,146
Weighted average	4.23						
Total			75,885	2,288	78,173	972,279	1,050,452
31 December 2013							
Herkules acquisition loan	0.17	EURIBOR + 1.38%	471,538	6	471,544	0	471,544
Homer acquisition loan	0.17	EURIBOR + 2.00%	454,412	1,606	456,018	0	456,018
Weighted average	0.17						
Total			925,950	1,612	927,562	0	927,562

[1] 3-month EURIBOR
[2] from business combination with PO REIT 21 January 2014

HEDGING RATE

Apart from the financing for the property "Ludwig-Erhard-Anlage" (0%) and for the Herkules portfolio (83%) and Homer portfolio (81%), all nominal amounts for loans are hedged 100% against the risk of rising interest rates by means of interest swaps or interest caps.

REPAYMENT

On 18 February 2014 the net proceeds from the cash capital increase amounting to EUR 128.6 million were paid out to the Company. Of these proceeds, EUR 74.8 million were used to repay the Homer acquisition loan and EUR 33.1 million to repay the Herkules acquisition loan. On 19 February 2014 the Homer acquisition loan along with the interest accrued was fully repaid out of freely available cash combined with an offset against the new Homer refinancing loan of EUR 370 million. Similarly, the Herkules acquisition loan was fully paid off on 20 February 2014 by offsetting the Herkules refinancing loan of EUR 425 million.

HERKULES REFINANCING LOAN

On 18 December 2013, an agreement was signed for the refinancing of the Herkules Acquisition Loan. The full Herkules Refinancing Loan of EUR 425 million was drawn down on 20 February 2014. The Herkules Refinancing Loan has been granted in the form of one tranche worth EUR 202 million, which will run until 18 December 2018 ("tranche A"), and another tranche amounting to EUR 223 million ("tranche B"), which will expire on 18 December 2020. The loan is to be repaid in equal instalments at 2.0% p.a. on a Loan to Value (LTV) equal to or greater than 55%, and when the LTV falls below 55%, at 1.5% p.a. of the nominal amount. The margin of 1.9% p.a. for tranche A applies to interest periods that begin with an LTV equal to or less than 65%, and a rate of 2.0% p.a. when the LTV is greater than 65%. For tranche B, the margin of 2.3% p.a. applies to interest periods that begin with an LTV equal to or less than 65%, and a rate of 2.4% p.a. when the LTV is greater than 65%.

The financial covenants for the Herkules refinancing loan comprise a Debt Service Cover Ratio (DSCR), a Loan to Value (LTV) and a Gross Yield Ratio (GYR) as defined in the underlying agreement. The GYR is measured at Group level.

All financial covenants agreed with the financing bank had been met at the reporting date.

HOMER REFINANCING LOAN

On 19 December 2013, an agreement worth EUR 370 million was signed for the refinancing of the Homer acquisition loan. The payment was drawn on 19 February 2014. The loan will run until 30 September 2018. The loan is to be repaid in equal instalments at 2% p.a. on an LTV equal to or greater than 55% and when the LTV falls below 55%, at 1.5% p.a. of the nominal amount. An interest rate of 2% p.a. applies to interest periods that begin with an LTV equal to or greater than 55%, and a rate of 1.9% p.a. when the LTV is less than 55%.

The financial covenants for the Herkules refinancing loan comprise a Debt Service Cover Ratio (DSCR), a Loan to Value (LTV) and a Gross Yield Ratio (GYR) as defined in the underlying agreement. The GYR is measured at both Group and portfolio level.

All financial covenants agreed with the financing bank had been met at the reporting date.

PRIME OFFICE PORTFOLIO LOANS

The business combination with PO REIT, which took effect on 21 January 2014, resulted in the transfer of secured loans with a fair value of EUR 330,413 k. All these loans are associated with specific properties and were concluded with different banks. The loans are secured by mortgages and other standard forms of bank collateral.

Financing for the properties in Stuttgart/Nuremberg/Düsseldorf was rescheduled under a loan agreement of 21 March 2014 with an expiry date of 31 December 2018. Refinancing took place on 31 March 2014. The loan is to be repaid in equal instalments at 2% p.a. on an LTV equal to or greater than 55%, and when the LTV falls below 55%, at 1.5% p.a. of the nominal amount.

The credit terms fixed for the loan of EUR 35.4 million for the "Ludwig-Erhard-Anlage" in Frankfurt/Main will be due on 30 April 2015. As at balance sheet date, this loan was classified as current liabilities since the purchase agreement was signed on 29 January 2015, and it is expected that the loan will be repaid in full on 30 April 2015. The term of the loan runs to 31 December 2017.

Financing for the properties in Darmstadt was extended, with effect from 1 July 2014, until 30 November and 31 December 2019, respectively, including unscheduled repayments of approx. EUR 5.94 million. The loans are to be repaid in equal instalments of EUR 426 k and EUR 115 k, respectively. For the loan which will run until 30 November 2019, unscheduled repayments totalling EUR 6 million are to be made over a period of three years on 30 June, beginning in 2015.

All financial covenants agreed with the financing banks had been met at the reporting date.

6.8. TRADE PAYABLES

IN EUR K	31 DEC. 2014	31 DEC. 2013
Trade Payables		
for structural improvements	4,614	1,601
for property management	4,277	4,455
for surplus advance payments on service charges	2,661	2,207
for sale of properties	534	1,034
for costs of refinancing, mergers, capital increase	0	13,482
Other	2,524	706
Total	**14,610**	**23,485**

The decrease in trade payables is directly associated with the settlement of the transaction costs incurred in the previous year for the merger with PO REIT subsequent cash capital increase as well as the costs for refinancing the acquisition loans.

The significant increase in payables for structural improvements to properties reflects the pronounced year-on-year increase in investment volume. This is essentially a consequence of the business combination with PO REIT and the structural improvements related to these properties which have not yet been finished.

6.9. OTHER LIABILITIES

IN EUR K	2014	2013
Property transfer tax	14,667	0
Deposits received	2,584	2,493
Prepaid rents	2,517	1,188
Personnel liabilities	1,495	649
Securities retained	980	968
VAT liabilities	919	779
Other	603	274
Total	**23,765**	**6,351**

The real estate transfer tax of EUR 23 million in connection with the PO REIT merger has so far been paid in full for one property and in the form of instalments for another four.

The increase in HR liabilities is essentially due to the rise in headcount, partly as a result of the merger with PO REIT, and consists for the most part of liabilities resulting from variable components of pay that are not disbursed until the following year.

The increase in miscellaneous other liabilities is essentially the result of the initial recognition of EUR 443 k for future financial liabilities arising from the closure of office premises in Munich. We refer to the notes in “5.3. Administrative expenses”.

6.10. FINANCIAL INSTRUMENTS

The risk management system applied by the Deutsche Office Group to credit risk, liquidity risk and the various market risks (interest risks and other price risks) is described along with its objectives, methods and processes in the risk report which forms part of the Combined Management Report.

CATEGORIES OF FINANCIAL INSTRUMENTS

The following categories of financial assets and liabilities applied at 31 December 2014:

IN EUR K	LOANS, RECEIVABLES AND OTHER FINANCIAL LIABILITIES AT AMORTISED COST	FAIR VALUE – OTHER INCOME	FAIR VALUE – RECOGNISED THROUGH PROFIT OR LOSS	NON-FINANCIAL ASSETS AND LIABILITIES	TOTAL
Financial assets					
Derivative financial instruments, non-current portion	0	0	2,002	0	2,002
Total non-current	**0**	**0**	**2,002**	**0**	**2,002**
Derivative financial instruments, current portion	0	0	493	0	493
Trade receivables and other receivables	10,555	0	0	413	10,968
Total current	**10,555**	**0**	**493**	**413**	**11,461**
Total financial assets	**10,555**	**0**	**2,495**	**413**	**13,463**
Financial liabilities					
Interest-bearing loans, non-current portion	972,279	0	0	0	972,279
Derivative financial instruments, non-current portion	0	11,566	30,655	0	42,221
Total non-current	**972,279**	**11,566**	**30,655**	**0**	**1,014,500**
Interest-bearing loans, current portion	78,173	0	0	0	78,173
Derivative financial instruments, current portion	0	2,748	9,405	0	12,153
Trade payables and other liabilities	36,608	0	0	2,517	39,125
Total current	**114,781**	**2,748**	**9,405**	**2,517**	**129,451**
Total financial liabilities	**1,087,060**	**14,314**	**40,060**	**2,517**	**1,143,951**

Financial instruments assigned to the column "Fair value – other income" are interest hedging transactions classified as hedge accounting

At 31 December 2013:

IN EUR K	LOANS, RECEIVABLES AND OTHER FINANCIAL LIABILITIES AT AMORTISED COST	FAIR VALUE – OTHER INCOME	NON-FINANCIAL ASSETS AND LIABILITIES	TOTAL
Financial assets				
Trade receivables and other receivables	8,475	0	8,704	17,179
Total financial assets, current	**8,475**	**0**	**8,704**	**17,179**
Financial liabilities				
Interest-bearing loans, current portion	927,562	0	0	927,562
Derivative financial instruments	0	6,046	0	6,046
Trade payables and other liabilities	29,406	0	1,189	30,595
Total current	**956,968**	**6,046**	**1,189**	**964,203**
Total financial liabilities	**956,968**	**6,046**	**1,189**	**964,203**

At the reporting date, there were no significant concentrations of default risk for loans and receivables (financial assets) designated as measured at fair value and recognised in income. The book value shown above reflects the maximum default risk for the Group in relation to loans and receivables of this nature.

FAIR VALUE OF FINANCIAL INSTRUMENTS RECOGNISED IN THE GROUP

The fair value of derivatives held by the Company is regularly determined by an independent expert using a simplified Discounted Cash Flow model. For the measurement of fair value, both the credit risk of the counterparty and the credit risk of the reporting entity are taken into account. The value adjustment to the fair value measurement of a derivative financial instrument in relation to the credit risk of the counterparty is referred to as the Credit Value Adjustment (CVA), and the value adjustment to a derivative financial instrument relating to the credit risk of the reporting entity is known as the Debt Value Adjustment (DVA).

As in the previous year, the book values of all financial instruments recognised at amortised cost provide an approximation of the fair value.

Due to the short-term nature of cash and cash equivalents, trade receivables, other receivables, trade accounts payable and other liabilities, in the opinion of the Company management the book values of these financial assets and liabilities correspond to the fair value as at 31 December 2014.

As in the previous year, interest-bearing loans of EUR 1,050,452 k (prior year: EUR 927,562 k) and derivative financial instruments amounting to EUR 54,374 k (prior year: EUR 6,046 k) are classified as level 2 in the fair value hierarchy.

There were no reclassifications between levels 1, 2 and 3 of the fair value measurements during the reporting year.

HEDGING THE FAIR VALUE OF FLOATING RATE LOANS

To hedge rising interest rates, the Group uses derivative financial instruments such as interest rate swaps and caps for loans with variable interest rates.

In an interest rate swap, the Group exchanges fixed and variable interest payments calculated on the basis of agreed nominal amounts. These agreements allow the Group to mitigate the risk of changing interest rates on the fair value of issued fixed-rate debt instruments and the cash flow risks associated with issued floating-rate debt instruments. The fair value of interest rate swaps at the reporting date is determined by discounting future cash flows using the yield curves at the reporting date and the credit risk associated with the contracts. This is reproduced below. The average interest rate is based on outstanding balances at the end of the financial year.

The interest rate swaps are settled on a monthly or quarterly basis. The floating rate on the interest rate swaps is the EURIBOR and/or the local interbank rate. The Group compensates for the net difference between fixed and variable interest rates or receives a compensation payment from the bank.

All interest rate swaps that exchange variable interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the cash flow exposures of the Group incurred from floating-rate borrowings. The interest rate swap and interest payments on loans occur simultaneously and the value set in the equity amount is recognised in income over the term during which variable interest payments on the debt affect the statement of profit and loss.

In fiscal year 2014, the following significant changes occurred with regard to derivative financial instruments:

REVERSAL OF INTEREST RATE HEDGES

The interest rate swap with a nominal amount of EUR 163,727 k, which was concluded to hedge against the interest rate risk arising from the Homer acquisition loan and whose term would have extended until 30 November 2014, was fully reversed on 19 February 2014. The portion of the loss from the former hedging instrument included in Other Reserves (accumulated equity) was fully recognised through profit or loss (EUR 1,366 k).

INTEREST RATE HEDGES FOR HOMER REFINANCING

On 19 February 2014, two interest-rate swaps were concluded for the Homer refinancing loan. As part of each transaction, an additional payment of EUR 1,865 k was agreed by the banks; these amounts were paid out to the Company on 28 February 2014. The total amount was used to finance the redemption amount of the original swap cited above. The term of each of the two swaps will end on 30 September 2018.

In addition, two interest caps were concluded for the Homer refinancing loan on the same day. The Company paid a one-off fixed premium of EUR 1,175 k for each cap. The term of each of the two interest caps will end on 30 September 2018.

As of 31 December 2014, the fair values of the interest-rate hedges for the Homer financing were as follows:

INTEREST RELATED CONTRACTS

IN EUR K	FIXED RATE/ CAPRATE P.A.	NOMINAL VALUE	FAIR VALUE
Swaps	1.6575%	117,000	−6,442
Caps	1.2500%	177,016	7
Total negative fair value			−6,442
Total positive fair value			7
Total nominal value		294,016	

The interest rate hedges for the Homer financing were not classifiable as effective throughout the entire accounting period for which the hedge was defined. The losses from changes to fair value were therefore reversed directly through profit and loss. The expenses amounting to EUR 5,261 k were recognised in finance expenses.

INTEREST RATE HEDGES FOR HERKULES REFINANCING

Three swaps were concluded on 20 February 2014 for the Herkules refinancing loan. The term of two of these three swaps will end on 18 December 2018, and one swap will run until 18 December 2020.

As of 31 December 2014, the fair values were as follows:

INTEREST RELATED CONTRACTS IN EUR K	FIXED RATE/ CAPRATE P.A.	NOMINAL VALUE	FAIR VALUE
Swaps	0.9375%	159,176	−4,596
Swap	1.3280%	175,724	−9,718
Total negative fair value			**−14,314**
Total nominal value		**334,900**	

The hedges for the Herkules financing met the criteria for hedge accounting and were effective throughout the reporting period. The loss from hedge instruments amounting to EUR 14,314 k is recognised as other income in the cash flow hedge reserve.

INTEREST RATE HEDGING FOR THE PRIME OFFICE PORTFOLIO

The hedging transactions for the Prime Office portfolio loan displayed the following fair values at 31 December 2014:

INTEREST RELATED CONTRACTS IN EUR K	FIXED RATE/CAPRATE P.A. AS AT 31 DEC. 2014	31 DEC. 2014 NOMINAL VALUE	31 DEC. 2014 FAIR VALUE
Property			
Darmstadt (T-Online-Allee)			
Swap	3.7700%	84,348	−13,104
Meerbusch (Earl-Bakken-Platz)			
Swap	4.2000%	9,752	−399
Essen (Opernplatz)			
Swap	3.1200%	19,099	−1,616
Essen (Alfredstrasse)			
Swap	2.8600%	30,122	−2,000
Cap	2.8600%	12,910	0
Darmstadt (Deutsche Telekom-Allee)			
Swap	5.2000%	22,770	−5,228
Stuttgart (Breitwiesenstrasse)			
Swap	3.0250%	19,851	−2,537
Nuremberg (Richard-Wagner-Platz)			
Swap	3.0250%	7,110	−908
Heilbronn (Bahnhofstrasse)			
Swap	2.8600%	12,012	−797
Cap	2.8600%	5,148	0
Swap to Swap (Payer Swap)	4.6900%	17,517	−3,659
Swap to Swap (Receiver Swap)	1.7400%	17,517	2,488
Düsseldorf (Am Seestern)			
Swap	2.9175%	27,302	−3,370
Total positive fair value			**2,488**
Total negative fair value			**−33,618**
Total nominal value		**285,458**	

All hedge transactions from the merger with PO REIT were rated ineffective throughout the accounting period defined for the hedge as from the date of the business combination. The gains from changes to fair value were therefore directly reversed through profit and loss. The income of EUR 832 k reduced finance expenses accordingly.

When it refinanced the Stuttgart/Nuremberg/Düsseldorf properties, the Company reduced the fixed interest rates of the existing and continuing swaps used to hedge the current loans by 1.6325 and 1.66 percentage points, effective as of 31 March 2014, against one-off payments to the swap counterparty totalling EUR 5,000 k.

The receiver and payer swap used to hedge the financing of the "Alfredstrasse" property in Essen was redeemed for a total amount of EUR 3,773 k, effective as of 27 June 2014. The redemption amount was paid in July 2014.

Following the extension of the loans for the two properties in Darmstadt, the associated interest rate hedges were adjusted with effect from 30 June 2014.

In this context, the two swaps used to hedge two tranches of the loan for financing the "T-Online-Allee" property in Darmstadt were replaced by a new interest rate hedge. Compared to its predecessors, the term of the swap was extended by one year, so that it matches the loan's due date. The swap's nominal amount and its repayment structure also match the loan. The fixed interest rates of the two swaps were thus reduced by 0.56 and 0.41 percentage points, respectively, to 3.77%, effective as of 30 June 2014.

The swap used to hedge the loan for financing the "Deutsche Telekom-Allee" property in Darmstadt was adjusted as of 30 June 2014 insofar as the variable interest rate was converted from 1-month EURIBOR to 3-month EURIBOR. The swap's nominal amount and its repayment structure were modified to match the terms of the loan. These changes led to additional cost for the Company, as reflected inter alia by a fixed interest rate that was 0.39 percentage points higher than the original interest rate hedge. In addition, a one-off payment of EUR 216 k was agreed with the swap counterparty, which was made in July 2014.

INTEREST RATE RISK

The interest rate on floating rate financial instruments is adjusted at intervals of less than one year. Financial instruments that are hedged are not subject to an economic interest rate risk.

The sensitivity analyses presented below are based on the exposure to interest rate risk of derivative and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared on the assumption that the amount of the outstanding liability at the reporting date was outstanding for the whole year.

Internal reporting to governing bodies with regard to interest rate risk assumes a rise or fall in the rate of 50 and 100 base points. This reflects the Executive Board's view of a reasonable potential change in the rates.

If interest rates had been 50/100 basis points higher/lower and all other variables had remained constant, the net income and shareholders' equity of the Group as at 31 December 2014 (and 31 December 2013) would rise/fall as follows:

		31 DEC. 2014			31 DEC. 2013		
INTEREST	DIFFERENCE (BASE POINTS)	INTEREST INSTRUMENTS (IN EUR K)	EQUITY (IN EUR K)	NET PROFIT (IN EUR K)	INTEREST INSTRUMENTS (IN EUR K)	EQUITY (IN EUR K)	NET PROFIT (IN EUR K)
3m EURIBOR	−100	−30,035	−30,035	−13,923	−379	−379	−379
3m EURIBOR	−50	−14,829	−14,829	−6,883	−379	−379	−379
3m EURIBOR	+50	14,754	14,754	7,021	635	635	635
3m EURIBOR	+100	30,017	30,017	14,757	1,265	1,265	1,265

The year-on-year increase in sensitivity is associated with the increased stock of derivative financial instruments. New hedging transactions have been initiated and acquired in connection with refinancing the acquisition loan and the merger with PO REIT. In the previous year, an interest rate swap was effected to hedge against the exposure to changing interest rates as a result of the Homer acquisition loan.

LIQUIDITY RISK

The Group monitors its risk of a potential shortage of funds using a periodic liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and ensuring flexibility through the use of cash and cash equivalents and interest-bearing loans.

The Group's financial liabilities have the maturities shown below. The information is based on the contractual undiscounted payments:

31 DEC. 2014

IN EUR K	UP TO 2015	UP TO 2016	UP TO 2017	UP TO 2018	UP TO 2019	FROM 2020	TOTAL
Interest-bearing loans	98,762	43,988	117,533	594,290	104,015	192,955	1,151,543
Trade payables and other liabilities	36,608	0	0	0	0	0	36,608
Derivative financial Instruments	14,298	13,313	11,618	9,042	6,134	651	55,056

31 DEC. 2013

IN EUR K	UP TO 2014	UP TO 2015	UP TO 2016	UP TO 2017	UP TO 2018	FROM 2019	TOTAL
Interest-bearing loans	927,562	0	0	0	0	0	927,562
Trade payables and other liabilities	29,406	0	0	0	0	0	29,406
Derivative financial instruments	6,046	0	0	0	0	0	6,046

CREDIT RISK

According to the Executive Board's assessment of the credit ratings of Group tenants, there are no significant concentrations of credit risk.

7. OTHER NOTES

7.1. OTHER FINANCIAL OBLIGATIONS

Obligations amount to EUR 4,723 k (prior year: EUR 2,403 k) from contracts already awarded for initiated or planned investment projects or from contractual agreements with tenants and other business partners.

The Group has entered into framework agreements with several external property managers for the management of the real estate portfolio. The agreement provides for annual payments of variable remuneration. The agreements currently have fixed terms until 31 December 2015 (prior year: 31 December 2014) and 31 December 2017 (prior year: 31 December 2015). One agreement stipulates special rights of termination in favour of the Group. The agreements are extended a year at a time if neither party has given three or six months' notice of termination.

7.2. CONTINGENT ASSETS

As in the previous year there were no contingent assets on the reporting date.

7.3. CONSOLIDATED STATEMENT OF CASH FLOWS

The Statement of Cash Flows shows how the cash and cash equivalents (see "6.4. Cash and Cash Equivalents") held by the Group changed during the reporting year due to inflows and outflows. In accordance with IAS 7 (Cash Flow Statement), a distinction is made between cash flows from operating, investing and financing activities.

The cash and cash equivalents presented in the Statement of Cash Flows include all payment resources consisting of credit balances with banks. Out of these balances the Company holds an amount of EUR 17,351 k (prior year: EUR 18,311 k), which is restricted.

The cash flows from investing and financing activities are calculated on a cash basis. Cash flow from operating activities is derived indirectly from consolidated earnings before taxes.

7.4. RELATED PARTY DISCLOSURES

At the Group reporting date, fund companies with a direct involvement held more than 50% (prior year: 100%) of shares in the Company capital. All of them are private equity funds managed by Oaktree Capital. A number of different investors have a role as limited partners in each of these funds. In keeping with the business model of private equity funds, these are passive investors who exert no active influence on the investment policies of these funds or on the policies of the operating entities in the fund structure. Via the respective general partner, the funds, via several intermediate companies, are ultimately all controlled by Oaktree Capital Group Holdings GP, LLC, of Los Angeles, California, USA. These companies thus have significant influence on the Company within the meaning of IAS 24.

Transactions with related entities resemble those occurring under normal market conditions.

Related parties are the Executive Board, the members of the Supervisory Board, and the managements of subsidiaries and sub-subsidiaries as well as their close relatives. No transactions were entered into with any of these individuals.

7.5. HEADCOUNT

In the reporting year 2014, the Company and hence the Group retained an average of 37 employees. 27 employment contracts were transferred to the Company as a result of the business combination with German Acorn and seven contracts as a result of the business combination with PO REIT.

7.6. THE EXECUTIVE BOARD

When the merger with PO REIT took effect on 21 January 2014, Alexander von Cramm, Munich, was appointed to the Executive Board of the Company.

As at 31 December 2014, the Executive Board of the Company consisted of Jürgen Overath, Hennef, and Alexander von Cramm, Munich.

The remuneration paid to the two members of the Executive Board during the reporting year totalled EUR 1,284 k (prior year: EUR 163 k for one member).

Jürgen Overath was not employed by the Company until September 2013 and until that point he received no remuneration from the Company. His previous employment was with German Acorn, where he was Managing Director. With effect from 1 October 2013 Mr Overath's employment contract with German Acorn was replaced by another with the Company. The comparative data for the previous year are therefore pro rata figures for three months.

For a breakdown of components of remuneration paid to the two members of the Executive Board, we refer to the detailed description in the Remuneration Report which forms part of the Combined Management Report.

7.7. THE SUPERVISORY BOARD

When the merger with PO REIT took effect on 21 January 2014, the Supervisory Board was expanded from three members to six. During fiscal year 2014, the composition of the Supervisory Board was as follows:

NAME	OCCUPATION	MEMBERSHIPS ON SUPERVISORY BOARDS AND OTHER SUPERVISORY BODIES WITHIN THE MEANING OF SECTION 125 (1) SENTENCE 5 OF THE GERMAN STOCK CORPORATION ACT (AKTIENGESETZ, "AKTG")
Hermann T. Dambach (Chairman from 22 January 2014)	Managing Director of Oaktree GmbH, Frankfurt/Main	
Uwe E. Flach (Deputy Chairman from 22 January 2014)	Management Consultant	Deutsche Wohnen AG, Frankfurt/Main (Chairman of the Supervisory Board) DZ Bank, Frankfurt/Main (Member of the Advisory Board) GSW Immobilien AG, Berlin (Member of the Supervisory Board)
Nebil Senman	Co-Managing Partner of Griffin Real Estate Sp. z.o.o., Warschau, Poland	
Edward P. Scharfenberg (from 22 January 2014)	Attorney at law	
Prof. Dr Harald Wiedmann (from 22 January 2014)	Auditor, Attorney at law, tax consultant	Pro SiebenSat1 Media AG, Unterföhring (Member of the Supervisory Board) Joh. Berenberg, Gossler & Co. KG, Hamburg (Chairman of the Board of Directors) Universal-Investment Gesellschaft mbH, Frankfurt/Main (Member of the Supervisory Board)
Caleb Kramer (from 20 May 2014)	Managing Director of Oaktree Capital Management L.P. and Oaktree Capital Group LLC, London	
Prof. Dr h. c. Roland Berger (from 22 January to 5 May 2014)	Honorary Chairman of Roland Berger Strategy Consultants GmbH, Munich	WMP EuroCom AG, Berlin (Chairman of the Supervisory Board) Deutsche Oppenheim Family Office AG, Grasbrunn (formerly Wilhelm von Finck Deutsche Family Office AG) (Deputy chairman of the Supervisory Board) Fresenius SE & Co. KGaA, Bad Homburg (Member of the Supervisory Board, Chairman of the Audit Committee) Fresenius Management SE, Bad Homburg (Member of the Supervisory Board) Schuler AG, Goeppingen (Member of the Supervisory Board) GEOX S.p.A., Montebelluna, Italy (Director) RCS Mediagroup S.p.A., Milan, Italy (Vice Chairman of the Board of Directors) Rocket Internet AG, Berlin (Member of the Supervisory Board), from 1 September 2014

For each full fiscal year of membership of the Supervisory Board, the members receive a fixed remuneration of EUR 20 k. The chair of the Supervisory Board receives twice the amount and the deputy chair of the Supervisory Board receives one and a half times the amount received by an ordinary member of the Supervisory Board as fixed remuneration. If the indicator “Funds from Operations (FFO)”, as reported in the audited Consolidated Financial Statements of the Company or, if the Company is under no obligation to compile them, the audited financial statements of the Company pursuant to section 325 para. 2a of the German Commercial Code (HGB), amount to at least EUR 75,000 k in a fiscal year, this firm remuneration will be doubled from the beginning of the following fiscal year. If a member of the Supervisory Board only exercises the function for part of a fiscal year, this remuneration will be disbursed on a pro-rata basis.

In fiscal year 2014 the members of the Supervisory Board received remunerations in accordance with Article 14 of the Articles of Association amounting to altogether EUR 144 k. In addition, expenses totalling EUR 13 k were reimbursed.

7.8. INFORMATION ON EXPERT FEES / AUDIT FEES

In the reporting year, the Group incurred expenses from expert fees for property valuation, CBRE GmbH, Frankfurt/Main, amounting to EUR 224 k (prior year: EUR 47 k).

At the Annual General Meeting on 20 May 2014, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was elected as auditor for the individual and consolidated financial statements for fiscal year 2014. Expenses on auditors are listed below:

IN EUR K	2014	2013
Audit	296	217
Other confirmations	56	874
Other services	46	1,115
	398	2,206

Other confirmations essentially refer to reviews by the auditors of the quarterly and half-year reports for 2014. In the previous year, other confirmations comprised the review of pro forma financial information, the review of the FFO estimate and the issue of a comfort letter in connection with the securities prospectus approved on 20 January 2014.

Other services primarily refer to tax consultancy. Other services in the previous year consisted essentially in insurance expenses for the comfort letter and the cost of the financial and tax due diligence in connection with the merger with PO REIT.

7.9. EVENTS SINCE THE REPORTING DATE

The property “Ludwig-Erhard-Anlage” in Frankfurt/Main was sold under a purchase agreement dated 29 January 2015 for a price of EUR 82,000 k. If the purchase price is paid in full on 30 April 2015, ahead of due date, the purchase price will be reduced to EUR 78,500 k. Risk and reward have not yet been transferred.

On 1 February 2015 risk and reward were transferred for the property “Hohenzollernring” in Cologne, sold under a purchase agreement dated 21 November 2014.

Cologne, 24 March 2015

The Executive Board

Alexander von Cramm

Jürgen Overath

COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO SECTION 313 PARA. 2 HGB

The following companies with their registered offices in Cologne in which the Company directly or indirectly holds 100% of the shares are included in the consolidated financial statements of DO Deutsche Office AG (formerly: Prime Office AG):

	COMPANIES
1	German Acorn PortfolioCo I GmbH
2	GA PortfolioCo I Verwaltungs GmbH
3	GA Regionen PortfolioCo I GmbH[1]
4	GA Objekt 2001 Beteiligungs GmbH[1]
5	GA Objekt 2003 Beteiligungs GmbH[1]
6	GA Objekt 2005 Beteiligungs GmbH[1]
7	GA Objekt 2007 Beteiligungs GmbH[1]
8	GA Objekt 2008 Beteiligungs GmbH[1]
9	GA Objekt 2009 Beteiligungs GmbH[1]
10	GA Objekt 2010 Beteiligungs GmbH[1]
11	GA Objekt 2011 Beteiligungs GmbH[1]
12	GA Objekt 2012 Beteiligungs GmbH[1]
13	GA Objekt 2001 Dortmund GmbH & Co. KG[2]
14	GA Objekt 2003 Ratingen GmbH & Co. KG[2]
15	GA Objekt 2005 Böblingen GmbH & Co. KG[2]
16	GA Objekt 2007 Köln GmbH & Co. KG[2]
17	GA Objekt 2008 Düsseldorf GmbH & Co KG[2]
18	GA Objekt 2009 Bonn GmbH & Co. KG[2]
19	GA Objekt 2010 München GmbH & Co. KG[2]
20	GA Objekt 2011 Frankfurt GmbH & Co. KG[2]
21	GA Objekt 2012 Berlin GmbH & Co. KG[2]
22	GA Fixtures and Facility Management PortfolioCo I GmbH
23	German Acorn PortfolioCo II GmbH
24	GA 5. Objekt 1004 Verwaltungs GmbH
25	GA 6. Objekt 1007 Verwaltungs GmbH
26	GA 7. Objekt 1008 Verwaltungs GmbH
27	GA 8. Objekt 1011 Verwaltungs GmbH
28	GA 10. Objekt 1014 Verwaltungs GmbH
29	GA 11. Objekt 1015 Verwaltungs GmbH
30	GA 12. Objekt 1016 Verwaltungs GmbH

	COMPANIES
31	GA 13. Objekt 1019 Verwaltungs GmbH
32	GA 14. Objekt 1020 Verwaltungs GmbH
33	GA 15. Objekt 1021 Verwaltungs GmbH
34	GA 17. Objekt 1024 Verwaltungs GmbH
35	GA 18. Objekt 1027 Verwaltungs GmbH
36	GA 19. Objekt 1028 Verwaltungs GmbH
37	GA 20. Objekt 1030 Verwaltungs GmbH
38	GA 21. Objekt 1034 Verwaltungs GmbH
39	GA 23. Objekt 1036 Verwaltungs GmbH
40	GA 24. Objekt 1037 Verwaltungs GmbH
41	GA 25. Objekt 1038 Verwaltungs GmbH
42	GA 26. Objekt 1039 Verwaltungs GmbH
43	GA 27. Objekt 1040 Verwaltungs GmbH
44	GA 28. Objekt 1042 Verwaltungs GmbH
45	GA 29. Objekt 1043 Verwaltungs GmbH
46	GA 32. Objekt 1046 Verwaltungs GmbH
47	GA 34. Objekt 1048 Verwaltungs GmbH
48	GA 35. Objekt 1049 Verwaltungs GmbH
49	GA 5. Objekt 1004 Beteiligungs GmbH[1]
50	GA 6. Objekt 1007 Beteiligungs GmbH[1]
51	GA 7. Objekt 1008 Beteiligungs GmbH[1]
52	GA 8. Objekt 1011 Beteiligungs GmbH[1]
53	GA 10. Objekt 1014 Beteiligungs GmbH[1]
54	GA 11. Objekt 1015 Beteiligungs GmbH[1]
55	GA 12. Objekt 1016 Beteiligungs GmbH[1]
56	GA 13. Objekt 1019 Beteiligungs GmbH[1]
57	GA 14. Objekt 1020 Beteiligungs GmbH[1]
58	GA 15. Objekt 1021 Beteiligungs GmbH[1]
59	GA 17. Objekt 1024 Beteiligungs GmbH[1]
60	GA 18. Objekt 1027 Beteiligungs GmbH[1]

	COMPANIES
61	GA 19. Objekt 1028 Beteiligungs GmbH[1]
62	GA 20. Objekt 1030 Beteiligungs GmbH[1]
63	GA 21. Objekt 1034 Beteiligungs GmbH[1]
64	GA 23. Objekt 1036 Beteiligungs GmbH[1]
65	GA 24. Objekt 1037 Beteiligungs GmbH[1]
66	GA 25. Objekt 1038 Beteiligungs GmbH[1]
67	GA 26. Objekt 1039 Beteiligungs GmbH[1]
68	GA 27. Objekt 1040 Beteiligungs GmbH[1]
69	GA 28. Objekt 1042 Beteiligungs GmbH[1]
70	GA 29. Objekt 1043 Beteiligungs GmbH[1]
71	GA 32. Objekt 1046 Beteiligungs GmbH[1]
72	GA 34. Objekt 1048 Beteiligungs GmbH[1]
73	GA 35. Objekt 1049 Beteiligungs GmbH[1]
74	GA 5. Objekt 1004 Bruchsal GmbH & Co. KG[2]
75	GA 6. Objekt 1007 Darmstadt GmbH & Co. KG[2]
76	GA 7. Objekt 1008 Dreieich GmbH & Co. KG[2]
77	GA 8. Objekt 1011 Düsseldorf GmbH & Co. KG[2]
78	GA 10. Objekt 1014 Erlangen GmbH & Co. KG[2]
79	GA 11. Objekt 1015 Eschborn GmbH & Co. KG[2]
80	GA 12. Objekt 1016 Eschborn GmbH & Co. KG[2]
81	GA 13. Objekt 1019 Frankfurt GmbH & Co. KG[2]
82	GA 14. Objekt 1020 Frankfurt GmbH & Co. KG[2]
83	GA 15. Objekt 1021 Frankfurt GmbH & Co. KG[2]
84	GA 17. Objekt 1024 Frankfurt GmbH & Co. KG[2]
85	GA 18. Objekt 1027 Hamburg GmbH & Co. KG[2]
86	GA 19. Objekt 1028 Kaiserslautern GmbH & Co. KG[2]
87	GA 20. Objekt 1030 Köln GmbH & Co. KG[2]
88	GA 21. Objekt 1034 Ludwigsburg GmbH & Co. KG[2]
89	GA 23. Objekt 1036 Neuss GmbH & Co. KG[2]
90	GA 24. Objekt 1037 Nürnberg GmbH & Co. KG[2]

	COMPANIES
91	GA 25. Objekt 1038 Ratingen GmbH & Co. KG[2]
92	GA 26. Objekt 1039 Recklinghausen GmbH & Co. KG[2]
93	GA 27. Objekt 1040 Stuttgart GmbH & Co. KG[2]
94	GA 28. Objekt 1042 Trier GmbH & Co. KG[2]
95	GA 29. Objekt 1043 Weiterstadt GmbH & Co. KG[2]
96	GA 32. Objekt 1046 Frankfurt GmbH & Co. KG[2]
97	GA 34. Objekt 1048 Ismaning GmbH & Co. KG[2]
98	GA 35. Objekt 1049 Ismaning GmbH & Co. KG[2]
99	GA Region Nord GmbH[1]
100	GA Region Süd GmbH[1]
101	GA Region Mitte GmbH[1]
102	GA Region Leipzig GmbH[1]
103	GA Fixtures and Facility Management PortfolioCo II GmbH

[1] The company makes use of the relief provision of section 264 Para. 3 HGB.
[2] The company makes use of the exemption provision of section 264 b HGB.

AUDIT OPINION

We have audited the consolidated financial statements prepared by DO Deutsche Office AG (formerly: Prime Office AG), Cologne, comprising the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash flows, the Consolidated Statement of Changes in Equity, and the Notes, together with the management report for the Company and for the Group for the fiscal year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the management report for the Company and for the Group in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a Para. 1 HGB are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and on the management report for the Company and for the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements prepared in accordance with the applicable financial reporting regulations and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of consolidated entities, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a Para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management report for the Company and for the Group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, 24 March 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Völker	Galden
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

DECLARATION OF THE LEGAL REPRESENTATIVES

"We hereby certify that, to the best of our knowledge and in accordance with the applicable rules on financial reporting, the Consolidated Financial Statements for the period ending 31 December 2014 give a true and fair view of the Group's net assets, financial position and results of operations, and that the Group Management Report, which is combined with the Management Report of DO Deutsche Office AG, provides a true and fair view of the Group's business performance including the Group's results of operations and current status, and sets out the opportunities and risks associated with the Group's expected development."

Cologne, 24 March 2015

Alexander von Cramm   Jürgen Overath

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

In the following report, the Supervisory Board of DO Deutsche Office AG would like to inform you about its activities in the fiscal year 2014.

At the beginning of the year, the Supervisory Board's activities were focused on two transactions: the company's merger with Prime Office REIT-AG, Munich, which was completed on 21 January 2014 when the merger was entered in the registry of companies; and the capital increase, which was successfully implemented in this connection, yielding gross proceeds of EUR 130.4 million. With this capital measure, Deutsche Office improved its capital base and reduced its gearing (loan-to-value ratio) initially to approx. 58 percent and later in the year to just below 55 percent following the early repayment of additional loans.

The integration of the merged companies was completed in mid-2014 in Cologne, which was earlier than expected. Following the merger, the Executive Board proposed, with the Supervisory Board's approval, that the company should be renamed Deutsche Office as an office property company focusing on German metropolitan regions and conurbations. This proposal was adopted at the Annual General Meeting on 20 May 2014, and the new name was entered in the register of companies on 7 July 2014.

Other key issues also discussed by the Supervisory Board in fiscal 2014 included the company's operational performance within the context of the economic environment and the property market in Germany, fundamental issues concerning corporate planning, the company's strategic direction and its financing.

In the second half of 2014, the Supervisory Board dealt intensively with the sales process for the "Westend Ensemble" property in Frankfurt, which the Executive Board had initiated in August 2014 following the approval of the preliminary building application by the City of Frankfurt.

ADVISING AND SUPERVISING THE MANAGEMENT

In fiscal year 2014, the Supervisory Board of Deutsche Office performed its duties, as stipulated by law and the Articles of Association, of continually monitoring and advising the company's management. The activities of the Executive Board did not give rise to any objections. In accordance with Section 90(1) and (2) of the German Stock Corporation Act (AktG), the Executive Board fully and promptly informed the Supervisory Board on a regular basis in oral and written reports about all the material issues of business planning and strategic development. No use was made of the Supervisory Board's rights of inspection and audit under Section 111(2) sentences 1 and 2 of the German Stock Corporation Act (AktG) because no matters requiring clarification arose. When the Supervisory Board's approval was required for decisions and measures of the Executive Board, the members of the Supervisory Board carefully examined the proposals submitted by the Executive Board and adopted resolutions on the basis of written and oral information.

COMPOSITION OF THE SUPERVISORY BOARD

In accordance with Sections 95 and 96 in conjunction with the Articles of Association, the company's Supervisory Board consists of six members.

The current members of the Supervisory Board are Mr Hermann T. Dambach (Chairman), Mr Uwe E. Flach, Mr Caleb Kramer, Mr Nebil Senman, Mr Edward P. Scharfenberg and Professor Dr Harald Wiedmann.

On 4 April 2014, Professor Dr h.c. Roland Berger informed the company that he would resign from the Supervisory Board, effective as of the end of 5 May 2014, i.e. within the statutory period of notice. The Nomination Committee suggested that Mr Caleb Kramer should be proposed as a candidate at the company's Annual General Meeting to be elected as a member of the Supervisory Board for a period of two years as of the date of his appointment. Mr Kramer was elected at the company's Annual General Meeting on 20 May 2014.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

In 2014, the Supervisory Board held seven ordinary meetings. In addition, a total of four resolutions were adopted in writing. No member of the Supervisory Board attended less than half of the Supervisory Board meetings. All the Supervisory Board members participated in all the meetings and/or the resolutions adopted in writing; absent Supervisory Board members either attended the meetings by telephone or had asked another member of the Supervisory Board to transmit their vote. The Executive Board attended all the Supervisory Board meetings and presented comprehensive reports about the status of the company and its business performance. In its reports, the Executive Board informed the Supervisory Board not only about the key performance indicators but also about the company's profitability and liquidity, specific developments in the property sector and with regard to specific properties held by the company, as well the internal control and risk management system. In addition, the Supervisory Board Chairman and the two Executive Board members, Mr Alexander von Cramm and Mr Jürgen Overath, held regular detailed talks about the company's recent business performance and major business transactions.

At its meeting on 15 January 2014, the Supervisory Board dealt with the refinancing of the Herkules and Homer loans.

The meeting on 22 January 2014 was the constituent meeting of the Supervisory Board which had been enlarged to 6 members after the entry into effect of the merger of Prime Office REIT-AG with the company. At this meeting, the Supervisory Board elected, from its midst, Mr Hermann T. Dambach as Chairman of the Supervisory Board. Mr Uwe E. Flach was elected as Deputy Chairman. Furthermore, the Supervisory Board appointed the members of its various committees and adopted the Rules of Procedure for the Executive Board and the Supervisory Board.

At its meeting on 25 March 2014, the Supervisory Board primarily discussed the Individual Financial Statements and the Consolidated Financial Statements for the fiscal year 2013. At the meeting, the Supervisory Board approved the Individual Financial Statements as of 31 December 2013 and the Consolidated Financial Statements as of 31 December 2013, which were thus adopted. In addition, the Supervisory Board adopted the resolution on its report to the Annual General Meeting for the fiscal year 2013. The agenda for the Annual General Meeting on 20 May 2014, which had already been discussed at the meeting on 25 March 2014, was adopted on 25 April 2014 by means of a written resolution.

At its meeting on 20 May 2014, the Supervisory Board dealt with the company's business performance since the beginning of the year. The Executive Board presented a detailed report about the company's year-to-date performance in 2014. In addition, the Executive Board informed the Supervisory Board about the progress made and the current status of integration in the wake of the merger. Since the integration had nearly been completed, the Supervisory Board decided to dissolve the Merger Integration Committee. After Mr Cramer's election as a Supervisory Board member by the Annual General Meeting, the Supervisory Board appointed new members to its committees.

At its meeting on 1 August 2014, the Supervisory Board concentrated on the financial report on the first half of 2014, the company's operational performance and the development of the letting business. In addition, the Supervisory Board approved various transactions requiring its approval under the Executive Board's Rules of Procedure, in particular the conclusion of rental contracts.

At its meeting on 31 October 2014, the Supervisory Board dealt with the company's quarterly performance as of 30 September 2014 and approved the conclusion of several rental contracts. In addition, the Supervisory Board discussed the status of various sales projects in depth, in particular the status of the structured sales process initiated with regard to the "Westend Ensemble" property.

On 10 December 2014, the Supervisory Board dealt with the Executive Board's status report and the budget plan submitted by the Executive Board, as well as risk management issues. In addition, the Supervisory Board discussed the appropriateness of the Executive Board's compensation, in particular relative to the top management's remuneration and the remuneration of the employees of Deutsche Office as a whole, defining relevant demarcation criteria and the development of the remuneration over time. In addition, the Supervisory Board discussed, and adopted a resolution on, the Declaration of Compliance with the Recommendations of the German Corporate Governance Code.

In accordance with its current Rules of Procedure, the Supervisory Board of Deutsche Office currently has the following committees: the Executive Committee, the Nomination Committee, the Audit Committee and the Property and Financing Committee. Their purpose is to increase the efficiency of the Supervisory Board's work and to deal with complex matters.

The Executive Committee coordinates the work in the Supervisory Board and prepares the Supervisory Board's meetings; it is composed of Hermann T. Dambach (Chairman), Uwe E. Flach and Caleb Kramer. In 2014, the Executive Committee adopted a resolution to pay out the PSUs awarded to the former Prime Office REIT-AG employees within the framework of their incentive programme.

The Nomination Committee prepares the Supervisory Board's personnel decisions, in particular with regard to the members of the Executive Board. The Committee consists of Hermann T. Dambach (Chairman), Uwe E. Flach and Caleb Kramer. In 2014, the Committee mainly dealt with the search for a successor to Professor Berger. At its meeting on 4 April 2014, the Nomination Committee decided to propose Mr Caleb Kramer as a candidate for election by the Annual General Meeting.

The Audit Committee prepares the Supervisory Board's resolutions concerning the approval of the year-end financial statements and agreements with auditors; it discusses half-year and quarterly financial reports with the Executive Board prior to their publication, analyses the company's risk management and advises the Supervisory Board with regard to the development of the risk management system. The Audit Committee's members are Professor Dr Harald Wiedmann (Chairman), Uwe E. Flach and Nebil Senman.

In 2014, the Audit Committee had four ordinary meetings and adopted two resolutions in writing. At its meetings, the Audit Committee discussed in depth and approved the company's year-end financial statements for 2013 in the presence of the auditor (meeting of 25 March 2014), the quarterly financial statements for Q1/2014 (meeting of 5 May 2014), the financial statements for the first half of 2014 (meeting of 1 August 2014) and the nine-month financial statements as of 30 September 2014 (meeting of 31 October 2014). In addition, the Audit Committee dealt with the reports presented on risk management and the significant risks identified, as well as the review of the compliance principles and corporate procedures, including the effectiveness of the control system.

The Property and Financing Committee discusses with the Executive Board potential targets and conditions for the acquisition or sale of real property or holdings, the company's financing structure as well as the objectives and terms for financing the acquisition or sale of properties. In accordance with the Rules of Procedure for the Executive Board, the Committee is involved in the approval of transactions for which the Executive Board needs the Supervisory Board's approval. The members of the Property and Financing Committee are Hermann T. Dambach (Chairman), Nebil Senman and Edward Scharfenberg.

At its meeting on 21 November 2014, the Property and Financing Committee mainly discussed the company's various sales activities. In addition, the Committee reviewed the broad lines of the business plan for 2015 to 2017 and, on this basis, discussed the strategy for potential acquisitions.

The special committees established in 2014 on the capital increase, on merger integration (this committee held a total of three meetings to review the status of integration of Prime Office REIT-AG into the company and to discuss the next steps with the Executive Board) and on the company's strategic direction were dissolved at the end of the past fiscal year following the completion of the projects for which the committees had been established.

CORPORATE GOVERNANCE

Responsible and value-based management also includes the implementation of the German Corporate Governance Code, which Deutsche Office has already largely implemented. In the wake of the admission of the shares of Deutsche Office for trading on the Frankfurt Stock Exchange in January 2014, the company issued the Declaration of Compliance required under the German Corporate Governance Code for the first time in December 2014 and published it on the company website at *www.deutsche-office.de*. The Declaration of Compliance is also available to shareholders on the company's website.

There are no actual or potential conflicts of interest between the duties of the members of the company's Executive Board and Supervisory Board and their private interests or other obligations.

REVIEW OF THE 2014 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AND OF THE RELATED PARTIES REPORT

With reference to the Executive Board's Related Parties Report for fiscal year 2014 and the auditor's report on this matter, the Supervisory Board put on record the following statement at its meeting on 24 March 2015:

"The Related Parties Report shows that, in the legal transactions performed with affiliated companies, Deutsche Office has received reasonable consideration and has not been placed at a disadvantage. The Related Parties Report was reviewed by the auditor. The auditor issued the following audit opinion: "After duly auditing and assessing the Related Companies Report, we confirm that:

1. the factual statements in the report are correct,

2. the payments made by the company in the legal transactions outlined in the report were not unreasonably high,

3. there is no reason to evaluate the measures mentioned in the report in any way other than as evaluated by the Executive Board."

Following its own review, the Supervisory Board concurs with the assessment made by the auditor and thus approves the Related Parties Report."

At its meeting on 24 March 2015, the Supervisory Board discussed the key figures of the Annual and Consolidated Financial Statements in the presence of representatives of the auditor. Prior to the meeting, the members of the Supervisory Board had received the Audit Committee's report as well as a broad range of other documents, including the Combined Management Report, the Corporate Governance Statement, as well as the Remuneration Report. Following its own review of the Annual Financial Statements, the Consolidated Financial Statements and the Combined Management Report as of 31 December 2014, the Supervisory Board endorsed the findings of the auditor who had issued an unqualified opinion. The Supervisory Board declared that no objections were raised. The Supervisory Board agreed with the Executive Board's appraisal in the Combined Management Report. The Supervisory Board approved the Annual Financial Statements, which were thus adopted under Section 172 of the German Stock Corporation Act (AktG). The Supervisory Board also approved the Consolidated Financial Statements under Section 171(2) Sentences 4 and 5 Stock Corporation Act (AktG). At its meeting on 24 March 2015, the Supervisory Board adopted the Supervisory Board's Report, the Corporate Governance Statement and the Remuneration Report in their present form.

The Supervisory Board thanked the Executive Board and the employees of Deutsche Office for their great personal commitment and for the work done in the past fiscal year.

Cologne, 24 March 2015

Hermann T. Dambach
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

STATEMENT OF CORPORATE GOVERNANCE PURSUANT TO SECTION 289A GERMAN COMMERCIAL CODE

The Executive Board and the Supervisory Board of DO Deutsche Office AG ("Deutsche Office") work together closely in a spirit of trust to promote the interests of the Company; they are aware of their responsibility towards shareholders, tenants and employees. The pursuit of good corporate governance unites all Company units, strengthening the confidence placed in the Company and in the controls it has in place, by investors, the capital market, tenants and business partners, employees and the general public. In consequence, Deutsche Office attaches importance, among other things, to proactive, sustainable and transparent reporting and communications.

GERMANY'S CORPORATE GOVERNANCE CODE AND DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT

Responsible, value-oriented governance also means implementing the German Corporate Governance Code (DCGK). The Company has been listed since 2014. After its shares were admitted for trading on the Frankfurt Stock Exchange in fiscal year 2014, Deutsche Office complied with the requirements of the DCGK by issuing a Declaration of Compliance with the Code and publishing it on the Deutsche Office website at *www.deutsche-office.de* "Investors/Corporate Governance/Declaration". Deutsche Office has made this Declaration of Compliance permanently available to shareholders and will do the same with its declarations of compliance in future years.

DECLARATION OF COMPLIANCE ADOPTED IN DECEMBER 2014

"Section 161 of the German Stock Corporation Act (AktG) requires the executive board and the supervisory board of a listed company to issue an annual declaration confirming that they have complied with the recommendations drawn up by the Government Commission on the German Corporate Governance Code and published by the Federal Ministry of Justice in the official section of the Federal Gazette, and if not which recommendations they have not applied and for what reasons.

The Company has been listed since January 2014. Following the issue of shares for trading on the Frankfurt Stock exchange, the Company responded to the requirements of the German Corporate Governance Code (DCGK) by issuing its first Declaration of Compliance. It has published this declaration on the website of DO Deutsche Office AG ("Deutsche Office") at *www.deutsche-office.de* and made it permanently available to shareholders.

Deutsche Office currently complies with and will continue to comply with the recommendations of the DCGK in its most recent version dated 24 June 2014, with the following exceptions:

Unlike Recommendation 3.8 DCGK, at the time when shares were admitted for trading in January 2014 the terms and conditions of the D&O insurance policy for members of the Supervisory Board did not yet provide for a deductible. The deductible envisaged in DCGK has now been implemented.

Unlike in Recommendation 4.2.1 DCGK, although the Executive Board has more than one member, no spokesperson or chair has been designated. Rather, the two members of the Executive Board mutually complement and represent each other; in keeping with their clearly defined functional responsibilities, they regularly consult with the Chairman of the Supervisory Board and inform him of developments of significant interest to Deutsche Office. Under these circumstances, the Executive Board and the Supervisory Board take the view that designating a spokesperson or a chairman would not produce any benefits for the Company.

The members of the Executive Board and the Supervisory Board of Deutsche Office will continue to observe statutory requirements when deciding personnel matters and will take account of the professional and personal qualifications of all candidates, regardless of gender. In this regard, the Executive Board and the Supervisory Board are mindful of diversity within their particular spheres of responsibility and seek to take appropriate account of women.

Unlike Recommendation 5.4.1 paragraph 2 DCGK, the Supervisory Board has not yet adopted any concrete objectives in this field. The Supervisory Board takes the view that, given the modest size of the Supervisory Board with its six members, the best possible composition is not dependent on previously defining targets. The appointment of women has been an aspiration since the IPO, and will continue to be so, to the extent that suitable female candidates are available.

The Company does not currently fully comply with Recommendation in 4.2.3 DCGK to cap the remuneration of the Executive Board either overall or for its variable components. The contract with Mr Overath does limit the various fixed and variable components. The contribution towards health insurance is not capped in terms of amount, but limited to half the maximum levels in statutory health and care insurance. In addition to the fixed and variable components in his pay, Mr Overath is entitled to receive an appropriate special bonus for outstanding performance. This is to be granted at the reasonable discretion of the Supervisory Board, and to date the Supervisory Board has not set a cap for the amount. As the key components of the remuneration are either subject to maximum limits or to be determined by the Supervisory Board, it is the view of the Supervisory Board, with whom the responsibility therefore lies, that capping the overall amount is unnecessary. The contract with Mr von Cramm is based on his previous contract with Prime Office REIT-AG, which was merged with the Company. Due to the specific circumstances resulting from the merger, no cap was introduced for one variable component of the remuneration or for the total remuneration. Compliance with Recommendation 4.2.3 DCGK within the framework of future contract negotiations is being examined by the Supervisory Board in conjunction with the development of variable pay components for Executive Board members. In keeping with Recommendation 4.2.5 DCGK, the Company intends to provide additional details about remuneration, on the basis of the recommended model tables, in its Remuneration Reports from fiscal year 2014 onwards.

The merger, which was entered in the Commercial Register in January 2014, and the cash capital increase carried out in February 2014 meant that, as a result of these projects, the annual financial statements and the consolidated financial statements were not completed until the end of March 2014. Hence, the annual financial statements and the consolidated financial statements were not published until early April 2014. This entailed a failure to comply with Recommendation 7.1.2 DCGK, which calls for annual financial statements to be published within 90 days of the reporting date. In future the Company will also comply with this aspect of Recommendation 7.1.2 DCGK.

The remuneration of the Supervisory Board has been set out in the Articles of Association of Deutsche Office. Unlike Recommendation 5.4.6 DCGK, no separate remuneration is awarded for chairing or serving on committees. The Company's Supervisory Board is composed of six members, all of whom are heavily involved in the Company's affairs and all of whom serve on at least one committee. Under these circumstances, the Supervisory Board believes it is appropriate to dispense with any further differentiation based on work in committees.

The recommendation in 5.4.1 DCGK on an age limit for Supervisory Board members was not initially observed at the time the shares were admitted to trading in January 2014 because the Company had seen no need for this prior to the IPO. However, in January 2014, at the first meeting of the Supervisory Board after shares began trading, the Supervisory Board included this item when adopting its Rules of Procedure, so that since this date the Company has complied with Recommendation 5.4.1 DCGK."

THE FUNCTIONING OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The Executive Board and Supervisory Board work together closely in a spirit of trust to promote the interests of the Company. To this end, the Supervisory Board and Executive Board maintain regular contact and foster a detailed exchange.

The aim is to ensure the long-term existence of Deutsche Office and sustainable generation of value. In line with the statutory requirements for German stock companies, Deutsche Office operates a two-tier system of management. This safeguards a functional separation between those responsible for managing the Company and those responsible for monitoring their activities.

THE FUNCTIONING OF THE EXECUTIVE BOARD

Since the merger between Prime Office REIT-AG and OCM German Real Estate Holding AG, Deutsche Office has been managed by an Executive Board composed of two members. Their functional competences have been defined as follows:

ALEXANDER VON CRAMM

Financing, controlling and accounting, investor relations, IT & risk management, compliance, legal affairs & tax

JÜRGEN OVERATH

Asset, property & lease management, technical management, and acquisitions & disposals

The members of the Executive Board jointly bear independent responsibility for the Company. Their managerial remit includes the definition of corporate objectives, the strategic direction of the Company, its management, monitoring, planning and financing.

The tasks of the Executive Board are set out in detail in the Rules of Procedure for the Executive Board.

The Executive Board of Deutsche Office consults the Supervisory Board regularly about the Company's strategic direction and ensures its implementation. To this end, the Executive Board regularly reports on the status of implementation and target achievement. The Executive Board of Deutsche Office informs the Supervisory Board regularly, promptly and in detail about all issues relevant to operational progress, financial status, earnings, planning, target achievement, risk exposure and risk management. It describes and puts forward explanations for any deviations in business performance from planning and defined objectives.

Some Executive Board decisions are of such significance or weight that they require the approval of the Supervisory Board. Executive Board transactions requiring approval are set out in the Rules of Procedure for the Executive Board.

THE FUNCTIONING OF THE SUPERVISORY BOARD

The Supervisory Board appoints, monitors and advises the Executive Board. The Executive Board involves the Supervisory Board directly in any decisions of fundamental importance for the Company. Decisions of this nature require the approval of the Supervisory Board.

The terms of office for members of the Supervisory Board are as follows: Messrs Hermann T. Dambach, Uwe E. Flach, Caleb Kramer, Edward P. Scharfenberg and Nebil Senman will serve on the Supervisory Board of the Company until 2017. Professor Dr Harald Wiedmann's term of office ends in 2019.

In order to fulfil its tasks, the Supervisory Board must adopt its own Rules of Procedure and create committees composed of its members. Under its current Rules of Procedure, the Supervisory Board of Deutsche Office has established the following committees with a view to increasing the efficiency of the work of the Supervisory Board and addressing complex issues: the Executive Committee, the Nomination Committee, the Audit Committee, and the Property and Financing Committee.

- The Executive Committee is responsible for consulting and decision-making in time-sensitive matters unless the law provides otherwise. It is also responsible for ongoing coordination with and advice to the Executive Board, and for preparing meetings of the Supervisory Board wherever the scope and significance of the agenda items make this appropriate. The Chairman's Committee is also responsible for drawing up and signing the Executive Board members' employment contracts, which are based on decisions taken by the full Supervisory Board with regard to each separate Executive Board member. The Executive Committee consists of Hermann T. Dambach (Chairman), Uwe E. Flach and Caleb Kramer.

- The Nomination Committee prepares personnel decisions to be taken by the Supervisory Board, in particular in the context of proposals from the Supervisory Board to the Annual General Meeting. The Committee is composed of Hermann T. Dambach (Chairman), Uwe E. Flach and Caleb Kramer.

- The Audit Committee prepares the Supervisory Board's decisions on the approval of the annual financial statements and the contracts with the certified auditors, analyses the Company's risk management and advises the Supervisory Board on how the risk management can be further enhanced. The Audit Committee consists of Prof. Dr Harald Wiedmann (Chairman), Uwe E. Flach and Nebil Senman.

- The Property and Financing Committee confers with the Executive Board on potential targets, the terms for purchases or sales of properties or investments, the financing structure of the Company, financing targets and the criteria for property purchases or sales. As set out in the Executive Board's Rules of Procedure, the committee participates in the approval of transactions that require approval by the Supervisory Board. The Property and Financing Committee consists of Hermann T. Dambach (Chairman), Nebil Senman and Edward P. Scharfenberg.

The Merger Integration Committee's role was to support the Supervisory Board in its task of advising the Executive Board on the integration of the merged companies. This called for harmonisation between the two corporate structures and the formulation of consistent standards for the purchase, financing, management, monitoring and disposal of properties, along with the related reporting, communications and publications. The Merger Integration Committee was composed of Hermann T. Dambach (chair), Uwe E. Flach and Nebil Senman. As the integration of the former Prime Office REIT-AG into Deutsche Office at the Cologne site was completed faster than expected, the Supervisory Board decided at its meeting on 20 May 2014 to dissolve the Merger Integration Committee initially formed to support progress.

The ad hoc Capital Increase Committee, composed of Messrs Hermann T. Dambach (chair), Uwe E. Flach and Nebil Senman, was similarly no longer required once the transaction had been effectively concluded in February 2014.

The Supervisory Board reviews the efficiency of its own activities and the independence of its members. The members of the Supervisory Board must immediately disclose any conflicts of interest to the Supervisory Board. In its Report to the General Meeting, the Supervisory Board details any conflicts of interest that have emerged and explains how they have been dealt with.

REMUNERATION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The remuneration system for the Executive Board and the Supervisory Board of Deutsche Office is described in the Remuneration Report for fiscal year 2014, which is an integral part of the Management Report.

KEY MANAGEMENT PRACTICES

COMPLIANCE

Compliance serves to ensure adherence with laws and regulations. Under the German Corporate Governance Code, it is the task of the Executive Board to ensure compliance with legal provisions. The Board therefore promotes compliance with the law among all employees of Deutsche Office and engages in direct exchange with staff to this end, since the reputation of the Company and the trust of shareholders, tenants and business partners depends of the employees of Deutsche Office. With this in mind, Deutsche Office has designed a compliance system and adopted a code of conduct that among other things spells out key principles.

Compliance falls under the responsibility of Executive Board member Alexander von Cramm. He is responsible for monitoring and ensuring respect for the compliance rules. Breaches are not tolerated but fully investigated and punished. Apart from disciplinary measures, non-compliance with the law can result in the termination of contracts, claims for damages and criminal prosecution.

The Executive Board can also discuss compliance issues with the Audit Committee of the Supervisory Board.

DIRECTORS' DEALINGS

Section 15a of the German Securities Trading Act requires persons discharging managerial responsibilities within an issuer of financial instruments to disclose their personal transactions in shares of the issuer and financial instruments based on them, especially derivatives, to the issuer and to the German Financial Supervisory Authority (BaFin). This duty of disclosure applies to the members of the Executive Board and the Supervisory Board as well as to other senior executives of Deutsche Office who have regular access to insider information about the Company and are empowered to make significant managerial decisions. The duty of disclosure also applies to persons closely associated with these senior executives and to legal entities in which these senior executives or persons closely associated with them discharge managerial responsibilities or which are controlled by them.

The following director's dealings within the meaning of Section 15a of the German Securities Trading Act took place in fiscal year 2014: On 11 February 2014, Executive Board member Jürgen Overath acquired 3,512 shares in Deutsche Office by exercising pre-emptive rights under the Company's capital increase. The transaction amounted to EUR 9,833.60 and was made over the counter at a price of EUR 2.80. Supervisory Board member Prof. Dr Harald Wiedmann acquired 32,000 shares in Deutsche Office on 18 February 2014; the transaction amounted to EUR 90,944 and was carried out on XETRA at a price of EUR 2.842.

SHARES HELD BY THE EXECUTIVE BOARD AND SUPERVISORY BOARD

On 10 March 2015 Executive Board member Jürgen Overath held a total of 13,612 shares in Deutsche Office. Prof. Dr Harald Wiedmann is a member of the Supervisory Board and on 10 March 2015 he held a total of 64,000 shares in Deutsche Office.

CORPORATE COMMUNICATIONS

Deutsche Office regularly informs its shareholders, representatives of the press and the interested public about the status of the Company and major business developments. This is done mainly via corporate news and press releases, ad hoc releases, quarterly and half-yearly reports as well as annual financial statements. Apart from the Annual General Meeting, the Company also hosts analyst meetings and press conferences.

When communicating with the public, Deutsche Office adheres to the principles of timeliness, transparency and openness, sustainability, intelligibility and equal treatment of shareholders. All releases and information are also published in English.

The Company website publishes detailed information about the Company, its properties and its portfolio, in particular corporate news and press releases, financial reports and the financial calendar with all key corporate dates. The website also offers detailed information about the share, price movements and director's dealings, i.e. the purchase or sale of shares in the Company or related financial instruments as set out in Section 15a of the German Securities Trading Act (WpHG).

FINANCIAL REPORTING AND AUDITS

In addition to the annual financial statements as required under Sections 264 et seqq. of the German Commercial Code (HGB), Deutsche Office prepares consolidated annual financial statements in line with the International Financial Reporting Standards (IFRS) pursuant to Sections 290 et seqq. HGB in conjunction with Section 315a HGB. During the year, Deutsche Office publishes quarterly financial reports and an IFRS-compliant half-yearly financial report.

The HGB-compliant annual financial statements and the IFRS-compliant consolidated financial statements are audited by the auditor appointed by resolution at the Annual General Meeting. The Supervisory Board furthermore examines the annual and consolidated financial statements, the half-yearly financial statements and the quarterly reports.

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed as the Company's auditor at the Annual General Meeting on 20 May 2014. The auditors participate in meetings of the Audit Committee to examine the individual and annual financial statements, where they present the key audit results.

March 2015

The Executive Board The Supervisory Board

REMUNERATION REPORT
(part of the Combined Management Report)

REMUNERATION OF MEMBERS OF THE EXECUTIVE BOARD

The remuneration of each Executive Board member at Deutsche Office is founded exclusively on his employment contract. Executive Board remuneration consists of a fixed component and a variable component. The calculation of individual performance-related pay also takes into account the requirement for appropriate remuneration. Furthermore, at its meeting on 10 December 2014, the Supervisory Board examined the relationship between the remuneration of the Executive Board and the remuneration of senior executives and of the Company's staff as a whole, including relevant differentiation criteria and changes occurring over time.

The employment contract concluded with Mr Jürgen Overath provides for both a fixed annual component of EUR 336,000 and an annual performance-related component consisting of a short-term incentive (STI) with a one-year assessment basis and a long-term incentive (LTI) with an assessment basis extending over four fiscal years. The STI amounts to EUR 125,000 for a target achievement of 100 percent and is capped in the event of over-achievement at EUR 175,000. No STI will be paid if the overall target achievement for the year falls below 70 percent. 70 percent of the STI is paid out immediately after the adoption of the audited financial statements for the calendar year concerned. Another 10 percent is paid out two years later, and a further 20 percent at the end of three years, as long as the Company's commercial position has not deteriorated by these points in time to such a degree that the Supervisory Board is entitled to curtail remuneration in keeping with Section 87(2) of the Stock Corporation Act.

The LTI is granted after four years and annually thereafter. Jürgen Overath's LTI is calculated on the basis of an initial amount of EUR 50,000. This amount increases or decreases in line with funds from operations (FFO) per share, net asset value (NAV) per share and the Company's share price during the four years preceding payment. If these figures fall, the amount decreases, and if they fall by 35 percent or more, the LTI will not be granted at all. If the figures rise, the amount increases up to a maximum of EUR 150,000.

Consequently, the annual remuneration consists as a minimum of the fixed component of EUR 336,000 and may increase by a maximum of EUR 175,000 as a result of the STI and by a maximum of EUR 150,000 as a result of the LTI. This means that the EUR 325,000 cap on variable remuneration is always lower than the fixed remuneration of EUR 336,000 and that the sustainable components (fixed remuneration and LTI), amounting to at least EUR 336,000 and at most EUR 486,000, will at all events clearly outweigh the short-term incentive of at most EUR 175,000. Moreover, 30 percent of the STI will be retained for at least two years and will not be paid out if there is a significant deterioration in business performance, unless the deterioration was beyond the control of Mr Overath. In the final analysis, nearly one-third of the short-term incentive is linked to the long-term performance of the Company.

In addition to the fixed and variable remuneration, the Supervisory Board can grant appropriate special payments for outstanding performance.

In December 2006, prior to the merger, the Company's original shareholders made a contractual commitment to Mr Jürgen Overath that he would receive a performance-related bonus if more than 50 percent of the shares held in the Company by partners in OCM were to be sold. Any charge deriving from this commitment will be borne exclusively by the original shareholders and partners.

Alexander von Cramm was not employed by the Company until the merger became effective. In the run-up to the merger, on 7 August 2013, the Company – acting through its Supervisory Board – signed an employment contract with Mr von Cramm, subject to the condition precedent that the merger would become effective. This employment contract essentially reflects the contract previously concluded with Prime Office REIT-AG, and for this reason, the contract and the remuneration for which it provides differ from the provisions in the employment contract with Mr Overath.

The contract provides for a fixed annual salary of EUR 240,000, along with a payment of EUR 30,000 earmarked for a retirement pension in the place of a company retirement scheme and a car allowance of EUR 12,000.

Mr von Cramm furthermore receives a variable pay component equating to 0.5 percent of the funds from operations (FFO) earned by the Company during the fiscal year. If he underperforms, the Supervisory Board can reduce this component to 0.4 percent of FFO, whereas if he overperforms, the amount can be increased to a maximum of 0.6 percent of FFO.

Mr von Cramm also participates in a long-term incentive scheme, under which Mr von Cramm is granted 15,000 performance share units (PSUs) each year, which are paid out in cash following a vesting period of three years. The pay-out for these units is based on the average price of the Company's share in the three months preceding the end of the vesting period, and must not be more than 100 percent greater than the share price at the date of vesting. The amount paid out depends on two independent performance levers (FFO per Company share and performance of the Company' share price), which can trigger an increase or decrease in the number of PSUs and can hence also reflect negative trends. There is no cap on any increase in the number of PSUs.

The table below shows the number of performance share units (PSUs) vested under the long-term incentive scheme, the performance share units still outstanding at 31 December 2014 and the reference share price. The PSUs issued at the IPO were paid out in January 2015, and the PSUs awarded in 2011 will be paid out in March 2015.

	REFERENCE SHARE PRICE	PERFORMANCE VESTING PERIOD		PERFORMANCE SHARE UNITS (PSU)	
		STARTS	ENDS	BASIC QUANTITY	MARK-UP FROM PERFORMANCE LEVERS
PSU (IPO)	6.20	01/07/11	30/06/14	8,000	1,760
PSU (2011)	4.35	31/12/11	31/12/14	7,500	750
PSU (2012)	3.24	31/12/12	31/12/15	15,000	
PSU (2013)	3.09	31/12/13	31/12/16	15,000	
PSU (Bonus 2013)	3.09	31/12/13	31/12/16	31,736	
PSU (2014)	2.93	31/12/14	31/12/17	15,000	
				92,236	

The Supervisory Board can award a special bonus based on a previously concluded target agreement or an ex-post bonus in recognition of outstanding performance.

COMMITMENTS UPON TERMINATION OF OFFICE

Jürgen Overath: In the event that Mr Overath's employment contract is terminated prematurely without Mr Overath personally giving good cause for such termination, the contract entitles Mr Overath to an amount equal to his annual remuneration for two years, but not more than the gross payments that would have been paid until the contract expired. In the event of a change in control, Mr Overath is entitled to terminate his contract, and if he exercises this right, he will receive a severance payment equal to his annual remuneration for three years, but not more than the gross payments that would have been paid until the contract expired.

Alexander von Cramm: In keeping with his previous contractual arrangements with Prime Office REIT-AG, Mr von Cramm's employment contract sets out an arrangement that limits his severance pay if his appointment ends prematurely, in compliance with the recommendations on a severance cap in Section 4.2.3 of the German Corporate Governance Code. This arrangement continues to apply, notwithstanding a number of clarifications with regard to the nature of a change in control. Under this arrangement, if Mr von Cramm's role on the Executive Board were to end prematurely without good cause (i.e. grounds justifying termination of the contract), severance payments to Mr von Cramm would be capped at an amount equivalent to his annual remuneration for two years and not more than the gross payments that would have been paid until the contract expired. This arrangement also applies in the event of a change in control, although the severance cap in this case is set at 150 percent of the severance cap that would otherwise apply upon premature termination of his Executive Board role, but shall still not amount to more than the gross payments that would have been paid until the contract expired. In the event of a change in control, Mr Overath is entitled to terminate his contract, and upon exercise of this right, the severance arrangement outlined above will apply.

No pension commitments have been made to the members of the Executive Board.

REMUNERATION OF EXECUTIVE BOARD MEMBERS IN FISCAL YEAR 2014

The total remuneration for the Executive Board members amounted to EUR 1,284 k in the past fiscal year and can be broken down as follows:

BENEFITS GRANTED		ALEXANDER VON CRAMM EXECUTIVE BOARD				JÜRGEN OVERATH EXECUTIVE BOARD		
IN EUR K	2013[1]	2014[2]	2014 (MIN)	2014 (MAX)	2013[3]	2014	2014 (MIN)	2014 (MAX)
Total fixed remuneration and fringe benefits	252	252	252	252	287	336	336	336
Fixed remuneration	240	240	240	240	287	336	336	336
Fringe benefits	12	12	12	12	–	–	–	–
Total one-year variable remuneration	160	233	187	280	115	283	0	175
One-year variable remuneration (2013)	–	–	–	–	115	–	–	–
One-year variable remuneration (2014)	–	233	187	280	–	175	0	175
Special bonus	160	–	–	–	–	108	0	–
Total multiple-year variable remuneration	147	44	0	0	50	100	0	300
LTI (PSU 2013) (3 years)	147	–	–	–	–	–	–	–
LTI (PSU 2014) (3 years)	–	44	0	–	–	–	–	–
LTI (2013) (4 years)	–	–	–	–	–	–	–	–
LTI (2014) (4 years)	–	–	–	–	–	50	0	150
LTI (PSU scheme) (4 years)	–	–	–	–	50	50	0	150
Total fixed and variable remuneration	559	529	439	532	452	719	336	811
Pension costs	30	30	30	30	6	6	6	6
Total remuneration	589	559	469	562	457	725	342	817

[1] Data based on total remuneration in 2013 as Executive Board member of PO REIT AG, since appointment to Executive Board of Deutsche Office only took effect upon the date of the merger (21 January 2014). The information has been provided on a voluntary basis.
[2] Data based on total remuneration for 2014 including remuneration for January 2014 as Executive Board member of PO REIT.
[3] Data based on total remuneration for 2013 including remuneration as Managing Director of German Acorn Real Estate GmbH until 30 September 2013, and from 1 October to 31 December 2013 as Executive Board member of Deutsche Office. The fixed remuneration of EUR 203 k and the variable remuneration of EUR 35 k have been reported on a voluntary basis.

The minimum and maximum amounts of the one-year variable remuneration for Mr von Cramm are based on the FFO earned in 2014, and they reflect the range specified in the employment contract from 0.4 percent (for under-performance) to 0.6 percent (for over-performance).

In view of the successful completion of the merger with PO REIT and Mr Overath's over-performance, the Supervisory Board granted Mr Overath a special bonus of EUR 133 k for 2014. Mr Overath has undertaken to contribute EUR 25 k of this amount to the existing profit-sharing scheme for employees (PSU scheme). This amount has been matched by the Company, so that an initial sum of EUR 50 k is available for the PSU scheme, and the special bonus of EUR 108 k can be paid out immediately. The PSU scheme essentially mirrors the long-term incentive scheme for Jürgen Overath described above and will similarly run for four years.

The total cash payments made to the Executive Board members in the past fiscal year amounted to EUR 864 k and can be broken down as follows:

ALLOCATIONS	ALEXANDER VON CRAMM EXECUTIVE BOARD		JÜRGEN OVERATH EXECUTIVE BOARD	
IN EUR K	2013 [1]	2014 [2]	2013 [3]	2014
Total fixed remuneration and fringe benefits	**252**	**252**	**287**	**336**
Fixed remuneration	240	240	287	336
Fringe benefits	12	12	–	–
Total one-year variable remuneration	**113**	**160**	**185**	**80**
One-year variable remuneration (2012)	113	–	150	–
One-year variable remuneration (2013)	–	160	35	80
Total fixed and variable remuneration	**365**	**412**	**472**	**416**
Pension costs	30	30	6	6
Total remuneration	**395**	**442**	**478**	**422**

[1] Data based on allocations in 2013 as Executive Board member of PO REIT AG, since appointment to Executive Board of Deutsche Office only took effect upon the date of the merger (21 January 2014). The information has been provided on a voluntary basis).
[2] Data based on allocations in 2014 incl. allocations in January 2014 as Executive Board member of PO REIT.
[3] Data based on allocations in 2013 incl. allocations as Managing Director of German Acorn Real Estate GmbH until 30 September 2013, and from 1 October to 31 December 2013 as Executive Board member of Deutsche Office.

D&O INSURANCE

The Company has taken out D&O liability insurance for the members of its governing bodies. In fiscal 2014, the insurance premium amounted to EUR 83 k.

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD

With effect from the merger on 21 January 2014, when the Company's Articles of Association entered into force, every member of the Supervisory Board receives a fixed sum of EUR 20,000 as remuneration for every full fiscal year in which he serves on the Supervisory Board. The Chairman of the Supervisory Board receives twice the amount granted as fixed remuneration to a member of the Supervisory Board, and the Deputy Chairman of the Supervisory Board receives one and a half times the amount. If the indicator "Funds from Operations (FFO)", as reported in the audited Consolidated Financial Statements of the Company or, if the Company is under no obligation to compile them, the audited Financial Statements of the Company pursuant to Section 325(2)(a) of the German Commercial Code (HGB), amounts to at least EUR 75,000 k in a fiscal year, this fixed remuneration will double from the beginning of the following fiscal year. If a member of the Supervisory Board only exercises the function for part of a fiscal year, this remuneration will be disbursed on a pro-rata basis.

The members of the Supervisory Board are reimbursed upon production of receipts for any appropriate expenses and for any value-added tax levied on their pay and expenses, provided that members of the Supervisory Board are entitled to invoice value-added tax separately and exercise this right.

No member of the Supervisory Board has concluded a service agreement with any company in the Deutsche Office Group that would trigger particular benefits upon termination of the agreement.

The Company has taken out D&O insurance for the members of the Supervisory Board to cover them against any claims for material damages or liability claims arising from their activities as Supervisory Board members.

FINANCIAL CALENDAR

DATE	
13 May 2015	Financial report on the first three months of 2015
3 June 2015	Kempen European Property Seminar, Amsterdam
17 June 2015	Annual General Meeting
1 July 2015	Kepler Cheuvreux Property Conference, Paris
11 August 2015	Financial report on the first nine months of 2015
8 August 2015	EPRA Conference
21 September 2015	Baader Investment Conference, Munich
22 September 2015	Goldman Sachs/Berenberg Confernce, Munich
1 October 2015	SocGen Pan-European Real Estate Conference, London
5-7 October 2015	EXPO REAL, Munich
11 November 2015	Financial report on the first nine months of 2015
November 2015	Commerzbank Real Estate Conference
January 2016	Kepler Cheuvreux Conference, Frankfurt

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This translation of the original German version of the Annual Report has been prepared for the convenience of our English-speaking shareholders. The German version is legally binding.

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