Fiscal year 1 January – 31 December 2017

Annual Report 2017

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

CONTENTS

FIRST IN SECONDARY LOCATIONS

DEMIRE Deutsche Mittelstand Real Estate AG has commercial real estate holdings in mid-sized cities and upcoming areas bordering metropolitan areas across Germany. The Company's special strength lies in these secondary locations – First in Secondary Locations – and focuses on offering properties that are appealing to both internationally operating and local tenants. DEMIRE grew rapidly in the period of 2013 to 2016, not only through the acquisition of individual properties but also the acquisition of company interests. At the end of the 2017 fiscal year, DEMIRE maintained a portfolio with lettable space of around 1 million m^2 comprising a market value of more than EUR 1 billion.

The portfolio's focus on office, retail and logistics properties results in a reward/risk structure that DEMIRE believes is reasonable for the commercial real estate segment. The Company places importance on long-term contracts with solvent tenants and, therefore, anticipates stable and sustainable rental income.

DEMIRE's aim is to further optimise its corporate structure. The Company firmly believes that economies of scale and portfolio optimisation can be best achieved using an active real estate management approach.

The shares of DEMIRE Deutsche Mittelstand Real Estate AG are listed in the regulated market (Prime Standard segment) of the Frankfurt Stock Exchange.

INVESTMENT HIGHLIGHTS

FIRST IN SECONDARY LOCATIONS

We maintain a well-diversified German commercial real estate portfolio with a value of EUR 1 billion and a GRI yield of 7.0%.

ACTIVE REAL ESTATE MANAGEMENT

We believe that economies of scale and portfolio optimisation are best achieved using an active real estate management approach. Our real estate managers are active throughout Germany and take care of our tenants and real estate on site, while actively identifying further factors to leverage the portfolio's optimisation and value.

LOCAL REAL ESTATE EXPERTISE AND NETWORK

We have experienced management with a proven track record, access to all market segments and the ability to complete transactions quickly, combined with competitive financing advantages, which enable us to invest in high-yield real estate areas.

BALANCED FINANCING STRUCTURE

The ongoing optimisation of our financing structure gives us the highest flexibility possible to achieve our growth targets. In doing so, we are aiming for an investment grade rating in the medium term.

SIMPLIFIED AND EFFICIENT GROUP STRUCTURE

Our goal is to continue to optimise our corporate structure to achieve the best efficiency possible when managing our real estate investments.

KEY GROUP FIGURES

KEY EARNINGS FIGURES EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Rental income	73,716	76,371
Profit/loss from the rental of real estate	55,632	58,570
EBIT	**84,671**	**83,169**
Financial result	–57,042	–43,207
EBT	**27,629**	**39,962**
Net profit/loss for the period	**19,432**	**27,649**
Net profit/loss for the period attributable to parent company shareholders	**13,783**	**24,670**
Net profit/loss for the period per share (basic/diluted) in EUR	**0.25/0.22**	**0.48/0.39**
FFO I (after taxes, before minorities)	**11,738**	**8,095**
FFO I per share (basic/diluted) in EUR	**0.22/0.17**	**0.16/0.12**

KEY PORTFOLIO INDICATORS	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Properties (number of)	86	174
Gross asset value (in EUR millions)	1,034.1	1,005.6
Contractual rents (in EUR millions)	72.1	74.1
Rental yield (in %)	7.0	7.4
EPRA vacancy rate (in %)*	9.4	11.6
WALT (in years)	4.9	5.3

* Excluding properties held for sale

KEY BALANCE SHEET FIGURES EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Total assets	1,147,116	1,094,006
Investment properties	1,021,847	981,274
Non-current assets held for sale	12,262	24,291
Total real estate portfolio	**1,034,109**	**1,005,565**
Financial liabilities	694,915	662,643
Cash and cash equivalents	73,874	31,289
Net financial liabilities	**621,041**	**626,772**
Net loan-to-value (net-LTV)	**60.1**	**62.8**
Equity according to Group balance sheet	319,101	308,637
Equity ratio in %	27.8	28.2
Net asset value (NAV) in the reporting period	285,417	271,945
EPRA NAV (basic/diluted)	323,572/335,620	300,459/312,506
Number of shares in millions (basic/diluted)	54,271/67,885	54,247/67,885
EPRA NAV per share in EUR (basic/diluted)	**5.96/4.94**	**5.54/4.60**

TO OUR SHAREHOLDERS

“In 2017, we successfully laid the foundation for our future growth with our DEMIRE 2.0 strategy”.

Ralf Kind, CEO/CFO of the DEMIRE AG

Foreword of the Executive Board

Ladies and Gentlemen,

We have completed a successful and intensive 2017 fiscal year. During the course of the fiscal year, we started to successfully and systematically implement our DEMIRE 2.0 strategy announced at the end of June 2017. Under the name DEMIRE 2.0, we have defined concrete goals for further growth, which we intend to achieve in the near to medium term by employing a holistic action plan that includes optimising our costs, streamlining the Group's structure and reducing financing costs. A key cornerstone of this strategy is an expansion in our portfolio from its current size of approx. EUR 1 billion to over EUR 2 billion. We plan to continue optimising our cost base through permanent increases in efficiency and economies of scale in relation to real estate management in the course of our planned growth. Through an ongoing improvement in our financing mix, particularly from continually monitoring and taking advantage of the financing sources available via the debt and equity markets, we aim to lower our average interest costs over the medium term and reduce our net loan-to-value (net LTV) to around 50 %. In addition to increasing our market capitalisation, we also intend to improve our risk profile in order to attain an "investment grade" rating so that we can secure long-term and sustainable financing on favourable terms for DEMIRE's future growth.

Our combined efforts will lead to a substantial improvement in our funds from operations and continued growth in our net asset value (NAV). This is creating the basis for distributing attractive and sustainable dividends to our shareholders over the medium term from our increasing cash flows.

Already in the second half of 2017, we reached our first milestones in the implementation of the DEMIRE 2.0 strategy and thereby laid the foundation for further improvements in DEMIRE's overall profitability and funds from operations (FFO).

In July 2017, we placed our first rated, unsecured corporate bond with a volume of EUR 270 million with institutional investors and asset managers on the international capital markets to refinance expensive existing liabilities. This signalled the first step in pursuing our DEMIRE 2.0 strategy. The corporate bond has a term of five years (until 2022), a non-call period of two years and yields 2.875 % interest p. a. DEMIRE also received its first rating from the internationally renowned rating agencies Standard & Poor's and Moody's in the context of the bond issue. Standard & Poor's and Moody's gave DEMIRE's corporate bond ratings of BB+ and Ba2. The bond rating awarded by Standard & Poor's is one notch below an investment grade rating, which we intend to achieve in the future. The corporate ratings for DEMIRE issued by the two rating agencies were BB and Ba2, both with a stable outlook.

In September, we successfully tapped our corporate bond for a total of EUR 400 million – at an ever higher price compared to its initial issue price. As a result, we were able to reduce our average nominal interest rate from 4.4% p.a. at the end of 2016 to 3.0% p.a. and increase our free cash flow starting with the 2018 fiscal year by an estimated EUR 18 million, of which EUR 9 million alone will result from lower interest expenses from the repayment of existing liabilities. In addition, as a result of the refinancing operations, the share of unencumbered assets rose from almost zero percent to around 45% of total real estate assets, which gives us much greater financial and operational flexibility in the future.

At an Extraordinary General Meeting in November 2017, we took another significant step on the path to optimising our Group structure by asking our shareholders to approve the conclusion of control and profit transfer agreements with Group companies. The shareholders approved the agenda items with overwhelming majorities. DEMIRE Deutsche Mittelstand Real Estate AG had previously had high tax loss carryforwards that it was unable to use effectively due to its lack of affiliation with its subsidiaries. Following the conclusion of these control and profit transfer agreements and the subsequent inflow of positive income from our subsidiaries, the parent company – acting as a holding company – has been able to utilise these loss carryforwards already in the 2017 fiscal year. This represented the implementation of yet another component of our DEMIRE 2.0 strategy.

The positive overall impact of the DEMIRE 2.0 strategy was already evident with the publication of our interim results for the 2017 fiscal year. Based on the Company's solid development, we raised our full-year 2017 forecast for FFO I (after taxes and before minority interests) from our original forecast of EUR 8 to 10 million to EUR 11 to 12 million with the publication of our nine-month results. Given the positive year-to-date operating performance achieved, we also raised our expectation for rental income for the 2017 fiscal year to around EUR 74 million (previous forecast: EUR 72 to 73 million).

We successfully reached our targets in the 2017 fiscal year. The most important performance indicators developed as follows:

With rental income for the DEMIRE Group totalling EUR 73.7 million (2016: EUR 76.4 million), we succeeded in meeting our latest forecast. The decline in rental income of 3.5% was due to the sale of non-strategic real estate, whereby the corresponding decline in rental income was largely offset by the successful improvement in vacancies. The like-for-like annualised rental income of our core portfolio adjusted for purchases and sales increased 2.6% in the 2017 fiscal year. The net profit/loss for the period declined roughly 29.7% from EUR 27.6 million to EUR 19.4 million, mainly due to higher non-recurring financial expenses.

The financial result includes one-time expenses of around EUR –16.4 million, which largely consist of one-time fees for the early redemption of financing arrangements from the proceeds of the new corporate bond. The net loan-to-value ratio has improved significantly by around 270 basis points to 60.1% since the end of 2016 (31 December 2016: 62.8%).

The net value appreciation of our attractive real estate portfolio equalled EUR 48.6 million (2016: EUR 38.4 million). Based on the solid volume of lettings, the EPRA vacancy rate of the core portfolio fell by a total of 220 basis points to 9.4% at the end of the fiscal year (31 December 2016: 11.6%) as a result of new lettings and taking into account the properties already sold.

Basic EPRA NAV per share increased to EUR 5.96 at the end of 2017 (31 December 2016: EUR 5.54), and the diluted EPRA NAV per share rose to EUR 4.94 (31 December 2016: EUR 4.60). Funds from operations I (FFO I, after taxes, before minorities) amounted to EUR 11.7 million as of the reporting date (31 December 2016: EUR 8.1 million) and were therefore within our forecast. The increase in FFO I compared to the previous year was primarily a result of the improvement in the current financial result and a lower level of current income taxes.

After the first year of implementing our new DEMIRE 2.0 strategy, we have emerged with a significantly stronger structure and will continue to focus on consistently implementing this strategy further during the 2018 fiscal year.

As you can see, we had tremendous success in implementing our DEMIRE 2.0 strategy during the past fiscal year. We also see other internal and external growth drivers for the 2018 fiscal year and beyond. In addition to further optimising the Group's structure, our focus will be on the coming stages of our growth, including the expansion of our real estate portfolio. We are, therefore, particularly pleased that by gaining Apollo Global Management, we were able to acquire a new, experienced strategic investor in the course of our 10% capital increase in February 2018. Together with our other anchor shareholder Wecken&Cie., Apollo Global Management fully supports our DEMIRE 2.0 strategy and is actively committed to realising the growth DEMIRE has planned ahead. Now with our two anchor shareholders, we believe we are in an ideal position to carry on implementing the next phases of our Company's growth. Our business model offers high potential for value appreciation in the German commercial real estate market that we now intend to use more vigorously in the months and years to come.

At this point, I would like to thank you, our shareholders, for supporting us on our path until now, and hope that you will continue to have faith in our Company in the future. I would also like to extend my appreciation to all of DEMIRE's employees who, with their high motivation, are advancing the Company day by day. We are looking forward to the Company's upcoming challenges, opportunities and success with tremendous optimism.

Frankfurt am Main, 25 April 2018

Dipl.-Betriebsw. (FH) Ralf Kind
CEO/CFO

DEMIRE on the capital market

AN OVERVIEW OF DEMIRE SHARES

The share capital of DEMIRE Deutsche Mittelstand Real Estate AG consists of a total of 54.27 million no-par value bearer shares, which have been admitted for trading on the Frankfurt Stock Exchange and XETRA. DEMIRE's market capitalisation on the last trading day of the year on 29 December 2017 was approximately EUR 210 million.

DEMIRE KEY SHARE DATA

SHARE DATA	31/12/2017	31/12/2016
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol/Ticker	DMRE	DMRE
Stock exchange	Frankfurt Stock Exchange (FSE); XETRA Regulated unofficial market: , Stuttgart, Berlin, Dusseldorf	Frankfurt Stock Exchange (FSE); XETRA Regulated unofficial market: Stuttgart, Berlin, Dusseldorf
Market segment	Prime Standard	Prime Standard
Designated sponsors	BaaderBank, equinet Bank AG	Oddo BHF
Share capital	EUR 54,270,744	EUR 54,246,944
Number of shares	54,270,744	54,246,944
Closing price 31/12/2017 (XETRA)	EUR 3.86	EUR 3.57
Ø daily trading volume 01/01/2017–31/12/2017	60,890	25,319
Market capitalisation	EUR 209.5 million	EUR 193.7 million
Free float < 3%	41.38%	61.58%

DEVELOPMENT OF THE STOCK MARKET AND DEMIRE SHARES

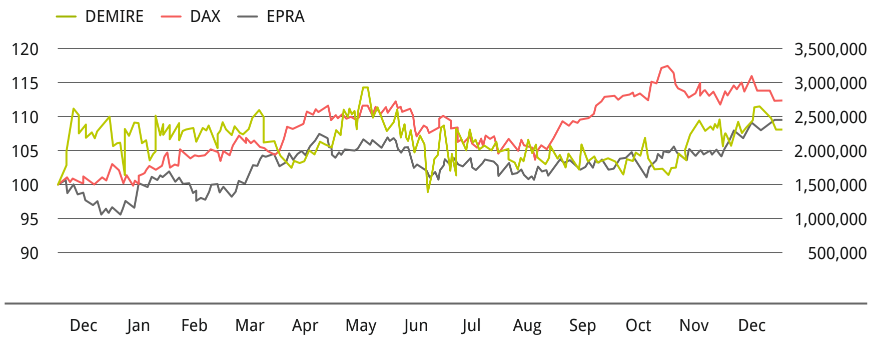
The year 2017 was a strong stock market year in the eyes of analysts and capital market professionals. Looking back, the German benchmark DAX index achieved its best performance since 2013. In November, the index reached a record high of 13,525 points, leaving behind the old highs reached prior to the financial crisis.

The international capital markets remained largely unaffected by political developments. With the inauguration of Donald Trump on 20 January 2017, a new era began in the United States. In mid-March 2017, the European financial markets were able to breathe a sigh of relief as the negative sentiment building towards the euro and the European Union after the United Kingdom's Brexit decision in June 2016 started to dissipate with the results of the Dutch elections. Following the elections in France and the surprisingly clear triumph of Emmanuel Macron in the first round at the end of April, this relief was finally felt on the stock markets. Other events such as the German elections, the uncertainty surrounding Brexit, terrorist attacks, political events in Turkey and Trump's isolation and North Korea policies did not leave any lasting negative effects on the capital markets. Driven by low inflation, expansionary monetary policy and low interest rates, the capital markets focused on stable global economic growth, expanding economies worldwide in the US, Europe and Japan, and rising corporate profits.

In Germany, gross domestic product and other economic sentiment indicators, such as the ifo business climate index, reached new record highs in several areas in 2017.

The stock market's performance was restrained as the year came to a close in December. The expected year-end rally never materialised leaving the DAX unable to defend its 13,000-point level on the last trading day of the year. The DAX closed the year at 12,917.64 points, or 12.8% higher than at the end of 2016. Other European indices followed suit and tended to consolidate in December. The reason for this year-end weakness was not only a continued lack of momentum from positive economic data and corporate news but also the significant appreciation of the euro versus the US dollar. In a climb to almost US $ 1.20, the euro had appreciated by about 13% in the course of 2017 to its highest level since 2003. Low interest rates were an important factor in the stock market's solid performance, prompting experts to predict a similar development in the capital markets in 2018.

DEMIRE'S SHARE PERFORMANCE VS. THE INDICES IN 2017
In percent



While DEMIRE's shares outperformed the DAX and Prime All Share Index in the first quarter of 2017, the Company's share price was not able to sustain its positive uptrend in the second quarter of 2017 and subsequently declined to a price of EUR 3.66 on 27 April 2017. Following this decline, the share price rose steadily and reached a new high of EUR 4.06 on 2 June 2017.

DEMIRE shares started the second half of 2017 at EUR 3.85 and underperformed the DAX, and the EPRA Developed Europe Index as the year progressed. From the share's low for the year of EUR 3.54 on 6 July 2017, they proceeded to trend higher ending the year 2017 around 8.2% higher at EUR 3.86.

DEMIRE 2.0 STRATEGY – THE FOUNDATION FOR ONGOING GROWTH

During the Annual General Meeting held at the end of June 2017, DEMIRE defined the concrete targets for continued growth under its DEMIRE 2.0 strategy that it intends to achieve over the medium term through a holistic action plan that includes optimising costs, streamlining the Group's structure and reducing financing costs. A key part of this plan is to double the portfolio from its current size of EUR 1 billion to a total of EUR 2 billion. In addition, a sustained increase in efficiency and economies of scale in real estate management from this continued growth are expected to bring about further optimisation in the cost base. A further improvement in the financing mix, above all from continuously monitoring potential refinancing options in the debt and equity markets are anticipated to reduce the average interest cost over the medium term and bring down the net loan-to-value (LTV) ratio to around 50%. To ensure adequate communication and access to the capital markets, DEMIRE plans to engage even more in an active and transparent dialogue with existing and new investors. In addition to increasing its market capitalisation, DEMIRE seeks to secure an investment grade risk profile to lock in sustainable, long-term financing at favourable terms for its future growth.

FIRST MILESTONES REACHED UNDER DEMIRE 2.0 SUCCESSFUL BOND PLACEMENT TOTALLING EUR 400 MILLION

The first step in implementing the DEMIRE 2.0 strategy was already taken in July 2017 with the successful placement of a rated, unsecured EUR 270 million corporate bond with institutional investors and asset managers on the international capital markets, which enabled DEMIRE to significantly reduce its annual financing costs and further diversify its financing sources. The bond has a five-year maturity (until 2022), a non-callable period of two years and bears interest of 2.875% p.a. On 18 September 2017, DEMIRE tapped the volume of the 2017/2022 corporate bond by a further EUR 130 million at a price of 101.25% above par.

The net proceeds of the corporate bond issue were used for the early refinancing of all major liabilities due until 2019, meaning in a matter of only a few months the DEMIRE 2.0 programme has already been able to significantly reduce the Company's average financing costs from 4.4% as of the 31 December 2016 to 3.0% as of the 31 December 2017 reporting date. Cash flow is also anticipated to rise to roughly EUR 18 million in 2018 as a result of the completed refinancing. With the repayment of liabilities secured by land charges, a total of roughly EUR 468 million of real estate value became available and unencumbered, corresponding to approx. 45% of the total real estate assets of the DEMIRE Group.

DEVELOPMENT OF DEMIRE BONDS

Due to the issue of subscription shares through the exercise of conversion rights in the 2017 fiscal year, the share capital of DEMIRE AG increased by a total of 23,800 shares to a new total of 54,270,744 shares as of 31 December 2017.

On 21 September 2017, as part of its refinancing operations, DEMIRE announced the cancellation of the 2014/2019 corporate bond (ISIN DE000A12T135). The funds used to repay the bond stemmed from the successful placement of the unrated, unsecured 2017/2022 corporate bond. The cancelled 2014/2019 corporate bond was repaid at 104% on 21 November 2017 in accordance with the bond's terms and conditions.

The 2017/2022 corporate bond (ISIN: XS1647824173) has been rising steadily since its first day of trading on 26 July 2017, resulting in a drop in the effective interest rate. The trigger for this positive performance was the measures under the DEMIRE 2.0 strategy in association with the bond's placement, which DEMIRE has been consistently implementing since their announcement in the middle of 2017. In the second half of the year on 3 November 2017, the bond reached a high of 103.31%, going on to close the year at 102.35%.

INITIAL RATINGS FROM S&P AND MOODY'S

In the context of the bond placement, the internationally renowned rating agencies Standard & Poor's and Moody's issued an initial BB+ and Ba2 rating for the corporate bond in July 2017. The Standard & Poor's bond rating is one level below investment grade. The simultaneous corporate ratings awarded to DEMIRE by the two rating agencies are BB and Ba2 respectively and both with a stable outlook.

The rating for the tapping of the corporate bond was reconfirmed by the two agencies on 18 September 2017.

Future rating assessments will reinforce the transparency and unbiased assessment of DEMIRE's business activities. DEMIRE's aim is to position its risk profile in the "investment grade" area to allow it to finance its targeted growth at even more favourable terms.

Details of the rating and the update on the bond's tapping are available on the websites of Standard & Poor's (www.standardandpoors.com) and Moody's (www.moodys.com), as well as on *DEMIRE's website.*

DEMIRE'S RATING – 31/12/2017

RATING AGENCY	COMPANY RATING	OUTLOOK	BOND RATING
Standard & Poor's	BB	Stable	BB+
Moody's	Ba2	Stable	Ba2

www.demire.ag/investor-relations/creditor-relations/rating

2017/2022 CORPORATE BOND

Name	DEMIRE 2017/2022 corporate Bond
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Rating	Ba2 (Moody's), BB+ (S&P)
Stock market listing/ quotation	Open market of the Luxembourg Stock Exchange, Euro MTF
Applicable law	New York Law
ISIN Code	Sale under Regulation S: XS1647824173; Sale under Rule 144A: XS1647824686
WKN	Sale under Regulation S: A2GSC5; Sale under Rule 144A: A2GSC6
Issuing volume	EUR 400,000,000
Issue price	100%
Denomination	EUR 100,000
Coupon	2.875%
Interest payment	On 15 January and 15 July, beginning with 15 January 2018
Maturity date	15 July 2022
Early repayment	NC2 at 101.438% for the first time on 15 July 2019; 100.719% on 15 July 2020; 100% on 15 July 2021 and thereafter
Closing price 31/12/2017	102.35

2015/2018 MANDATORY CONVERTIBLE BOND

Name	DEMIRE 2015/2018 DEMIRE Mandatory Convertible Bond
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Security type	Convertible bond
Issuing volume	EUR 15,000,000
Interest (coupon)	2.75%
Interest payments	Quarterly on 22 March, 22 June, 22 September and 22 December
Redemption	22 May 2018
Redemption price	100%
Denomination	EUR 100,000
Conversion price	EUR 5
Paying agent	Bankhaus Gebr. Martin Aktiengesellschaft, Göppingen
ISIN	DE000A13R863
Market segment	Frankfurt Stock Exchange

2013/2018 CONVERTIBLE BOND

Name	DEMIRE DT.MTS.RE WDL13/18
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Security type	Convertible bond
Issuing volume	EUR 11,300,000
Interest rate (coupon)	6%
Interest payment	Quarterly in arrears
Repayment	30 December 2018
Repayment price	100%
Denomination	EUR 1
Conversion price	EUR 1
Paying agent	Bankhaus Gebr. Martin Aktiengesellschaft, Göppingen
ISIN	DE000A1YDDY4
Market segment	Frankfurt Stock Exchange

ANNUAL GENERAL MEETING

On 30 June 2017, the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG approved the resolutions submitted by management by an overwhelming majority. In view of the higher share capital resulting from the cash capital increase executed in August 2016, the authorised and conditional capital were adjusted and newly resolved. Mr Frank Hölzle and Mr Dr Thomas Wetzel, who had already been judicially appointed as Supervisory Board members by the District Court in February 2017, were confirmed as Supervisory Board members.

On 15 November 2017, DEMIRE invited its shareholders to an Extraordinary General Meeting that dealt with four agenda items, each of which required the approval of the control and profit transfer agreements between DEMIRE Deutsche Mittelstand Real Estate AG and group companies. DEMIRE has a high level of tax loss carryforwards, which it was unable to use optimally thus far due to a lack of a tax group with its subsidiaries. The conclusion of the control and profit transfer agreements and the inflow of positive income from the subsidiaries means that these loss carryforwards can now be used at DEMIRE AG acting as the parent company of the tax group. Optimising the tax situation is yet another milestone achieved in the course of implementing DEMIRE 2.0, as well as a building block to further improvements in overall profitability and higher funds from operations (FFO). Shareholders approved all agenda items with overwhelming majorities.

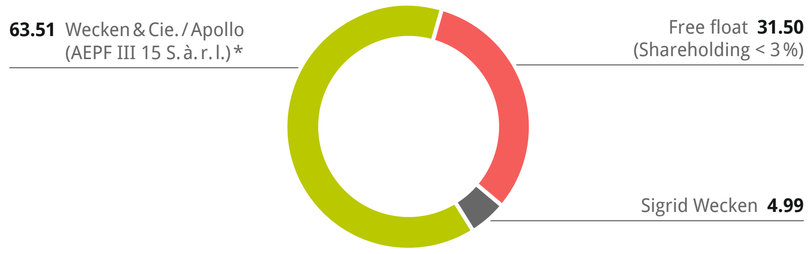
SHAREHOLDER STRUCTURE

DEMIRE's shareholder structure underwent a change in the 2017 fiscal year. Wecken & Cie increased its stake to approx. 29 % by acquiring share packages from existing individual shareholders. Sigrid Wecken informed DEMIRE on 26 April 2017 that she had exceeded the 5 % threshold. Obotritia Capital KGaA informed DEMIRE on 23 December 2017 that it shareholding had fallen below the 10 % threshold and now amounts to 9.98 % in DEMIRE AG.

NEW STRATEGIC INVESTOR, CAPITAL INCREASE AND TAKEOVER OFFER

On 26 February 2018, with the approval of the Supervisory Board, DEMIRE's Executive Board resolved to increase the Company's share capital from authorised capital by approximately 10 % or EUR 5,425,774.00. Through the capital increase, DEMIRE gained a new strategic investor who subscribed to the capital increase at an issue price of EUR 4.35, which is a premium of 11.3 % compared to the share's last closing price prior to the announcement. Apollo Global Management, LLC is a globally active alternative investment manager with roughly USD 250 billion under management. Since its inception in 1990, Apollo has evolved into one of the world's largest alternative investment managers and manages funds for some of the most prestigious pension and endowment funds, as well as for other institutional and retail investors. Together with its other

SHAREHOLDER STRUCTURE
in percent



*Incl. subsidiaries (As of April 2017)

anchor shareholder, Wecken, Apollo supports the DEMIRE 2.0 strategy providing the Company not only with financial support but also industry expertise with the medium- to long-term aim of creating one of the leading listed commercial real estate platforms in Germany with a target portfolio of more than EUR 2 billion. In addition, both anchor shareholders support the Company in its aim to achieve an investment grade rating. DEMIRE intends to use the gross proceeds from the capital increase of EUR 23.6 million – less related transaction costs – to acquire attractive real estate in secondary locations in Germany. At the same time, DEMIRE also intends to draw on the support of the two strategic shareholders to continue to consistently implement the measures to further optimise its profitability and the Group's structure. The funds managed by Apollo have also announced a mandatory offer to DEMIRE's shareholders at a price of EUR 4.35. The offer documents were made available on 16 April 2018 at www.aepf-mandatory-offer.de/en/. The Apollo funds have also announced a public takeover offer for the shares of Fair Value REIT-AG (FVR). The Apollo managed funds intend to exchange the shares acquired through the offer by FVR Beteiligungsgesellschaft Erste mbH & Co. KG (FVR) into DEMIRE shares.

IR ACTIVITIES

In the 2017 fiscal year, DEMIRE made a renewed effort to expand and strengthen its communications with the capital market and its investors.

DEMIRE plans to significantly expand its capital market activities and communicate even more actively and transparently with investors. Backed by the support of existing shareholders and further growth, we will continue to encourage a higher free-float trading volume in DEMIRE's shares and an increase in our market capitalisation.

With the prospect of joining the DAX family of indices in the future, the awareness among both foreign and domestic investors is anticipated to rise significantly.

On 1 June 2017, DEMIRE further strengthened its internal investor and public relations activities by hiring Peer Schlinkmann for the newly created position of Head of Investor Relations & Corporate Communications, who, together with the Executive Board, will increasingly expand the Company's professional interaction with analysts and investors. The Investor Relations department is also responsible for communicating with fixed-income specialists, thereby centralising the required reporting for equity and bond investors as well as rating agencies.

In the past 2017 fiscal year, DEMIRE has participated in numerous domestic and international capital market conferences. In addition, DEMIRE had the opportunity to present the current corporate developments – particularly the DEMIRE 2.0 strategy – to new and existing equity and bond investors in the context of the bond placement and at further roadshows in London, Paris, Zurich, Vienna, Helsinki, Munich and Frankfurt.

With the publication of the 2017 half-year results, in addition to publishing the results on the website, DEMIRE also began informing investors, analysts and the media regularly and quarterly in conference calls about the most recent results and offering further insight into the Company's performance.

Investors, analysts and the media can all access DEMIRE's published annual and half-year reports, quarterly statements, recorded conference calls, current company presentations and further information under the IR section of *DEMIRE's website.*

In its investor relations activities, DEMIRE ensures that both bond and equity analysts and investors are treated equally.

Those who wish to receive relevant company news in the future can register on the *DEMIRE website*. Print versions of various documents may also be requested.

ANALYST COVERAGE

DEMIRE is currently covered by five financial analysts.

BANK/BROKER	ANALYST	CURRENT RATING	CURRENT PRICE TARGET in EUR
Baader Bank	Andre Remke	Buy	5.20
equinet	Katharina Mayer	Buy	4.55
SRC Research	Stefan Scharff	Buy	5.10
Solventis	Ulf van Lengerich	Buy	4.90
Edison Research	Martyn King	—	—

www.demire.ag/en/investor-relations

www.demire.ag/en/news/newsletter

Portfolio overview

DEMIRE 2.0 – MULTIPLE DRIVERS FOR GROWTH AND RISING PROFITABILITY

FIRST IN SECONDARY LOCATIONS

DEMIRE is investing in a well-diversified German commercial real estate portfolio valued at EUR 1 billion with a GRI yield of 7.0 %. The investment focus of this portfolio is secondary locations in Germany and real estate with more attractive returns and lower fluctuations in comparison to Top 7 locations. The medium-term goal is to expand the portfolio to a size of more than EUR 2 billion while employing an active management approach to generate persistently high rental income.

ACTIVE REAL ESTATE MANAGEMENT

We believe that economies of scale and portfolio optimisation are best achieved using an active real estate management approach. Our real estate managers are active nationwide and take care of our tenants and real estate on site, thereby actively identifying further opportunities for optimising and leveraging the portfolio's value.

LOCAL REAL ESTATE EXPERTISE AND NETWORK

DEMIRE sets itself apart with experienced management and a team of professionals with a proven track record in realising value-enhancing acquisitions. Access to all market segments and the ability to complete transactions quickly, combined with competitive financing advantages, pave the way for investments in high-yield real estate in areas such as office, retail and logistics along the risk classes Core Plus, Value-Added and Redevelopment.

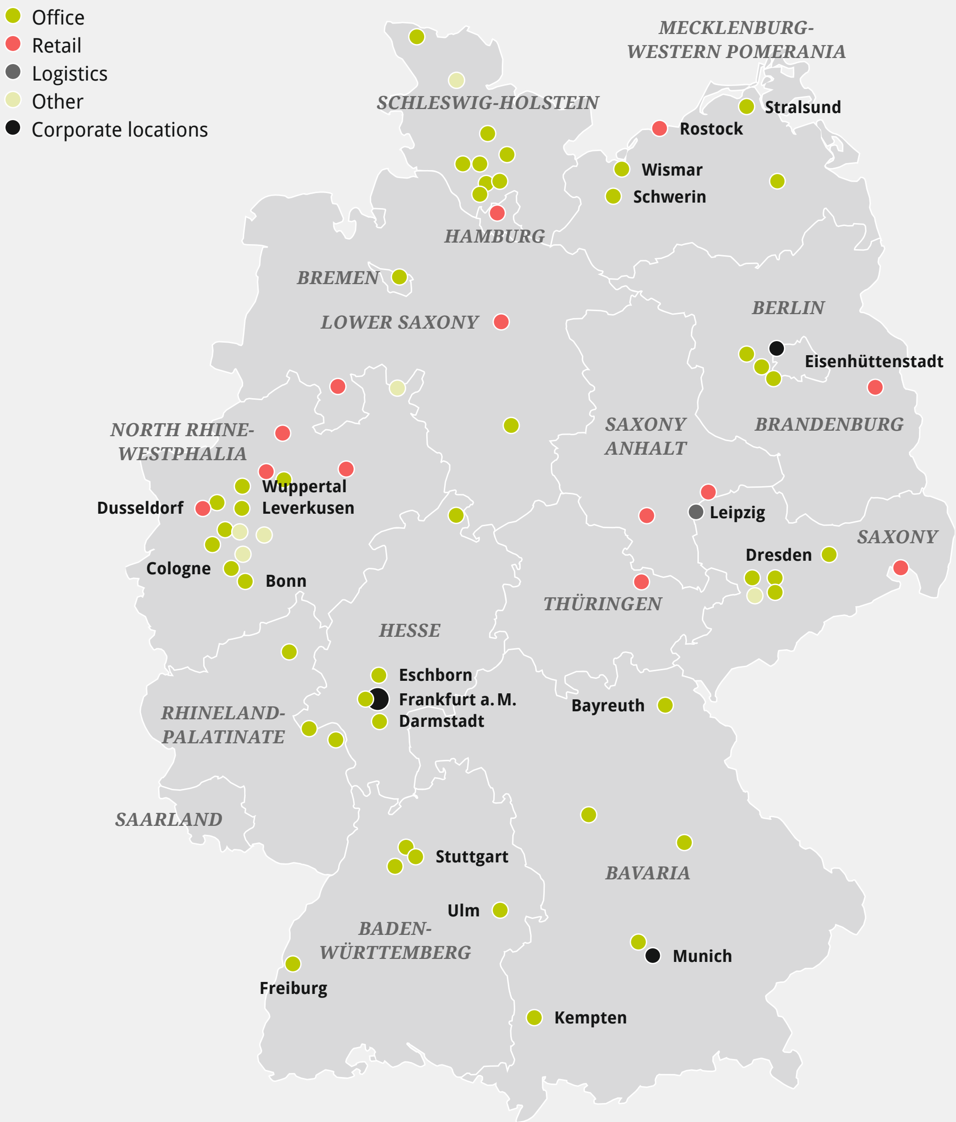
BALANCED FINANCING STRUCTURE

The ongoing optimisation of our financing structure gives us the highest flexibility possible to achieve our growth targets. We focus on diversifying our sources of capital, which range from banks and alternative financing partners to the equity and debt capital markets. We are constantly adapting our short- to medium-term financing requirements to our long-term investment strategy thereby generating added investment returns within the realm of our yield expectations.

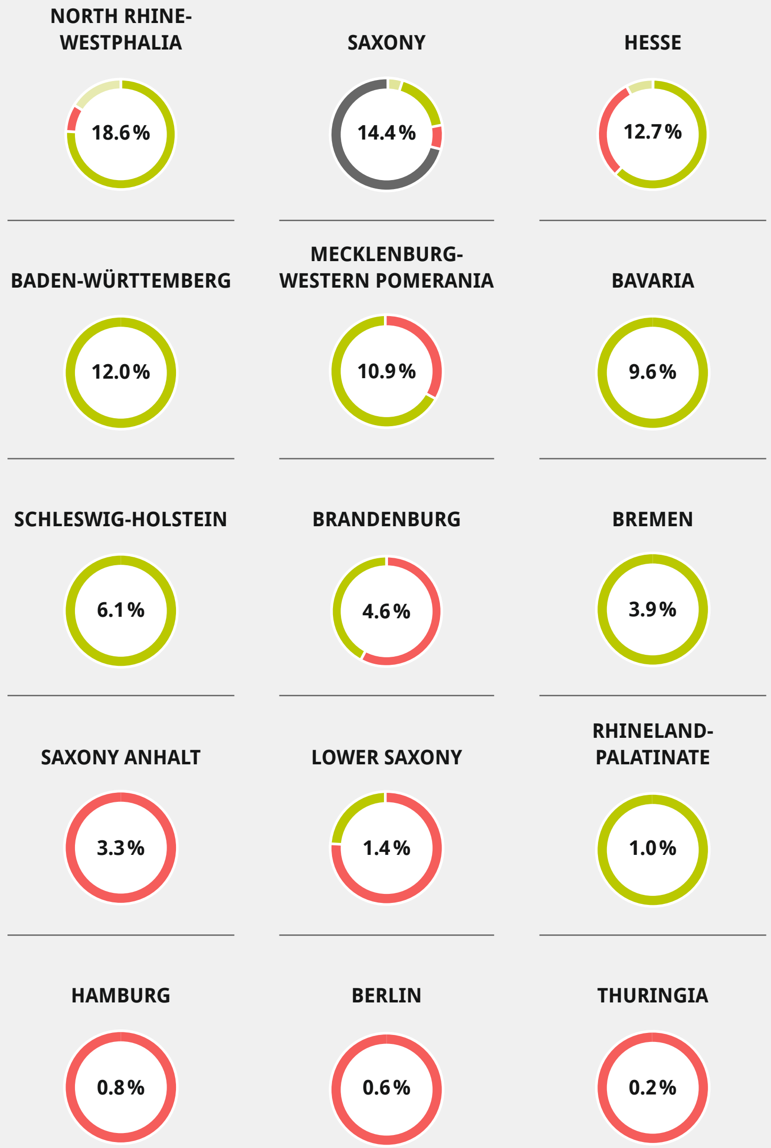
SIMPLIFIED AND EFFICIENT GROUP STRUCTURE

DEMIRE's goal in the medium term is to optimise its corporate structure in order to achieve the most efficient management of its real estate investments possible. Leveraging the internal and external measures identified to increase operational efficiency adds short- to medium-term earnings potential and leads to an improvement in the operating margin in the future.

REAL ESTATE PORTFOLIO AND CORPORATE LOCATIONS



Percentage of total lettable space



TOP 20 TENANTS (AS OF 31/12/2017)[1]

NO.	TENANT	TYPE OF USE	CONTRACTUAL RENT P.A.[2] In EUR millions	In % of total
1	GMG (Telekom)	Office	22.1	30.7
2	BImA Bundesanstalt für Immobilienaufgaben	Office	1.9	2.7
3	Sparkasse Südholstein	Office	1.8	2.5
4	RIMC	Hotel	1.6	2.2
5	HPI Germany	Office	1.4	1.9
6	Barmer BKK	Office	1.2	1.7
7	comdirect bank AG	Office	1.2	1.7
8	AXA Konzern AG	Office	1.2	1.7
9	BfA Schwerin	Office	1.2	1.7
10	momox GmbH	Logistics	1.2	1.7
11	IBM Deutschland GmbH	Office	1.0	1.4
12	Kaufland Warenhandel	Retail	1.0	1.3
13	APCOA Autoparking GmbH	Other	0.9	1.3
14	Stadt Leverkusen	Office	0.9	1.2
15	real SB	Retail	0.9	1.2
16	REWE Markt GmbH	Retail	0.8	1.0
17	Marktkauf Autonom	Retail	0.7	1.0
18	WISAG Facility Service	Office	0.6	0.9
19	Hammer Fachmärkte	Retail	0.6	0.8
20	THR Leipzig City Hotel	Hotel	0.5	0.8
Subtotal			**42.7**	**59.2**
Other			29.4	40.8
Grand total			**72.1**	**100.0**

[1] According to annualised contractual rent, excluding service charges
[2] Annualised contractual rent, excluding service charges

BROAD BASE OF HIGH CREDIT QUALITY TENANTS WITH LONG-TERM LEASE CONTRACTS

Deutsche Post DHL Group

OVERVIEW OF REAL ESTATE PORTFOLIO

	PROPERTIES	MARKET VALUE	MARKET VALUE					CONTRACTUAL RENT	EPRA VACANCY RATE*
				THEREOF OFFICE	THEREOF RETAIL	THEREOF LOGISTICS	THEREOF OTHER		
As of 31 December 2017	No. of properties	In EUR millions	In m²	In m²	In m²	In m²	In m²	In EUR millions	In %
Baden-Württemberg	4	123.8	85,169	85,169	0,000	0,000	0,000	8.4	2.7 %
Bavaria	7	99.0	95,138	95,138	0,000	0,000	0,000	6.9	11.8 %
Berlin	1	5.8	7,150	0,000	7,150	0,000	0,000	0.5	4.3 %
Brandenburg	4	48.1	52,461	22,094	30,367	0,000	0,000	4.6	13.3 %
Bremen	10	40.0	34,561	34,561	0,000	0,000	0,000	2.8	27.3 %
Hamburg	1	8.6	3,973	0,000	3,973	0,000	0,000	0.5	0.0 %
Hesse	7	131.6	71,202	44,183	21,481	0,000	5,538	7.6	6.0 %
Mecklenburg-Western Pomerania	6	112.3	58,151	38,845	19,306	0,000	0,000	7.4	6.9 %
Lower Saxony	4	14.3	21,753	5,288	16,466	0,000	0,000	1.3	4.2 %
North Rhine-Westphalia	14	192.5	127,737	96,580	10,576	0,000	20,581	13.3	6.0 %
Rhineland-Palatinate	3	10.3	12,574	12,574	0,000	0,000	0,000	0.8	5.5 %
Saxony	11	149.3	304,350	51,396	20,870	217,968	14,116	10.0	19.5 %
Saxony Anhalt	3	34.0	25,316	0,000	25,316	0,000	0,000	2.7	3.3 %
Schleswig-Holstein	10	62.8	63,820	63,820	0,000	0,000	0,000	5.1	1.9 %
Thuringia	1	1.8	5,505	0,000	5,505	0,000	0,000	0.2	45.0 %
Germany	**86**	**1,034.1**	**968,861**	**549,648**	**161,010**	**217,968**	**40,235**	**72.1**	**9.4**
TOP 20 Properties	**20**	**683.4**	**625,356**	**304,078**	**103,310**	**217,968**	**0**	**45.8**	**9.8**

* Excluding real estate held for sale

TOP 20 PROPERTIES (AS OF 31/12/2017)[1]

NO.	ADDRESS	LOCATION	TYPE OF USE	MARKET VALUE	% OF TOTAL[2]	LETTABLE SPACE	VALUE/M²	RENTAL YIELD	CONTRACTUAL RENT P.A.[3]	CONTRACTUAL RENTS[3]	EPRA VACANCY RATE	WALT[4]
				In EUR millions	In %	In '000 m	In EUR	In %	In EUR millions	(EUR/m²)	In %	in Jahren
1	Bonner Talweg 100/ Reuterstrasse	Bonn	Office	82.2	7.9	38,353	2,143	6.8	5.6	12.1	—	7.3
2	Zeitblomstr., Olgastr., Bahnhofplatz	Ulm	Office	68.9	6.7	47,565	1,449	6.3	4.3	7.8	2.0	7.0
3	Kröpeliner Straße 26–28	Rostock	Retail	67.9	6.6	19,306	3,517	6.3	4.3	19.3	3.5	4.6
4	Am alten Flughafen 1	Leipzig	Logistic	61.7	6.0	217,968	283	6.2	3.9	2.1	33.3	1.9
5	Kölnische Str. 6/ Mauerstr. 11/ Spohratstr. 2, 4	Kassel	Retail	57.6	5.6	21,481	2,681	6.4	3.7	14.5	1.4	8.3
6	Berliner Allee 1	Freiburg	Office	37.1	3.6	22,674	1,636	7.3	2.7	9.9	—	3.2
7	Bajuwarenstrase 4	Regensburg	Office	33.1	3.2	29,219	1,133	7.7	2.5	7.2	—	3.2
8	Wiesenstr. 70	Dusseldorf	Office	32.4	3.1	24,308	1,333	5.8	1.9	9.2	29.0	4.5
9	Frankfurter Str. 29–35	Eschborn	Office	32.2	3.1	18,774	1,715	6.1	2.0	8.7	—	7.1
10	Nordpassage 1	Eisenhüttenstadt	Retail	28.5	2.8	30,367	939	8.1	2.3	9.5	22.8	5.9
11	Gutenbergplatz 1 a–e	Leipzig	Office	27.5	2.7	23,220	1,184	6.2	1.7	6.8	10.0	3.6
12	Lerchenbergstraße 112/113, Annendorfer Straße 15/16	Lutherstadt Wittenberg	Retail	21.9	2.1	14,710	1,489	7.6	1.7	10.3	5.2	5.3
13	Hochwaldstraße 20	Zittau	Retail	20.1	1.9	17,445	1,152	6.7	1.3	6.5	3.2	11.3
14	Ohmstr. 1	Unterschleißheim	Office	18.9	1.8	15,663	1,207	5.2	1.0	8.1	36.9	2.5
15	Eckernförder Landstrasse 65	Flensburg	Office	16.9	1.6	23,800	710	10.0	1.7	5.9	—	3.2
16	Pascalkehre 15/15a	Quickborn	Office	16.3	1.6	10,570	1,542	7.5	1.2	9.6	0.6	4.2
17	Kuhberg 11–19 / Kieler Straße 1–15	Neumünster	Office	15.2	1.5	11,808	1,287	6.9	1.0	7.5	1.6	7.8
18	Robert-Bosch-Straße 11	Langen	Office	15.2	1.5	13,681	1,111	6.8	1.0	9.2	27.7	3.2
19	Alpenstr., Bahnhofstr., Hirschstr.	Kempten	Office	14.9	1.4	16,794	887	6.7	1.0	5.1	2.0	2.1
20	Auf dem Steinbüchel 20	Meckenheim	Office	14.9	1.4	7,650	1,948	6.6	1.0	10.7	—	5.1
Subtotal				**683.4**	**66.1**	**625,356**	**1,093**	**6.7**	**45.8**	**7.3**	**9.8**	**5.3**
Other				350.7	33.9	343,505	1,021	7.5	26.3	7.1	8.7	4.3
Grand total				**1,034.1**	**100.0**	**968,861**	**1,067**	**7.0**	**72.1**	**7.2**	**9.4**	**4.9**

[1] According to market values
[2] Rounding differences
[3] Annualised contractual rent, excl. service charges
[4] Weighted average lease term

OVERVIEW OF TOP 20 PROPERTIES

OFFICE BUILDING

FEDERAL STATE
North Rhine-Westphalia

LOCATION
Bonn

USE
Office

MARKET VALUE
c. EUR 82.2 million

LETTABLE SPACE
c. 38,400 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 5.6 million

EPRA VACANCY RATE
0.0%

OFFICE BUILDING

FEDERAL STATE
Baden-Württemberg

LOCATION
Ulm

USE
Office

MARKET VALUE
c. EUR 68.9 million

LETTABLE SPACE
c. 47,600 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 4.3 million

EPRA VACANCY RATE
2,0%

RETAIL PROPERTY

FEDERAL STATE
Mecklenburg-Western Pomerania

LOCATION
Rostock

USE
Retail

MARKET VALUE
c. EUR 67.9 million

LETTABLE SPACE
c. 19,300 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 4.3 million

EPRA VACANCY RATE
3.5%

LOGISTIKPARK LEIPZIG

FEDERAL STATE
Saxony

LOCATION
Leipzig

USE
Logistics

MARKET VALUE
c. EUR 61.7 million

LETTABLE SPACE
c. 218,000 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 3.9 million

EPRA VACANCY RATE
33.3%

KURFÜRSTENGALERIE

Retail Property

FEDERAL STATE
Hesse

LOCATION
Kassel

USE
Retail, Office

MARKET VALUE
c. EUR 57.6 million

LETTABLE SPACE
c. 21,500 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 3.7 million

EPRA VACANCY RATE
1.4%

OFFICE BUILDING

FEDERAL STATE
Baden-Württemberg

LOCATION
Freiburg

USE
Baden-Württemberg

MARKET VALUE
c. EUR 37.1 million

LETTABLE SPACE
c. 22,700 m²

NET RENT EXCL. SERVICE CHARGES
EUR 2.7 million

EPRA VACANCY RATE
0.0%

OFFICE BUILDING

FEDERAL STATE
Bavaria

LOCATION
Regensburg

USE
Office

MARKET VALUE
c. EUR 33.1 million

LETTABLE SPACE
c. 29,200 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 2.5 million

EPRA VACANCY RATE
0.0%

OFFICE BUILDING

FEDERAL STATE
North Rhine-Westphalia

LOCATION
Dusseldorf

USE
Office

MARKET VALUE
c. EUR 32.4 million

LETTABLE SPACE
c. 24,300 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.9 million

EPRA VACANCY RATE
29.0%

OFFICE BUILDING

FEDERAL STATE
Hesse

LOCATION
Eschborn

USE
Office

MARKET VALUE
c. EUR 32.2 million

LETTABLE SPACE
c. 18,800 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 2.0 million

EPRA VACANCY RATE
0.0%

CITY CENTER
Retail Property

FEDERAL STATE
Brandenburg

LOCATION
Eisenhüttenstadt

USE
Retail

MARKET VALUE
c. EUR 28.5 million

LETTABLE SPACE
c. 30,400 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 2.3 million

EPRA VACANCY RATE
22.8%

GUTENBERGGALERIE
Office and Retail Property

FEDERAL STATE
Saxony

LOCATION
Leipzig

USE
Office, retail

MARKET VALUE
c. EUR 27.5 million

LETTABLE SPACE
c. 23,200 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.7 million

EPRA VACANCY RATE
10.0%

LERCHENBERG CENTER
Retail Property

FEDERAL STATE
Saxony Anhalt

LOCATION
Wittenberg

USE
Retail

MARKET VALUE
c. EUR 21.9 million

LETTABLE SPACE
c. 14,700 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.7 million

EPRA VACANCY RATE
5.2%

HUMBOLDT CENTER
Retail Property

FEDERAL STATE
Saxony

LOCATION
Zittau

USE
Retail

MARKET VALUE
c. EUR 20.1 million

LETTABLE SPACE
c. 17,400 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.3 million

EPRA VACANCY RATE
3.2%

OFFICE BUILDING

FEDERAL STATE
Bavaria

LOCATION
Unterschleißheim

USE
Office

MARKET VALUE
c. EUR 18.9 million

LETTABLE SPACE
c. 15,700 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.0 million

EPRA VACANCY RATE
36.9%

OFFICE BUILDING

FEDERAL STATE
Schleswig-Holstein

LOCATION
Flensburg

USE
Office

MARKET VALUE
c. EUR 16.9 million

LETTABLE SPACE
c. 23,800 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.7 million

EPRA VACANCY RATE
0.0%

OFFICE BUILDING

FEDERAL STATE
Schleswig-Holstein

LOCATION
Quickborn

USE
Office

MARKET VALUE
c. EUR 16.3 million

LETTABLE SPACE
c. 10,600 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.2 million

EPRA VACANCY RATE
0.6%

OFFICE BUILDING

FEDERAL STATE
Hesse

LOCATION
Langen

USE
Office

MARKET VALUE
c. EUR 15.2 million

LETTABLE SPACE
c. 13,700 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.0 million

EPRA VACANCY RATE
27.7%

OFFICE BUILDING

FEDERAL STATE
Schleswig-Holstein

LOCATION
Neumünster

USE
Office

MARKET VALUE
c. EUR 15.2 million

LETTABLE SPACE
c. 11,800 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.0 million

EPRA VACANCY RATE
1.6%

OFFICE BUILDING

FEDERAL STATE
North Rhine-Westphalia

LOCATION
Meckenheim

USE
Office

MARKET VALUE
c. EUR 14.9 million

LETTABLE SPACE
c. 7,650 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.0 million

EPRA VACANCY RATE
0.0%

OFFICE BUILDING

FEDERAL STATE
Bavaria

LOCATION
Kempten

USE
Office

MARKET VALUE
c. EUR 14.9 million

LETTABLE SPACE
c. 16,800 m²

NET RENT EXCL. SERVICE CHARGES
c. EUR 1.0 million

EPRA VACANCY RATE
2.0%

Report of the Supervisory Board

Ladies and gentlemen,
In the 2017 fiscal year, the Supervisory Board performed the tasks and exercised the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its Rules of Procedure.

The Supervisory Board and the Executive Board continuously worked together and communicated regularly. In addition to the topics explicitly mentioned in this report, the work and communication of the boards extended to all other material issues concerning the Company and the Group. The Supervisory Board consulted regularly with the Executive Board and supervised the conduction of business under the aspects of legality, effectiveness and economic efficiency. The Executive Board directly involved the Supervisory Board in decisions of fundamental significance for the Company and the Group.

As in previous years, the Executive Board kept the Supervisory Board informed in a timely and comprehensive manner on the basis of detailed written and verbal Executive Board reports. These reports included a detailed discussion of all important issues related to the development of the markets relevant for the Company and the Group, short- and long-term corporate planning and current business performance. The position of the Company and the Group, the liquidity and risk situation, the Group-wide risk management system, current real estate projects and the further strategic development of the Group were also part of these discussions. The information provided by the Executive Board was critically reviewed by the Supervisory Board for plausibility. The subject matter and the scope of the Executive Board's reporting fully met our requirements at all times.

The Supervisory Board reviewed the detailed clarifications submitted by the Executive Board when business development diverged from the previously approved plans and targets as well as information on measures necessary to counter any divergence. After careful examination and consultation, the Supervisory Board members approved the reports and resolution proposals of the Executive Board to the extent required by the provisions of the law, the Articles of Association and the Rules of Procedure.

The chairman of the Supervisory Board was comprehensively informed by the Executive Board in a timely manner by way of written and verbal reports – also outside of scheduled Supervisory Board meetings – of particular business transactions that were of key significance in assessing the position and the development and for the management of the Company and the Group. Matters requiring approval were promptly submitted by the Executive Board for resolution.

The chairman of the Supervisory Board was regularly in personal and close contact with the Executive Board and kept himself regularly informed of current business developments and significant business transactions. He also kept the other Supervisory Board members informed outside of the scheduled meetings and discussed developments with them.

During the reporting year, there were no conflicts of interest on the part of the members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information to the Annual General Meeting. One member of the Executive Board held a seat on the supervisory board of a financial advisory company with whom a framework agreement was concluded in 2015. In the past 2017 fiscal year, no orders were placed with this company, and the framework agreement was terminated at the beginning of April 2017.

COMPOSITION OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD IN THE 2017 FISCAL YEAR

- Prof Dr Hermann Anton Wagner (since 17 April 2013, chairman since 23 October 2013)
- Dr Peter Maser (since 12. January 2015, vice chairman from 6 March 2015 to 13 February 2017)
- Günther Walcher (from 23 October 2013 to 23 January 2017)
- Frank Hölzle (since 14 February 2017, vice chairman)
- Dr Thomas Wetzel (since 14 February 2017)

CHANGES IN THE SUPERVISORY BOARD

After the resignation of Mr Günther Walcher as a member of the Supervisory Board effective at the close of 23 January 2017 and Dr Peter Maser at the close of 13 February 2017, DEMIRE was successful in winning both Mr Frank Hölzle and Dr Thomas Wetzel as new Supervisory Board members. By decision of the District Court of Frankfurt/Main on 14 February 2017, both were appointed as members of the Supervisory Board. The appointment of the two new Supervisory Board members, Frank Hölzle and Dr Thomas Wetzel, was initially limited and was later confirmed at the Annual General Meeting on 29 June 2017 until the Annual General Meeting that discharges the Supervisory Board members for the fiscal year ending on 31 December 2020. Prof Dr Hermann Anton Wagner was reappointed chairman of the Supervisory Board.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board consisted of three members in the 2017 fiscal year. Additional committees were not formed due to the low number of members on the Supervisory Board.

The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG with Chairman Prof Dr Hermann Anton Wagner (right), Vice Chairman Diplom-Volkswirt Frank Hölzle (centre) and Dr Thomas Wetzel (left)

WORK OF THE PLENUM IN THE REPORTING YEAR

The Supervisory Board held seven meetings during the 2017 fiscal year: on 28 March, 29 June, 7 July, 18 July, 26 September, 15 November and 19 December. The Supervisory Board also discussed and resolved current issues in numerous telephone conferences, particularly in relation to the issue and tapping of the 2017/2022 corporate bond in July and September of 2017, as well as about the changes in the Executive Board. Prof Dr Hermann Anton Wagner and Mr Frank Hölzle attended all meetings and telephone conferences; Dr Thomas Wetzel attended all meetings and telephone conferences except for the meeting on 15 November.

1ST QUARTER 2017

At the Supervisory Board meeting on 28 March and during the conference call on 4 April 2017, the Supervisory Board was informed about the general course of business to date in 2017, the planning for the current year and the status of the audit of the annual and consolidated financial statements for 2016. Other topics included the significant changes made to the German Corporate Governance Code as of 7 February 2017 and the preparations for the Annual General Meeting scheduled for 29 June 2017.

The issues and conditions with respect to the refinancing of the promissory note loan issued in February 2017 had already been explained and discussed in the meeting on 13 December 2016.

2ND QUARTER 2017

In a conference call on 12 April, the Supervisory Board mutually agreed with Hon Prof Andreas Steyer to terminate his Executive Board contract effective 30 June. In a further telephone call on 13 April, the Supervisory Board and Executive Board decided to issue an upfront ad hoc statement about the development of the funds from operations (FFO) for the 2016 fiscal year.

In a conference call on 25 April, the Supervisory Board thoroughly discussed the annual and consolidated financial statements for the 2016 fiscal year, including the combined management report for the Company and the Group. The auditors attended this conference call and reported on the key findings of their audit to date. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was elected by the Annual General Meeting on 30 June 2016 and commissioned by the Supervisory Board as the auditor.

On 26 April, together with the Executive Board, the Supervisory Board dealt with the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG pursuant to Section 161 AktG for the 2017 fiscal year with respect to the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette as amended on 7 February 2017, as well as the deviations from these recommendations. The Declaration of Conformity was subsequently published on the *Company's website.* ↘

The Supervisory Board subjected the annual and consolidated financial statements and the combined management report for the Company and the Group to a separate review and approved the auditor's audit results. There were no objections to the final results of the audit of the annual financial statements, the consolidated financial statements, the combined management report for the Company and the Group or the auditor's audit reports. The Supervisory Board approved the annual and consolidated financial statements as well as the combined management report by means of a resolution on 27 April, thereby adopting the annual financial statements of the Company.

The auditor participated in this conference call and reported on the key findings of the audit and confirmed that it would attach an unqualified audit opinion to the audit of the financial statements of the 2016 fiscal year including the combined management report for the Company and the Group.

↘ *www.demire.ag/en/company/corporate-governance*

During the conference calls held on 29 May and 30 May, the Executive Board presented the results of the first quarter and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the publication of the quarterly statement on 31 May.

3RD QUARTER 2017

In several meetings and conference calls, the planned issue and tapping of the 2017/2022 corporate bond were discussed extensively in July and September, their financial effects in the fiscal year and subsequent years were reviewed, and the transactions were approved.

In an extraordinary conference call on 28 August, the Executive Board presented the results of the first half of 2017 and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the 31 August publication of the half-year report. In addition, the Executive Board reported the positive result of the refinancing activities through the placement of the 2017/2022 corporate bond and the accompanying improvement in DEMIRE's future earnings figures as of the 2018 fiscal year. At the same time, the Executive Board outlined the potential next steps to be taken under the DEMIRE 2.0 strategic plan.

4TH QUARTER 2017

At the meeting on 15 November, the Executive Board informed the Supervisory Board about the state of the optimisation of the Group's structure through the conclusion of control and profit transfer agreements and about the status of the preparation of the interim consolidated financial statements as of 30 September.

In an extraordinary conference call on 29 November, the Executive Board presented the results of the 2017 nine-month period and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the 30 November 2017 publication of the quarterly statement and discussed the next steps of the DEMIRE 2.0 strategy with the Executive Board. At the meeting on 19 December 2017, the Supervisory Board adopted the financial calendar for the 2018 fiscal year.

WORK OF THE PLENUM AFTER THE END OF THE FISCAL YEAR

During a conference call on 22 February 2018 and at its meeting on 19 March 2018, the Supervisory Board dealt in detail with the course of business and the optimisation projects for the current fiscal year.

On 26 February, the Supervisory Board approved an increase of EUR 5,425,774.00 in the Company's share capital from authorised capital through the issue of 5,425,774 new, no-par value bearer shares. AEPF III 15 S.à.r.l., a holding company owned by the Apollo European Principal Finance Fund III – both subsidiaries of Apollo Global Management LLC ("Apollo managed funds") – has signed a subscription agreement to fully subscribe for the new shares. AEPF III 15 S.à.r.l. will subscribed to the new shares after the approval of the German Federal Cartel Office. The new shares were entered in the commercial register on 5 April 2018.

At the meeting on 10 April 2018, the Supervisory Board thoroughly discussed the annual and consolidated financial statements for the 2017 fiscal year, including the combined management report for the Company and the Group. The auditor attended this meeting and reported on the key findings of the audit to date. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed as the auditor by the Annual General Meeting on 29 June 2017 and was mandated by the Supervisory Board.

On 12 April 2018, the Supervisory Board and the Executive Board approved the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG for the 2017 fiscal year pursuant to Section 161 AktG on the recommendations of the "Government Commission German Corporate Governance Code" as amended on 7 February 2017 published by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, the Corporate Governance Report and the Statement on Corporate Governance pursuant to Sections 315d and 289f of the German Commercial Code. The Declaration of Conformity was subsequently published on the *Company's website.* ↘

↘ *www.demire.ag/en/company/corporate-governance*

The Supervisory Board approved the annual and consolidated financial statements as well as the combined management report by resolution on 25 April 2018, thereby adopting the Company's annual financial statements.

The auditor participated in this conference call and reported on the key findings of the audit and confirmed the attachment of an unqualified audit opinion to the audit of the financial statements of the 2017 fiscal year including the combined management report for the Company and the Group. The Annual General Meeting on 29 June 2017 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor, who was then commissioned by the Supervisory Board.

MATTERS OF THE EXECUTIVE BOARD

On 17 February 2017, the Supervisory Board appointed Mr Ralf Kind as CFO of the Company. Ralf Kind assumed his duties at DEMIRE AG effective 1 March 2017 and complements the Executive Board team of Prof. Andreas Steyer (CEO) and Markus Drews (COO). In addition, the Executive Board agreement with Markus Drews, COO, was extended for an additional three years on 17 February 2017 until the end of 2020.

On 12 April 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that Hon Prof Andreas Steyer would be leaving the Company's Executive Board effective 30 June 2017 in order to pursue new professional challenges. His Executive Board contract, which was set to expire on 31 March 2019, was cancelled prematurely by mutual agreement with the Supervisory Board. On 1 July 2017, Mr Markus Drews was appointed Speaker of the Executive Board (CEO).

On 16 November 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that the DEMIRE Deutsche Mittelstand Real Estate AG Supervisory Board and the Speaker of the Executive Board (CEO), Mr Markus Drews, had mutually agreed on that day that Mr Drews would immediately resign early from his positions as Speaker of the Executive Board and member of the Executive Board as of 31 December 2017. Mr Drews's Executive Board responsibilities, particularly those related to the transaction business, were assumed by Executive Board member Ralf Kind (now CEO and CFO) with immediate effect. On 4 December 2017, Mr Ralf Kind was also appointed as a member of the Management Board of Fair Value REIT-AG, as well as Chairman of the Management Board (CEO) at the same time.

STRENGTHENING THE FUTURE EARNINGS AND LIQUIDITY POSITION THROUGH SUCCESSFUL REFINANCING AND OPTIMISATION OF THE GROUP STRUCTURE

With the successful placement of the 2017/2022 corporate bond, DEMIRE took the first step of its DEMIRE 2.0 programme announced at the Annual General Meeting at the end of June 2017 within a very short period of time. The internationally renowned rating agencies Standard & Poor's and Moody's awarded this bond BB+ and Ba2 bond ratings. The Standard & Poor's rating is one notch below investment grade. DEMIRE's early refinancing of financial liabilities maturing until 2019 through the issue of this rated, unsecured corporate bond in the third and fourth quarters of 2017 is a strategic milestone on the Company's path to achieving an investment grade rating. Through this issue, DEMIRE has been able to redeem a substantial portion of past expensive and complex financing and successfully position itself in the international capital market. This is an essential requirement for the growth strategy being pursued by the Executive Board. In addition, the funds from operations (FFO) and liquidity will increase as the result of the significantly lower interest rate on the refinancing and due to the repayments of the maturing loans becoming obsolete. Through the refinancing of existing liabilities, the financing costs fell from an average of 4.4% as of 31 December 2016 to 3.0% p.a. The very positive ratings awarded by the rating agencies underline the strong appeal and stability of DEMIRE's business model, which has an attractive commercial real estate portfolio investing in secondary locations in Germany and is set to expand to a level of over EUR 2 billion. This and future measures under the DEMIRE 2.0 strategy will further enhance the attractiveness and raise the profile of DEMIRE shares.

With the shareholders' approval at the Extraordinary General Meeting on 15 November 2017 of the control and profit transfer agreements within the DEMIRE Group and the resulting inflow of positive income from the subsidiaries, the high tax loss carryforwards can now be utilised and offset against tax expenses at the level of the holding company DEMIRE Deutsche Mittelstand Real Estate AG. Tax optimisation is another milestone in the implementation of DEMIRE 2.0 and demonstrates the Executive Board's consistency in implementing the measures planned as part of its growth strategy, particularly with respect to optimising the Group's internal structures. The better tax situation prompted the Executive Board in November 2017 to raise the forecast for funds from operations for the 2017 fiscal year from a range of EUR 8 million to EUR 10 million to EUR 11 million to EUR 12 million and the forecast for rental income from EUR 72 million to EUR 73 million to approximately EUR 74 million. This latest forecast was confirmed by the Group figures as of 31 December 2017, which reported rental income of EUR 73.7 million and funds from operations after taxes and before minorities of EUR 11.7 million.

With our 10% capital increase in February 2018, we gained a new, experienced and strategic investor Apollo Global Management, who together with the other anchor shareholder, Wecken & Cie., fully endorses the DEMIRE 2.0 strategy and actively supports DEMIRE's growth plans.

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Group's employees and the Executive Board members Hon Prof Andreas Steyer and Mr Markus Drews, as well as Mr Kind during their terms on the Executive Board, for their extraordinary commitment and constructive collaboration during the 2017 fiscal year.

As of 2018, Mr Markus Drews will also pursue new professional challenges. We deeply regret his departure and thank him, also on behalf of the entire DEMIRE team, for his successful, valuable contribution he has made to DEMIRE over the past three years. We wish Mr Drews all the best in his future endeavours outside the Company.

This report was discussed in detail and adopted by the Supervisory Board during its conference call on 25 April 2018.

Frankfurt am Main, April 2018

Prof Dr Hermann Anton Wagner
(Chairman of the Supervisory Board)

Corporate Governance Report pursuant to Item 3.10 GCGC and the 2017 Statement on Corporate Governance pursuant to Sections 315d and 289f HGB Corporate Governance Report

The governing bodies of DEMIRE Deutsche Mittelstand Real Estate AG are committed to the responsible and value-enhancing management and monitoring of the Company and the Group. Making the Group's management principles and the development of the Group transparent should serve to build, maintain and strengthen the trust of the shareholders, business partners, customers, capital market participants and employees. The Executive Board and the Supervisory Board work closely together for the Company's benefit and to ensure that the Company is managed and controlled responsibly through good corporate governance.

ORGANISATION AND MANAGEMENT

DEMIRE Deutsche Mittelstand Real Estate AG is headquartered in Germany. The registered offices of the subsidiaries, associated companies and joint ventures correspond to the location of their real estate holdings in Germany or other countries in which they conduct a majority of their activities.

In line with the DEMIRE 2.0 business strategy introduced at the Annual General Meeting on 29 June 2017, the Group's debt financing and organisational structure continued to be optimised during the 2017 fiscal year. The management of the real estate portfolio is the responsibility of the Group's in-house real estate Management division. Administrative duties, such as risk management, finance and controlling, financing, legal, IT and compliance, are carried out by the Corporate Functions/Others segment.

The Executive Board manages the individual real estate investments in a cash flow-oriented manner based on defined individual budgets, as well as the Group based on an overall plan that is derived from these individual budgets. The development of the individual real estate budgets compared to budget targets is subject to the Executive Board's routine strategy and reporting discussions with the relevant operating managers.

COMPOSITION AND WORKING PRACTICES OF THE EXECUTIVE AND SUPERVISORY BOARDS

As a listed German stock corporation, the Company's management is governed by the German Stock Corporation Act, other legal provisions of corporate and commercial law and the requirements of the German Corporate Governance Code in its current version. German stock corporations are required by law to employ a dual management system. This creates a strict separation of the Executive Board as the managing body of the Company and the Supervisory Board as the supervisory body, whereby the Executive Board and Supervisory Board work together closely in the Company's best interests.

MANAGEMENT AND CONTROL STRUCTURE

THE EXECUTIVE BOARD

The Executive Board is solely responsible for the management of the Company and represents the Company in dealings with third parties. It defines the strategy in coordination with the Supervisory Board and implements this strategy keeping the goal of sustainable value creation in mind. Executive Board members are responsible for individual areas independent of their joint responsibility for the Group. They cooperate and inform each other of important events and activities in their areas of responsibility. The Executive Board shall obtain the Supervisory Board's approval in cases specified by law. In addition, DEMIRE's Articles of Association list extraordinary transactions that also require Supervisory Board approval. The Executive Board has adopted Rules of Procedure with the Supervisory Board's approval.

The Executive Board informs and reports to the Supervisory Board regularly, timely and comprehensively on all company-relevant plans, business developments and risk issues. Other important events must be reported by the Executive Board to the chairman of the Supervisory Board. The Supervisory Board's chairman is also routinely and continually informed of business developments. The Executive Board relies on the risk management system applicable throughout the DEMIRE group of companies to conduct this reporting.

MANDATES OF EXECUTIVE BOARD MEMBERS IN SUPERVISORY BOARDS OF OTHER COMPANIES OR COMPARABLE SUPERVISORY BODIES

NAME	COMPANY	POSITION
Markus Drews (Speaker of the Executive Board until 15 November 2017, Executive Board member until 31 December 2017)	Fair Value REIT-AG, Munich, Germany	Vice Chairman of the Supervisory Board (1 March 2016 to 30 November 2017)
	BF.direkt AG, Stuttgart, Germany	Ordinary Member of the Supervisory Board (since 21 April 2016)

Mr Ralf Kind holds no other positions in statutory supervisory boards or comparable supervisory bodies of domestic or foreign business enterprises.

The remuneration of the members of the Executive Board is explained in section *Remuneration report* of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

See also page 071

THE SUPERVISORY BOARD

The Supervisory Board appoints the members of the Executive Board, determines their total compensation and oversees their management activities. It also advises the Executive Board on the management of the Company. The Supervisory Board adopts the financial statements and approves the consolidated financial statements. Material decisions of the Executive Board require the approval of the Supervisory Board. In addition, the Supervisory Board has adopted Rules of Procedure.

The Supervisory Board currently consists of three members elected by the DEMIRE Annual General Meeting. The chairman of the Supervisory Board coordinates the work of the Supervisory Board. The Supervisory Board has not formed any committees.

MANDATES OF SUPERVISORY BOARD MEMBERS IN SUPERVISORY BOARDS OF OTHER COMPANIES OR COMPARABLE SUPERVISORY BODIES

NAME	COMPANY	POSITION
Prof Dr Hermann Anton Wagner (Chairman of the Supervisory Board)	Aareal Bank AG, Wiesbaden, Germany	Ordinary Member of the Supervisory Board
	btu consultingpartner Holding AG, Oberursel, Germany	Vice Chairman of the Supervisory Board
	PEH Wertpapier AG, Frankfurt am Main, Germany	Vice Chairman of the Supervisory Board (until 30 June 2017), Ordinary Member of the Supervisory Board (since 1 July 2017)
	SQUADRA Immobilien GmbH & Co, KGaA, Frankfurt am Main, Germany	Vice Chairman of the Supervisory Board
Frank Hölzle (Vice Chairman of the Supervisory Board)	Westgrund AG, Berlin, Germany	General member of the Supervisory Board (until 21 December 2017 Chairman of the Supervisory Board)
(Since 14 February 2017)	clickworker GmbH, Essen, Germany	Chairman of the Advisory Board
	Mindlab Solutions GmbH, Stuttgart, Germany	Chairman of the Advisory Board
	mobileObjects AG, Büren, Germany	Chairman of the Supervisory Board
	rankingCoach GmbH, Köln, Germany	Chairman of the Advisory Board
	SIC invent AG, Basel / Switzerland	Member of the Board of Directors
	Rebuy GmbH, Berlin, Germany	Member of the Advisory Board
	Fair Value REIT-AG, Munich	Chairman of the Supervisory Board (since 4 December 2017)
Dr Thomas Wetzel	Brandenberger + Ruosch AG, Dietlikon / Switzerland	President of the Board of Directors
(Since 14 February 2017)	EBV Immobilien AG, Urdorf / Switzerland	President of the Board of Directors
	Energie 360° AG, Zurich / Switzerland	Vice President of the Board of Directors
	Immobilien ETHZF AG, Zurich / Switzerland	Member of the Board of Directors
	VERIT Investment Management AG, Zurich / Switzerland	President of the Board of Directors
	Swiss Foundation for Anesthesia Research, Zurich / Switzerland	Member of the Foundation Council
	Fair Value REIT-AG, Munich	Vice Chairman of the Supervisory Board (since 4 December 2017)

Further details about the activities of the Supervisory Board are available in the Supervisory Board's report, which is part of this Annual Report. The remuneration of the members of the Supervisory Board is explained in section *Remuneration report* of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

SHARES OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG OWNED BY MEMBERS OF GOVERNING BODIES AND MAJOR SHAREHOLDERS

DEMIRE Deutsche Mittelstand Real Estate GmbH had 54,270,744 shares outstanding as of 31 December 2017.

The following are the shares and stock options owned by members of governing bodies at the end of the 2017 fiscal year: Ralf Kind held 5,000 of the Company's shares, equivalent to an interest of 0.01 % of the Company's outstanding shares. Frank Hölzle held 1,000 shares in the Company, equivalent to an interest of 0.002 % of the Company's outstanding shares.

Members of the Executive Board and Supervisory Board are legally obliged under Article 19 of Regulation (EU) No 569/2014 of the European Parliament and of the Council on Market Abuse (Market Abuse Regulation) to disclose any manager's transactions in shares or debt instruments of DEMIRE Deutsche Mittelstand Real Estate AG or related derivatives or other related financial instruments to the extent that the total amount of transactions effected by the member and persons closely associated with him reaches or exceeds the sum of EUR 5,000 within a calendar year. The transactions reported to DEMIRE Deutsche Mittelstand Real Estate AG in the past financial year were duly published and are available on the *Company's website.*

Shares owned by major shareholders at the end of the 2017 fiscal year include Wecken & Cie. with 15,727,242 shares in the Company, equivalent to a 28.98 % interest in the Company's outstanding shares. Obotritia Capital KGaA owned 5,415,632 shares in the Company, equivalent to an interest of 9.98 % in the Company's outstanding shares. M1 Beteiligungs GmbH held 3,015,285 shares in the Company, equivalent to an interest of 5.56 % in the Company's outstanding shares. Ms Sigrid Wecken held 2,713,880 shares in the Company, equivalent to an interest of 5.00 % in the Company's outstanding shares.

The remaining 50.48 % of the shares were in the hands of both institutional and private investors. None of these shareholders held an interest over/equal to 5 %. This information is based on voting rights notifications by shareholders pursuant to the German Securities Trading Act (WpHG) and information provided by members of the Company's governing bodies.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The shareholders of DEMIRE Deutsche Mittelstand Real Estate AG exercise their administrative and control rights at the Annual General Meeting. The Annual General Meeting executes all of its duties assigned by law in its meeting, which takes place in the first eight months of each fiscal year. Since the realignment in 2014, DEMIRE Deutsche Mittelstand Real Estate AG's fiscal year ends on 31 December. The chairman of the Supervisory Board presides over the Annual General Meeting. Each shareholder is entitled to attend the Annual General Meeting, address the agenda items and demand information about Company matters to the extent necessary for a proper assessment of any agenda item of the Annual General Meeting.

All of the outstanding shares of DEMIRE Deutsche Mittelstand Real Estate AG are no-par value bearer shares with identical rights and obligations. Each share has one vote at the Annual General Meeting, and there are no special voting rights of shareholders nor are there limits on voting rights. A resolution usually requires a simple majority of votes. If the law prescribes a majority of the capital represented, the Articles of Association provide for a simple majority of the capital represented (among others in the case of amendments to the Articles of Association and capital increases) with the exception of certain cases established by law (such as reductions in capital or exclusion of subscription rights) that require a majority of three-quarters of the capital represented or an even greater majority.

See also page 071
www.demire.ag/en/investor-relations/share/directors-dealings

ACCOUNTING AND AUDITING OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU. The Executive Board shall prepare the financial statements (balance sheet, statement of income and notes) and the Company's management report within the first four months of each fiscal year and immediately provide it to the auditor. After the auditor has performed the audit, the Executive Board shall submit the financial statements including the audit report along with the Board's proposal for the appropriation of retained earnings to the Supervisory Board. The Supervisory Board reviews the financial statements, management report and the Executive Board's proposal for the appropriation of retained earnings. The Supervisory Board forwards its own report on these issues to the Executive Board within one month of receiving the Executive Board's documents and the auditor's report on the audit of the financial statements.

The following arrangements have been agreed with the auditor:

- The chairman of the Supervisory Board shall be notified immediately when potential grounds for exclusion or bias arise during the audit, and these issues cannot be resolved immediately.
- The auditor reports to the Supervisory Board on all findings and events material to the duties of the Supervisory Board that arise during the audit.
- If during the audit the auditor discovers inaccuracies in the Declaration of Conformity with the German Corporate Governance Code that was submitted by the Executive Board and the Supervisory Board, the auditor is to make note of this in the audit report and inform the chairman of the Supervisory Board.

TRANSPARENCY

Timely, consistent and comprehensive information is a top priority at DEMIRE. We, therefore, provide comprehensive information on the Company's development in the context of our investor relations activities. Reports on the Group's situation, development and especially its financial results are included in the annual report, three-month and nine-month interim statements and half-year financial report. The Group also informs the public through press releases and ad hoc announcements pursuant to Article 17 of the Market Abuse Regulation (MAR). In addition, the Executive Board communicates extensively on financial issues with the relevant capital market participants in Germany and abroad. All financial publications, announcements, and presentations that are created for reporting purposes are available on *DEMIRE's website.* The Company's financial calendar is also available on the website and lists the scheduled financial reporting dates and key publication dates as well as the date for the Annual General Meeting. Our Articles of Association, all declarations of conformity and documentation for corporate governance are available on our *website.*

DEMIRE Deutsche Mittelstand Real Estate AG maintains a list of insiders pursuant to the provisions of Article 18 MAR. Persons affected are informed of their statutory duties and penalties.

www.demire.ag/en/investor-relations
www.demire.ag/en/company/corporate-governance

STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTIONS 315D AND 289F HGB

DEMIRE Deutsche Mittelstand Real Estate AG submits a Statement on Corporate Governance pursuant to Item 3.10 of the German Corporate Governance Code and Sections 315d and 289f HGB. The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG that is contained in this statement and is also available to shareholders on the *Company's website* under the section entitled "Company".

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 AKTG

The wording of the most recent Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG

The Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG (the "Company") monitor compliance with the German Corporate Governance Code. They hereby declare that the Company has been complying with and will continue to comply with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated 7 February 2017, announced by the Federal Ministry of Justice in the official section of the Federal Gazette, with the following exceptions:

- **Item 3.8:** A deductible for D&O insurance was agreed for the Executive Board but is not planned for the Supervisory Board. It is the Company's opinion that an agreement for such a deductible for Supervisory Board members would significantly reduce the appeal of a position on the Company's Supervisory Board and thereby have a negative impact on the chances of attracting adequate candidates for a position on the Company's Supervisory Board.
- **Item 4.1.3:** The Executive Board has set up an appropriate compliance management system that is in continuous further development. Information from employees and third parties can be given confidentially to the Compliance Officer. The contact details of the Compliance Officer are published on DEMIRE's website.
- **Item 4.2.3:** The existing variable remuneration components of the Executive Board members were agreed prior to the Code's publication and entry into force as amended on 7 February 2017. The Company intends to provide future variable compensation components to the Executive Board members in accordance with the current Code.
- **Item 5.3.2:** The Supervisory Board does not form committees since it consists of only three members. Therefore, the Supervisory Board carries out all of the duties of an audit committee.
- **Item 5.4.1:**
  - The Supervisory Board has the skills required to carry out its duties and a sufficient number of independent members with its composition consisting of Prof Dr Wagner as auditor and professor at the Frankfurt School of Finance and Management, Mr Frank Hölzle with a background in business administration and Head of the Family Office of Mr Klaus Wecken and Dr Thomas Wetzel as a Swiss lawyer.
  - Neither an age limit nor a limit for the regular length of membership has been established for members of the Supervisory Board. In the Company's opinion age is not an appropriate criterion to be used for the election of Supervisory Board members.
- **Item 7.1.2:** 1. The Company will continue to comply with the publication deadlines required by law until further notice.

This declaration has been made available to shareholders on the *Company's website.* The Declaration of Conformity for Fair Value REIT-AG, which is included in the consolidated financial statements, dated 31 January 2018 with regard to the version of the Code from 7 February 2017, is published on the Fair Value REIT-AG's website at http://www.fvreit.de/investor-relations/corporate-governance/entsprechens-erklaerung/entsprechenserklaerung.html.

www.demire.ag

www.demire.ag

INFORMATION ON CORPORATE PRACTICES

Good corporate governance plays an important role at DEMIRE and includes the application of corporate practices that go beyond the legal requirements and represent a practical implementation of the German Corporate Governance Code.

Good corporate governance also involves the responsible handling of risks so as not to jeopardise the Company's existence. The Executive Board has therefore set up a suitable risk management system, which is constantly evolving to keep in step with the DEMIRE Group's development and ensures compliance with the law and regulations.

Responsible and sustainable management is part of DEMIRE's corporate culture and everyday business. It is important to us to meet our ethical and legal responsibilities as a company. Only in this way, can we be perceived by tenants, business partners, authorities and the public as a moral and reliable partner in the real estate sector. This is the reason we have been establishing a compliance programme at the Company and have adopted the *DEMIRE Code of Conduct* at the beginning of 2017, which all employees were obliged to sign.

COMPLIANCE PROGRAMME

The aim of the compliance programme is to help employees comply with the relevant legislation and codes of conduct. DEMIRE has set up a corresponding compliance organisation to implement appropriate measures and to monitor compliance with the laws and the Code of Conduct. The speaker of the Executive Board is tasked with the management of the compliance office. At the beginning of 2016, a Compliance Officer was appointed for the information, implementation, further development and monitoring of the compliance programme in the DEMIRE Group. The Compliance Officer supports the Executive Board in the development and implementation of guidelines and procedures to ensure compliance with the applicable legal requirements and the requirements of the DEMIRE Compliance Programme.

The Executive Board and the Supervisory Board of DEMIRE are regularly informed of the current status and effectiveness of the compliance measures.

The central element of the compliance programme is the *DEMIRE Code of Conduct,* which contains the fundamental principles and rules for conduct at the Company as well as towards both external partners and the general public.

Our employees' knowledge of the Code of Conduct principles is deepened through regular training courses. Supervisors and the Compliance Officer are always available to answer questions about the appropriate behaviour.

The implementation of the compliance programme and adherence to the Code of Conduct are monitored regularly.

CORNERSTONES OF THE DEMIRE CODE OF CONDUCT

- **Anti-corruption and avoiding conflicts of interest**
  - Forbiddance of deriving a personal advantage or granting a benefit in exchange for influencing business decisions
  - A reasonable relationship between a consultant's remuneration and the service rendered
  - Binding regulations for the acceptance and granting of gifts, invitations and other benefits including the handling of donations
  - No conflict of interest as a result of sideline activities or financial interests in companies

- **Respect and protection against discrimination**
  - No discrimination or unwanted conduct based on race, ethnicity, gender, religion, disability, age and/or sexual identity
  - Respectful working environment and fair working conditions

- **Trade secrets and data privacy**
  - Commitment to data secrecy
  - The collection, storage and processing of personal data in accordance with the Privacy Policy
  - Forbiddance to use inside information

- **Reporting and information**
  - Complete, proper and timely reporting
  - Comprehensive, timely and transparent information

TARGETS FOR THE PARTICIPATION OF WOMEN ON THE SUPERVISORY BOARD, THE EXECUTIVE BOARD AND THE TWO MANAGEMENT LEVELS BELOW THE EXECUTIVE BOARD

As a listed and non co-determined company, DEMIRE AG is required by law to set targets for the proportion of women on the Supervisory Board, Executive Board and, if available, the two management levels below the Executive Board.

The target percentage of women until 30 June 2017 was set at zero in September 2015 for the Supervisory Board, Executive Board and the first management level below the Executive Board. At the end of June 2017, the targets for the proportion of women on the Supervisory and Executive Boards were set at zero for the period from 1 July 2017 to 30 June 2022 and at 25% for the first management level below the Executive Board for the same period in accordance with the percentage of female executives at that time. Since 1 January 2016, the position of the Compliance Officer with a direct reporting line to the Executive Board, as well as since 1 May 2017 the position of Head of Commercial Management, have been held by women, which corresponds to a share of female representation at the first management level of 22.2% as at 31 December 2017. Due to the Company's flat hierarchies, the Company refrained from defining a target for the second management level below the Executive Board.

DISCLOSURE OF CONFLICTS OF INTEREST

In observance of the German Corporate Governance Code, all members of the Executive and the Supervisory Boards shall disclose conflicts of interest that may arise.

One member of the Executive Board (until 31 December 2017) held a Supervisory Board mandate with a financial advisory company, with which a framework agreement was concluded in 2015. In the 2017 fiscal year, no orders were placed with this company, and the framework agreement was terminated at the beginning of April 2017.

D&O INSURANCE

Directors&Officers insurance (D&O) has been concluded for the members of the Executive Board, Supervisory Boards and executives. In this context, claims for damages by the Company, shareholders or third parties against this group of persons are insured for negligence. The costs of the insurance are borne by DEMIRE Deutsche Mittelstand Real Estate AG. Members of the Executive Board have a limited deductible in the event of an insured event.

Frankfurt am Main, 12 April 2018
DEMIRE Deutsche Mittelstand Real Estate AG

Ralf Kind Dipl.-Betriebsw. (FH)
(CEO/CFO)

Prof Dr Hermann Anton Wagner
(Chairman of the Supervisory Board)

COMBINED MANAGEMENT REPORT

“Our business model offers high potential value appreciation in the German commercial real estate market”.

Ralf Kind, CEO/CFO of the DEMIRE AG

GROUP PRINCIPLES

The following presents the combined management report for DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, ("the Company") and the Group ("DEMIRE" or the "DEMIRE Group") for the fiscal year from 1 January to 31 December 2017. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the special provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared according to the International Financial Reporting Standards (IFRS), as applicable in the European Union. The scope of consolidation is presented in detail in the Notes under Item B.

BUSINESS MODEL

DEMIRE Deutsche Mittelstand Real Estate AG is a public stock corporation under German law, headquartered in Frankfurt/Main, Germany with no other branch offices. The Company's main office is located at Robert-Bosch-Straße 11, 63225 Langen. The shares of DEMIRE Deutsche Mittelstand Real Estate AG (ISIN DE000A0XFSF0) are listed in the Prime Standard of the Frankfurt Stock Exchange and on the regulated unofficial market of the Stuttgart, Berlin and Dusseldorf stock exchanges.

DEMIRE Deutsche Mittelstand Real Estate AG holds commercial real estate in medium-sized cities and up-and-coming peripheral locations in metropolitan areas throughout Germany. The Company's key strength is in these secondary locations – "first in secondary locations" – focusing on properties that are particularly attractive for medium-sized tenants. DEMIRE grew rapidly from 2013 to 2016, both through acquiring individual properties and interests in companies. DEMIRE's current portfolio contains around 1 million m² of lettable space with a market value of more than EUR 1 billion. The portfolio's focus on office, retail and logistics properties presents an attractive opportunity and risk profile that DEMIRE believes is appropriate for the commercial real estate business. The Company attaches high importance to long-term contracts with solvent tenants and, therefore, anticipates stable and sustainable rental income.

DEMIRE manages the acquisition, management and letting of commercial real estate using the Group's own in-house real estate management. Value appreciation is to be achieved using an active real estate management approach that includes the targeted sale of properties should they no longer be suitable for the business model or when their value appreciation potential has been exhausted.

DEMIRE DIVIDES ITS BUSINESS INTO THREE AREAS FOR SEGMENT REPORTING: CORE PORTFOLIO, FAIR VALUE REIT AND CORPORATE FUNCTIONS / OTHERS.

The strategically important “Core Portfolio” segment comprises the assets and activities of DEMIRE’s subsidiaries and sub-subsidiaries that also largely belonged to the Group prior to the takeover of Fair Value REIT-AG. The main assets are the commercial properties in Germany. This segment also includes the in-house real estate management activities established in 2015 and expanding ever since. The segment’s objective is to efficiently manage the real estate portfolio by employing an active management approach and generating increasing returns by exploiting the real estate’s potential value.

The “Fair Value REIT” segment comprises the Company’s investment activities in directly and indirectly owned properties. The segment “Corporate Functions/Others” contains the Group’s administrative and general tasks such as risk management, finance, controlling, investor and public relations, legal, IT and compliance. This segment also reflects the effects of the largely dissolved legacy portfolio, which is only of minor importance to the DEMIRE Group.

STRATEGY AND OBJECTIVES

STRATEGY

Since the Company’s realignment in 2013, the objective of the DEMIRE Group has been to become one of the leading holders of commercial real estate in Germany listed on the stock exchange. On the path to becoming “first in secondary locations”, the Company has built a portfolio with a current market value of over EUR 1 billion by acquiring individual commercial properties and real estate portfolios and, above all, acquiring a majority interest in Fair Value REIT-AG at the end of 2015.

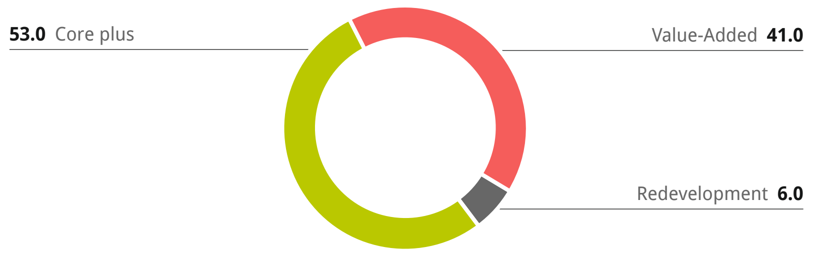
The Company’s investment strategy is based on a balanced risk-opportunity profile, which is reflected in the fact that DEMIRE invests only in those properties that generate positive cash flow from the outset and have several financially sound tenants, especially when they permit the alternative use of property or the potential for value appreciation through active portfolio and asset management. The decentralised structure of the German real estate market offers investors who have a regional network and local market expertise, unlike other European markets and away from the Top 7 locations (“A locations” Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart) a much more attractive risk and opportunity profile. A large number of medium-sized cities (“secondary locations”), which are the centre of economically strong regions and are located in the catchment area of the Top 7 locations, are characterised by higher yields coupled with more stable prices and rents. The secondary locations are generally characterised by medium-sized companies that have a high degree of loyalty to the location and stability.

DEMIRE prefers to invest in prime locations in medium-sized cities and up-and-coming areas bordering metropolitan centres throughout Germany. This is also designed to take regional differentiation into account. To diversify the risk of the real estate holdings, DEMIRE seeks to build an overall portfolio spread across a variety of different asset classes (office, retail and logistics properties).

DEMIRE'S PORTFOLIO IS SUB-DIVIDED INTO THREE CATEGORIES:

- The Core Plus portfolio category includes real estate whose current risk/return profile is characterised by a low vacancy rate of 5% or less with an average remaining lease term of at least five years. These properties provide safe and sustainable cash flows from long-term rental income with high tenant Credit Quality.
- The Value-Added portfolio includes properties with a vacancy rate of over 5% and an average remaining lease term of fewer than five years. These properties already generate attractive cash flows from rental income, but also have the potential to increase their value through an active "manage-to-core" approach via the in-house real estate management platform.
- In the Redevelopment category, DEMIRE aggregates 5% up to a maximum of 10% of the real estate in the portfolio that, from today's perspective, should be repositioned on the market following future extensive modernisation or supplementary measures. These properties already generate an attractive return but, as a result of these measures, should further improve this return or secure it for the long term. Significant pre-letting of rental space and the timely assurance of building permits considerably reduces the marketing risk.
- As part of its investment strategy, DEMIRE seeks to balance opportunities and risks by combining the Core Plus, Value-Added and Redevelopment investment strategies. A volume of EUR 10 to 50 million is envisaged for each individual investment, which is a very marketable size. The transaction market in secondary locations has a high level of liquidity, even in comparison to the Top 7 locations, which will help DEMIRE in achieving its future growth targets.

INVESTMENT STRATEGIES
in % of portfolio market value



(As of: 31/12/2017)

Objectives

At its Annual General Meeting at the end of June 2017, under the title DEMIRE 2.0, DEMIRE defined concrete growth targets that it is striving to achieve in the medium term through a holistic action plan encompassing cost optimisation, streamlining the group structure and reducing financing costs. A key component of this strategy is the plan to double the size of the current portfolio from today's level of around EUR 1 billion to a future total of EUR 2 billion. In addition, permanent increases in efficiency and economies of scale in real estate management in the course of the Company's future growth are expected to further improve the cost base. A continued improvement in the financing mix, especially through a careful examination of the specific financing options, should further reduce the average interest costs and lead to a net loan-to-value in the medium term of roughly 50%. DEMIRE will increase its active and transparent dialogue with existing and new investors in an effort to enhance its communication and access to the capital markets. In addition to increasing its market capitalisation, DEMIRE also aims to improve its risk profile in order to attain an investment grade rating so that it can secure long-term and sustainable financing on favourable terms for its future growth.

Management system

To achieve the targets DEMIRE has set itself in line with the strategic direction described, the Group has designated operating cash flow (funds from operations – FFO) as its key performance indicator. To increase FFO, the management's task is to improve the cash flow of the real estate portfolio over time. This is to be accomplished on an operating level primarily by monitoring and managing the development of the occupancy rate, the actual net rent per m², the ongoing maintenance and operating costs, allocable service charges, rental losses and the net operating income of the real estate (NOI) by means of regular target/actual performance comparisons. Integrated cash flow planning links the business segments to the individual properties. Continuous monitoring of the liquidity and the occupancy rate is carried out in addition to the use of the financial performance indicators. For more information, please see the comments in the Notes under "Investment Properties".

At the level of DEMIRE AG, income and cash flows are aggregated and assessed. The key indicators for measuring added value are the equity ratio and the change in net asset value ("NAV") as defined by the European Public Real Estate Association (EPRA). The ratio of net debt to the sum of the existing real estate (net loan-to-value (net LTV) represents a second important performance indicator used by the Group. Interest expenses are another key factor because they have a significant influence on the financial result and thereby the profit/loss for the period and the development of cash flow. The active and ongoing management of the portfolio of financial liabilities combined with the continuous market observation, monitoring and assessment is carried out to achieve an ongoing improvement in the financial result.

ECONOMIC REPORT

MACROECONOMIC AND SECTOR ENVIRONMENTS

MACROECONOMIC ENVIRONMENT

The German economy also flourished in the year 2017, amid an expanding global economy where global economic growth reached 3.7% and a thriving eurozone region, which saw its gross domestic product (GDP) rise 2.5%.

According to the Federal Statistical Office, Germany's real GDP in 2017 was up 2.2% year-on-year, marking the eighth consecutive year of German economic growth at an even higher rate again than in the previous years.

The Federal Statistical Office pointed to domestic demand as the key growth driver, citing the growth in private consumption of 2.0% and in construction investment of 2.6%.

Economic growth was boosted by historically low key interest rates (i.e. prime and marginal lending rates at 0% and 0.25%). The positive economic environment was reflected by rising employment of 1.5% in 2017. This trend has now been unbroken for twelve consecutive years.

SECTOR ENVIRONMENT

The boom in the construction industry continued. A high demand for houses and apartments and favourable financing conditions in 2017 led to the highest level of new business in over two decades. According to the Federal Statistical Office, the nominal volume of new orders amounted to EUR 72.3 billion – a year-on-year increase of 6.6%. Price-adjusted new orders in the construction industry increased year-on-year by 3.5%.

The German construction industry closed the year 2017 with an increase in revenue in real terms of 2.7%. According to the Federation of the German Construction Industry (Hauptverband der Deutschen Bauindustrie – HDB), the industry generated revenue of EUR 114 billion. The positive trend in construction benefitted larger companies above all. According to the HDB, larger companies were more likely to be involved in new building projects rather than smaller companies, which were more in demand for construction activities involving existing buildings. The construction boom also attracted more employees in 2017 with companies increasing their headcount by roughly 4% to 812,000. As a result, the industry has more than 800,000 employees for the first time since 2003.

With assets valued at EUR 11.2 trillion, the German real estate market is seen by experts as a stability factor not only for the German economy but for Europe as a whole. This was the conclusion drawn by the study "Economic Factor Real Estate 2017" conducted by the German Society for Real Estate Research (Gesellschaft für Immobilienwirtschaftliche Forschung – gif), the German Association for Housing, Urban Planning and Spatial Planning e.V. (Deutschen Verband für Wohnungswesen, Städtebau und Raumordnung e.V. – DV) and the Federal Association of Real Estate Germany (Bundesarbeitsgemeinschaft Immobilienwirtschaft Deutschland – BID).

The strength of the German real estate industry stems from the complex ownership structure in the housing market, the close proximities of several strong cities with attractive commercial real estate markets and the conservative financing culture. Thanks to the variety of large investment markets and prospering regional centres, the German real estate market enjoys a reputation as a stable investment location for international investors.

However, the authors of the study point out that the strength and stability of the German real estate industry is no guarantee of success. The vast array of players and the heterogeneous nature of the sub-markets mean that the industry is rather slow to react. Lower transaction costs could increase the adaptability of market participants. Based on this premise, the authors derive a catalogue of demands for municipalities, federal states and the federal government, which includes a reduction in the land transfer tax to a nationwide, investment-friendly level, faster allocation of building land and simplified processes in planning regulation.

Transaction volumes for commercial real estate

Germany's excellent economic data added fuel to the commercial real estate investment market in 2017. The low level of interest rates and strong rental markets created dynamic demand for this category of investment products. The German commercial real estate investment market achieved near record-breaking transaction volume of EUR 57.4 billion in the year under review – or roughly 9% higher than in the previous year. Office real estate in this market continued to be the most coveted asset class for German and international investors. At over EUR 28 billion, for an increase of 13%, nearly half of the transaction volume in the reporting year was attributed to office space – setting yet another record! Retail real estate took second place with just under a quarter of Germany's investment volume (around EUR 14 billion). At more than EUR 8 billion, warehousing and logistics real estate followed at almost 15% of investment volume and, lastly, hotel real estate accounted for around 7% and a solid EUR 4 billion of total volume.

The market for office properties

The outstanding development of the German labour market with its increasing employment created a growing demand for German office real estate in 2017, thereby increasing the appeal of this asset class. Although the Top 7 locations account for just over EUR 22 billion, or almost 79%, of German office real estate transactions, this category recorded only a moderate increase of around 6%. Instead, investors were more focused on so-called regional centres or B locations in 2017, which recorded an increase in investment volume of around 53%.

The German office markets posted record turnover overall in 2017. According to Deutsche Immobilien-Partner (DIP), office space turnover (including owner-occupied space) totalled 5.05 million square metres at selected office locations. This registered the highest floor space turnover in the last 25 years. Apart from the Top 7 German cities – Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – the DIP competence network also analyses eight secondary locations that are of interest to DEMIRE: Bremen, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Magdeburg and Nuremberg.

The DIP analysis shows that the German office market continues to be highly robust with strong momentum. Office space turnover increased by approx. 11% year-on-year not only in the seven largest German office markets – the "Big Seven" – but also in the eight medium-sized locations. In the reporting year, these locations amounted to approximately 772,000 square metres of office space turnover for a year-on-year increase of roughly 17%.

At the same time, the vacancy rate in the office markets analysed fell to 4.9% (previous year: 5.9%). Vacancies are continuing to decline, especially in the "Big Seven" markets. In central locations in Berlin and Munich, one could say that the level is at full occupancy. Although the vacancy rate of the secondary locations was above average at 5.7 %, the vacancies there are much less volatile and always lagged in historical comparison with the top locations.

The lower-than-average level of new construction activity led to an increasing shortage of modern lettable space in sought-after city centre locations, as well as stable to rising prime rents across all markets. As a result, the average weighted prime rent in the German office markets analysed has increased 5.9 % in the past twelve months to EUR 28.60 per square metres (2016: EUR 27.00 per square metre). As the availability of desired office space also shrank at the secondary locations, these locations also registered some significant increases in prime rents.

Continued high demand for first-class commercial property caused a further decline in prime yields across nearly all asset classes and markets. As a result, investors are increasingly turning to office properties in city outskirts or peripheral areas.

An investment analysis of 76 German office locations was presented by Catella Research. The analysts divide the market into four categories (A, B, C and D locations). The strongest increase in rents in the analysis was recorded by the Top 7 locations (a year-on-year increase of 3.3 %). According to the analysis, the fact that category D locations had exceeded the prime rent threshold of EUR 10.00 / m² shows that the positive economic development is extending deep into the regions.

With an average prime yield of 3.3 % at the A locations, this category fell below the 4 % threshold for the first time. The average yield gap between A and B locations increased again in 2017.

The market for retail properties

The retail real estate asset class was also very popular in 2017 and took second place behind the office real estate market (see figures in subsection “The Transaction Market for Commercial Real Estate”). However, the share of retail real estate transactions declined, reflecting the increasing critical stance of investors towards this asset class, which also has very long sales processes.

Commercial buildings in city locations of major metropolitan areas were a popular but rare investment category. Against this backdrop, yields in the “Big Seven” markets declined on average to 2.93 %. The net initial yields for individual specialty stores and shopping centres fell slightly again towards the end of the year. Investors continue to seek specialty shopping centres in good locations and a large share of the grocery stores.

The downturn in retail rents continued in 2017. While retail rents in major cities declined around 1 % on average, 185 of the retail markets analysed recorded a year-on-year reduction in prime rent averaging 2.6 %. The largest declines were recorded by so-called smaller regional centres in the areas surrounding other strong retail markets. This trend contrasts with that in cities with strong local retail markets, which achieved the highest growth. The reason for this development is that when local retailers come under gross margin pressure (for example, due to the competition from online retailers), they strive for lower overall rents by reducing the size of their shops rather than seeking lower rents per square metre.

The rental market struggled with falling numbers in space turnover. With 1,055 rental agreements for a total of 448,200 square metres, the volume of space rented declined by around 7 % compared to 2016, and the number of deals dropped by around 2 %.

The market for logistics properties

The logistics industry is booming like never before, and demand for logistics real estate is increasing. In its report “Logistics and Real Estate 2017”, the analysis company bulwiengesa AG evaluated an array of data based on construction, investment and financing activities.

The report projects that more than five million square metres of space was completed in 2017, or roughly 12 % more logistics space year-on-year representing a new record. In addition, this report shows that speculative construction is also increasing, which is a sign of the growing optimism directed at this segment. Characteristic of the logistics real estate industry is the construction of larger properties on the outskirts of major cities and peripheral locations.

The market for logistics real estate, however, is on the move and defined by a high level of dynamism. The driver is the expanding e-commerce sector, which requires greater proximity to customers. This trend will boost the future demand for innovative solutions for inner-city logistics – an area where the real estate market is still in the pioneering stage. According to the report, a multi-stage model of logistics real estate is emerging in the long term that spans from central warehouses on the periphery and supply points on city outskirts to microdepots in the city. A well-functioning system made of various logistics properties is necessary to ensure the optimal flow of goods at the “last mile”.

The demand for investments in the logistics real estate market continues unabated, and investment volumes are growing. With the increasing attractiveness of this segment, yields have fallen slightly, meaning that investors are now also looking outside of the seven top locations.

Effect of commercial property development on DEMIRE

Both the macroeconomic situation and the real estate environment in 2017 proved beneficial to the DEMIRE Group’s business model. By strategically focusing on German secondary locations, DEMIRE benefitted from the growing demand at these locations.

Secondary locations – higher yields and lower risk than “A” cities

DEMIRE is represented by its real estate investments in 15 out of 16 federal states and concentrates its investment on the so-called “Secondary Locations”. German secondary locations offer a more attractive and, at the same time, a more predictable environment than that of the real estate markets in the Top 7 locations.

DEMIRE regularly publishes market studies together with bulwiengesa, one of the largest, independent analysis companies in the real estate industry. The focus of these studies is the investment opportunities in German office real estate in secondary locations. The most recent study was published by DEMIRE in April 2018. Based on the analysis of a total of 31 cities, the study shows that the secondary locations have been able to show a predominantly positive development in recent years and thus represent an interesting investment opportunity compared to the top 7 locations. The top 7 locations were able to achieve rental growth rates of 2.8% on average. In some secondary locations, even higher rent increases of up to 40% were achieved.

Due to the lack of investment opportunities and the low yields in the A markets, market participants are increasingly investing in secondary locations. In 2017, around 15 billion euros were invested outside of the major cities. The reason for the increased interest of investors is the better average yield and the high stability of the rent levels in secondary locations. Growing demand is also reducing net initial yields for secondary locations. Nevertheless, the yield spread between A markets and secondary locations remains high at 2%. The volatility of rents and vacancy rates of secondary locations is much lower compared to “A” locations.

The complete study by DEMIRE and bulwiengesa is available on the *Company’s Website* ↘.

↘ *www.demire.ag/en/property/research*

BUSINESS DEVELOPMENT

GENERAL STATEMENT ON THE GROUP'S BUSINESS DEVELOPMENT AND POSITION

In the 2017 fiscal year, DEMIRE continued to optimise both its real estate portfolio and its corporate structure. In June 2017, the Company announced its forecast for the 2017 fiscal year, as well as a comprehensive medium-term strategic plan called DEMIRE 2.0. The DEMIRE 2.0 strategy signifies DEMIRE's next phase of growth and at the same time optimises and increases the efficiency of its real estate platform in secondary locations in Germany. The core aspect of DEMIRE's strategy is a focus on "secondary locations" in Germany – a key factor differentiating it from its competitors. DEMIRE's market position is to be solidly established for the long term by doubling the Company's portfolio from its current volume of EUR 1 billion to EUR 2 billion. In dividing its real estate portfolio into the Core Plus, Value-Added and Redevelopment investment categories, DEMIRE invests in a heterogeneous portfolio with a balanced and diversified risk/opportunity profile. An active "manage-to-core" approach is intended to exploit the appreciation potential of the existing real estate portfolio and generate additional and, above all, sustainable rental income through the targeted reduction of vacancies. The more efficient management of the real estate and a tax-optimised corporate structure will result in higher potential earnings in the short- to medium-term, leading to increased profitability for the Company.

DEMIRE's original forecast for the 2017 fiscal year was for total funds from operations (FFO) of around EUR 8 to 10 million and rental income in the range of EUR 72 to 73 million. The placement and tapping of a rated, unsecured corporate bond in July and September 2017 and the related refinancing of liabilities at better terms represented the first milestone in the Company's implementation of its DEMIRE 2.0 strategy. As a result, DEMIRE has been able to make a sustainable improvement in its financial structure within a very short time. The refinancing transactions will bring down interest expenses significantly starting in 2018 and result in a strong increase in funds from operations. Another positive step in November 2017 was the signing of various control and profit transfer agreements between DEMIRE and several subsidiaries, which marked the achievement of yet another milestone in improving DEMIRE's overall profitability and increasing its funds from operations. The real estate portfolio also developed well during the past fiscal year and, next to like-for-like rising rental income (excluding the additions and disposals in the 2017 fiscal year), we also managed to reduce the EPRA vacancy rate to below 10 %. DEMIRE also leveraged the momentum in the transaction market and sold non-strategic real estate, which was weighing on the overall efficiency of managing the property portfolio. DEMIRE sold and notarised five properties with a total value of EUR 14.4 million during the past fiscal year. Based on the solid operating performance and the initial successes of the DEMIRE 2.0 strategy, the Company raised its expectation for funds from operations during the year ending to a range of EUR 11 to EUR 12 million. The forecast for rental income was increased to around EUR 74 million. In the 2017 fiscal year, DEMIRE fully achieved its forecast. Funds from operations (FFO I, after taxes, before minorities) amounted to EUR 11.7 million, and rental income reached EUR 73.7 million.

Based on the next steps it has planned under DEMIRE 2.0, the Company believes it is in a good position to increase its appeal to investors and, together with its shareholders, achieve its targeted growth. The individual steps under the strategy will sum up to a substantial improvement in the funds from operations and further growth in net asset value (NAV). DEMIRE is thereby laying the groundwork for distributing attractive and sustainable dividends to shareholders in the medium term based on its rising cash flow.

2017 TARGET ACHIEVEMENT

KEY EARNINGS FIGURES

11.7

MILLION EUROS

Original FFO I forecast (after taxes, before minorities) of EUR 8–10 million significantly exceeded

KEY FINANCIAL INDICATORS

60.1

PERCENT

Material reduction of 270 basis points in the net loan-to-value ratio (net LTV) to 60.1%

3.00

PERCENT P. A.

Average interest costs fell by 140 basis points to 3.0% p.a.

4.94

EUR

EPRA NAV (diluted) increases sharply by EUR 0.34 per share

PORTFOLIO DEVELOPMENT

73.7

MILLION EUROS

Solid operating performance results in EUR 73.7 million of rental income and exceeding the EUR 72 to 73 million forecast

9.4

PERCENT

Successful 2.2 percentage-point reduction in EPRA vacancy rate to 9.4% as of the reporting date

DEVELOPMENT OF THE REAL ESTATE PORTFOLIO

As of 31 December 2017, the real estate portfolio consisted of 86 commercial properties with total lettable floor space of roughly 970,000 m² and a market value of around EUR 1 billion. Based on their market values as of 31 December 2017, office property accounted for about 67 % of the total portfolio at the end of 2017 (31 December 2016: approx. 67 %), making it the largest single category. Roughly 24 % of the total portfolio consisted of retail real estate (31 December 2016: around 24 %), and 6 % was attributed to logistics properties (31 December 2016: around 5 %). Around 3 % of the total portfolio at the end of 2017 contained other-use real estate (31 December 2016: around 4 %).

After the first half of 2017, DEMIRE decided to focus on one appraiser to provide an independent real estate appraisal of its entire portfolio. As of 31 December 2017, an appraisal of the entire real estate portfolio was carried out by the global real estate appraiser CBRE. Taking into account real estate already sold, the portfolio's EPRA vacancy rate as of the balance sheet date was 9.4 %, which is approximately 2.2 percentage points below its level on 31 December 2016 and below a level of 10 % for the first time. DEMIRE's real estate management in the past fiscal year achieved a letting performance of around 62,000 m² (which corresponds to roughly 6.4 % of the total portfolio), of which approximately 47 % was attributable to new lettings and around 53 % to follow-on lettings. This corresponds to a total rental volume over the entire rental period of EUR 26.5 million. The average rental period of the letting performance in the past fiscal year was around 5.5 years. The weighted average lease term (WALT) of the total portfolio was 4.9 years as of the balance sheet date, which represented a year-on-year decline of 0.4 years, largely due to the sale of a property and the related premature termination of the rental agreement in the first half of 2017. Over the next three years, the share of the expiring rental contract volume amounts to around 26 %, with roughly 52 % expiring as of 2022. Around 3 % of the rental contract volume has no set termination date. The rental income of the real estate portfolio increased roughly 2.6 % or EUR 1.8 million on a like-for-like basis.

PORTFOLIO ACCORDING TO INVESTMENT CLASS (VALUES)

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN '000 M²)	VALUE PER / M²	CONTRACTUAL RENT IN EUR MILLIONS P.A.	CONTRACTUAL RENT PER M²	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Core Plus	37	542.7	52.5	354.5	1,531	37.4	9.2	6.9	2.5	6.0
Value-Added	42	426.6	41.2	569.1	750	30.7	5.7	7.2	17.4	3.9
Redevelopment	7	64.8	6.3	45.3	1,430	4.0	7.8	6.1	0.5	3.6
Total as of 31/12/2017	**86**	**1,034.1**	**100**	**968.9**	**1,067**	**72.1**	**7.2**	**7.0**	**9.4**	**4.9**
Total as of 31/12/2016	**174**	**1,005.6**	**100**	**1,068.9**	**941**	**74.1**	**7.0**	**7.4**	**11.6**	**5.3**
Change in % / PP	–88	2.8%		–9.4%	+13.4%	–2.7%	+2.9%	–40 bps	–220 bps	–0.4 years

* Excluding real estate held for sale

PORTFOLIO BY ASSET CLASS (VALUES)

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN '000 M²)	VALUE PER / M²	CONTRACTUAL RENT IN EUR MILLIONS P.A.	CONTRACTUAL RENT PER M²	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Office	63	692.9	67.0	549.7	1,261	48.7	8.1	7.0	8.4	4.7
Retail	16	246.3	23.8	161.0	1,530	17.6	10.2	7.1	5.9	6.1
Logistics	1	61.7	6.0	218.0	283	3.9	2.1	6.2	33.3	1.9
Other	6	33.2	3.2	40.2	826	1.9	4.0	6.6	0.1	6.6
Total as of 31/12/2017	**86**	**1,034.1**	**100**	**968.9**	**1,067**	**72.1**	**7.2**	**7.0**	**9.4**	**4.9**
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* Excluding real estate held for sale

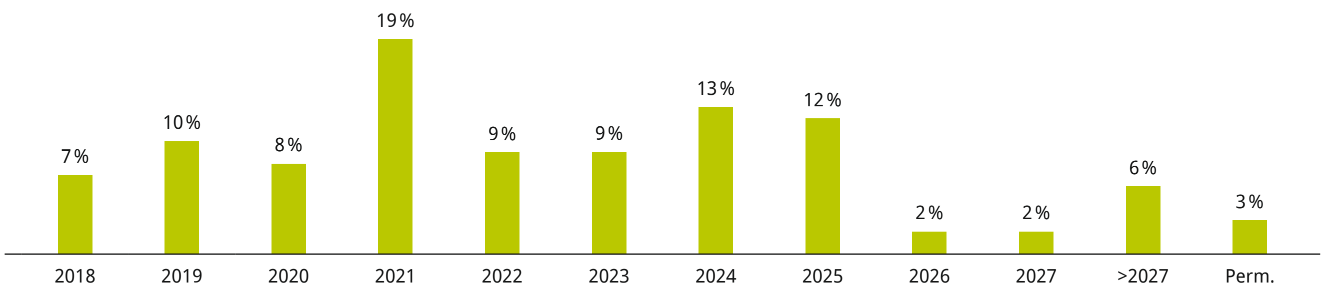
PORTFOLIO VALUATION & TRANSACTIONS

The independent real estate appraiser CBRE assessed the market value of DEMIRE's real estate portfolio (including real estate held for sale) at EUR 1,034.1 million as of the 31 December 2017 balance sheet date (31 December 2016: EUR 1,005.6 million), for a total increase of around EUR 28.5 million.

A total of 88 properties had already been notarised in the 2016 fiscal year or earlier. These properties included 84 non-strategic properties (so-called Yellow Portfolio real estate) with a value of less than EURk 500 each, which had been leased to Deutsche Post DHL Group in largely decentralised locations. For 83 properties in the Yellow portfolio, the transfer of ownership, benefits and obligations took place in the 2017 fiscal year. For another 8 properties valued at EUR 28.4 million, which were notarised in the 2017 fiscal year or earlier, the transfer of ownership, benefits and obligations took place in the 2017 fiscal year and included 3 properties at the level of the subsidiary Fair Value REIT-AG.

Three properties with a sales volume of around EUR 12.3 million are held for sale (IFRS 5), the transfer of ownership, benefits and obligations is expected in the 2018 fiscal year.

TERM OF RENTAL CONTRACTS
Based on annualised rental income



TRANSACTIONS

PORTFOLIO	LOCATION / DESCRIPTION	MOST RECENT MARKET VALUE (EURK)	SELLING PRICE (IN EURK)	DATE NOTARISED	DATE OF TRANSFER OF OWNERSHIP, BENEFITS AND OBLIGATIONS
DEMIRE	Hohenstein-Ernstthal	625.0	625.0	October 2014	September 2017
DEMIRE	Darmstadt	6,565.5	10,400.0	December 2016	Still pending
DEMIRE	Hannover	460.0	465.0	December 2016	February 2017
DEMIRE	Yellow Portfolio (83 properties)	11,940.0	11,138.4	December 2016	March 2017
DEMIRE	Yellow Portfolio (1 property)	70.0	61.6	December 2016	Still pending
Fair Value REIT	Krefeld	3,670.0	3,600.0	December 2016	February 2017
DEMIRE	Real estate inventory Bulgaria	350.0	400.0	February 2017	March 2017
Fair Value REIT	Geschendorf	210.0	200.0	February 2017	May 2017
DEMIRE	Bad Doberan	690.0	465.0	March 2017	June 2017
DEMIRE	Apolda	1,840.0	1,875.0	August 2017	Still pending
Fair Value REIT	Teltow	9,240.0	11,500.0	August 2017	November 2017
	Total	**35,660.5**	**40,730.0**		

TOP 5 NEW RENTALS

PORTFOLIO CLUSTER	CITY	STREET ADDRESS	TENANT	LETTABLE SPACE IN M²*	TERM OF RENTAL CONTRACT IN YEARS
Value-Added	Bayreuth	Nürnberger Straße 38	Zapf GmbH	3,200	3.0
Core plus	Berlin	Jan-Petersen-Str. 14	Katsoukis Fitnessstudio UG	1,800	10.0
Core plus	Cologne	Colonia Allee 13–15	AXA Konzern AG	1,700	2.4
Value-Added	Dresden	Nossener Brücke 8–12	Deutsche Bahn	1,600	10.0
Value-Added	Wismar	Hinter dem Rathaus 13–15	Pflegedienst KH Ambulantis	1,600	15.0

* Figures are rounded

TOP 5 FOLLOW-ON RENTALS

PORTFOLIO CLUSTER	CITY	STREET ADDRESS	TENANT	LETTABLE SPACE IN M²*	TERM OF RENTAL CONTRACT IN YEARS
Core plus	Celle	Vor den Fuhren 2	Hammer Markt	8,500	5.0
Core plus	Teltow	Rheinstraße 8	Olympus	4,900	5.0
Value-Added	Lichtenfels	Bambergerstr. 20	DHL	3,700	5.0
Value-Added	Unterschleißheim	Ohmstraße 1	McAfee Germany GmbH	3,300	3.5
Value-Added	Bad Oeynhausen	Dr. Neuhäußer-Str. 4	DHL	2,800	5.0

* Figures are rounded

NET ASSETS. FINANCIAL POSITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

In the 2017 fiscal year, lower year-on-year rental income due to the sale of real estate was partially offset by new lettings and a reduction in vacancies. Earnings benefitted from an increase in valuation gains from the fair value adjustment of investment property. These gains were offset by higher general and administrative expenses and higher financial expenses, in particular due to higher one-time staff costs, one-time higher legal and consulting fees and higher refinancing costs for financial liabilities.

CONSOLIDATED STATEMENT OF INCOME (Selected information in EURk)	01/01/2017 – 31/12/2017	01/01/2016 – 31/12/2016	CHANGE	IN %
Rental income	73,716	76,371	–2,655	–3.5
Income from utility and service charges	14,624	15,746	–1,121	–7.1
Operating expenses to generate rental income	–32,708	–33,547	–66,255	>100
Profit/loss from the rental of real estate	**55,632**	**58,570**	**–2,938**	**–5.0**
Profit/loss from the sale of real estate companies	0	3,961	–3,961	>100
Profit/loss from the sale of real estate	944	963	–19	–2.0
Profit/loss from investments accounted for using the equity method	73	–359	432	>100
Profit/loss from fair value adjustments in investment properties	48,560	38,414	10,146	26.4
Other operating income and other effects	2,289	3,492	–1,203	–34.4
General and administrative expenses	–15,304	–14,505	–799	5.5
Other operating expenses	–7,523	–7,367	–156	2.1
Earnings before interest and taxes	**84,671**	**83,169**	**1,502**	**1.8**
Financial result	–57,042	–43,207	–13,835	32.0
Profit/loss before taxes	**27,629**	**39,962**	**–12,333**	**–30.9**
Current incomes taxes	–333	–2,852	2,519	–88.3
Deferred taxes	–7,864	–9,460	1,596	–16.9
Net profit/loss for the period	**19,432**	**27,649**	**–8,217**	**–29.7**
Thereof attributable to parent company shareholders	13,783	24,670	–10,887	–44.1
Basic earnings per share (EUR)	0.25	0.48	–0.23	–47.1
Weighted average number of shares outstanding (in thousands)	54,261	51,364	2,897	5.6
Diluted earnings per share (EUR)	0.22	0.39	–0.17	–43.9
Weighted average number of shares outstanding, diluted (in thousands)	67,875	65,002	2,873	4.4

Profit/loss from the rental of real estate

In the 2017 fiscal year, the DEMIRE Group generated rental income totalling EUR 73.7 million (2016 fiscal year: EUR 76.4 million). This amount was 3.5% lower than in the same period of the previous year due to the sale of non-strategic real estate in the prior 12 months.

Income from utility and service charges of EUR 14.6 million (2016 fiscal year: EUR 15.7 million) includes tenant payments for utilities. Service charges were recognised as expenses to generate rental income and amounted to EUR 32.7 million in the reporting year (2016 fiscal year: EUR 33.5 million). Of the operating expenses, an amount of EUR 19.1 million (2016 fiscal year: EUR 19.6 million) is generally allocable and can be passed on to tenants. Operating expenses of EUR 13.6 million (2016 fiscal year: EUR 13.9 million) are non-allocable.

The profit/loss from the rental of real estate amounted to EUR 55.6 million in the fiscal year and fell slightly by 5.0% compared to the previous year (fiscal year 2016: EUR 58.6 million). As expected, this was attributable to lower rental income due to the sale of non-strategic real estate, which in turn was partially offset by lower operating expenses to generate rental income.

Profit/loss from the sale of real estate companies and real estate

In the past fiscal year, no profit/loss from the sale of real estate companies was achieved (2016 fiscal year: EUR 3.9 million). The profit/loss from the sale of real estate reached EUR 0.9 million in the 2017 fiscal year (fiscal year 2016: EUR 1.0 million) and was thus slightly down on the previous year.

Other operating income and expenses

The profit/loss from fair value adjustments in investment properties amounted to EUR 48.6 million (2016 fiscal year: EUR 38.4 million) and increased by approximately 26.4% compared to the previous year. Other operating income fell by EUR 0.5 million year-on-year to EUR 5.1 million. The decrease was mainly attributable to non-periodic income, which was unusually high in the previous year at EUR 2.7 million due to subsequent compensation for the use of walkways and parking spaces by the city of Ulm and retroactive credits for the corrected settlement of operating costs relating to prior years. Other operating income and other effects also include impairments of receivables, which increased by EUR 0.7 million to EUR 2.8 million.

Other operating expenses of EUR 7.5 million are almost unchanged compared to the previous year. Within this item, there was an increase mainly in extraordinary consulting and marketing services for real estate of individual Fair Value REIT-AG subsidiaries in the amount of EUR 0.8 million, as well as higher fees and incidental costs for money transactions (EUR 0.8 million compared to EUR 0.4 million in the previous year). On the other hand, there was a decline in non-periodic expenses from the settlement of operating costs relating to previous years and a decline in brokerage commissions.

General and administrative expenses

General administrative expenses increased by 5.5% to EUR 15.3 million at the end of 2017 (2016 fiscal year: EUR 14.5 million). This increase resulted mainly from one-time staff costs related to the departure of members of the Executive Board.

Financial result

The financial result at the balance sheet date 2017 amounted to EUR –57.0 million (2016 fiscal year: EUR –43.2 million) and increased as a result of significantly higher financial expenses due to one-time costs of EUR 16.4 million as part of the refinancing measures. Furthermore, the minority interest in the subsidiaries of Fair Value REIT-AG in the amount of EUR 8.3 million increased significantly (2016 fiscal year: EUR 5.2 million). The increase resulted in particular from unrealised positive fair value changes of EUR 4.7 million in the real estate held by the funds of Fair Value REIT.

Earnings before interest and taxes (EBIT) rose by EUR 1.5 million year-on-year to EUR 84.7 million (2016 fiscal year: EUR 83.2 million), almost matching the previous year's level.

Net profit/loss for the period

The profit/loss for the period (earnings after taxes) reached EUR 19.4 million in the 2017 fiscal year and was thus below the previous year's result of EUR 27.6 million. The non-recurring financial expenses due to the refinancing activities had a negative impact on the profit/loss for the period in 2017, which was partially offset by a significantly lower tax burden of EUR –8.2 million (2016: EUR –12.3 million).

SEGMENT REPORTING

Segment reporting contained in the consolidated financial statements is carried out in accordance with IFRS 8 "Operating Segments" and is based on the internal alignment of the strategic business segments. The segment information presented represents the information to be reported to DEMIRE's Executive Board. Segment information is presented on a net basis, net of consolidation effects.

Further information on segment reporting can be found in the notes to the consolidated financial statements starting on page 149.

NET ASSETS

The DEMIRE Group's total assets amounted to EUR 1.147 billion as of 31 December 2017 (31 December 2016: EUR 1.094 billion), increasing by EUR 53.1 million compared to the end of 2016. Non-current assets amounted to EUR 1,032.9 million (31 December 2016: EUR 1,001.5 million). Current assets increased to EUR 101.9 million since the end of 2016 due to a higher level of cash and cash equivalents (31 December 2016: EUR 68.2 million). Non-current assets held for sale include real estate still held as of 31 December 2017 totalling EUR 12.3 million.

Group equity increased to EUR 319.1 million in the 2017 fiscal year (December 31, 2016: EUR 308.6 million), the equity ratio was close to the previous year's level at 27.8 %. It should be noted that minority interests in the amount of EUR 71.9 million are recorded under the Group's non-current liabilities and not in equity, mainly due to their legal form as a partnership in accordance with IFRS. Adjusted Group equity totalled EUR 391.0 million, or 34.1 % of the consolidated total assets (31 December 2016: EUR 371.5 million or 34.0 %). As a result, non-current liabilities amounted to EUR 780.6 million at the end of 2017 (31 December 2016: EUR 719.3 million), and current liabilities equalled EUR 47.4 million (31 December 2016: EUR 66.0 million). The total liabilities of the DEMIRE Group increased to EUR 828.0 million as of 31 December 2017 from EUR 785.4 million as of 31 December 2016.

The market value for the real estate investment (investment property and non-current assets held for sale) determined by the external real estate appraiser CBRE as of the balance sheet date was EUR 1,034.1 million (31 December 2016: EUR 1,005.6 million).

Selected information from the consolidated balance sheet

CONSOLIDATED BALANCE SHEET – ASSETS (Selected information in EURk)	31/12/2017	31/12/2016	CHANGE	IN %
Assets				
Total non-current assets	1,032,897	1,001,486	31,411	3.1
Total current assets	101,957	68,229	33,728	49.4
Assets held for sale	12,262	24,291	–12,029	–49.5
Total assets	**1,147,116**	**1,094,006**	**53,110**	**4.9**

As of 31 December 2017, non-current assets increased by EUR 31.4 million to EUR 1,032.9 million (31 December 2016: EUR 1,001.5 million). The largest contribution to this increase was attributable to investment properties of EUR 40.6 million, which largely resulted from fair value adjustments.

As of 31 December 2017, the current assets of the DEMIRE Group increased by EUR 33.7 million to EUR 102.0 million (31 December 2016: EUR 68.2 million) primarily due to higher cash and cash equivalents. This rise resulted primarily from higher cash and cash equivalents due to the placement and tapping of the 2017/2022 corporate bond. This increase in cash and cash equivalents was offset by declines in trade receivables, financial receivables and other financial assets resulting from the derecognition of a call option on the redeemed 2014/2019 corporate bond and from lower rent receivables in the fiscal year.

The assets held for sale as of 31 December 2017 consisted of properties located in the cities of Apolda, Kempten, Limbach-Oberfrohna, as well as a sub-property in Darmstadt, with a total value of EUR 12.3 million (31 December 2016: EUR 24.3 million).

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (Selected information in EURk)	31/12/2017	31/12/2016	CHANGE	IN %
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to parent company shareholders	285,417	271,945	13,472	5.0
Non-controlling interests	33,684	36,692	–3,008	–8.2
TOTAL EQUITY	**319,101**	**308,637**	**10,464**	**3.4**
LIABILITIES				
Total non-current liabilities	780,630	719,340	61,290	8.5
Total current liabilities	47,385	66,029	–18,644	–28.2
TOTAL LIABILITIES	828,015	785,369	42,646	5.4
TOTAL EQUITY AND LIABILITIES	**1,147,116**	**1,094,006**	**53,110**	**4.9**

Total financial liabilities of EUR 694.9 million (31 December 2016: EUR 662.6 million) include EUR 403 million in bonds and EUR 292 million in liabilities to credit institutions and third parties (31 December 2016: EUR 483.4 million). The share of unencumbered assets rose to 45% as of 31 December 2017 as a result of refinancing various financial instruments and liabilities to credit institutions through the placement and tapping of the 2017/2022 corporate bond in July and September 2017. As of the balance sheet date, there were variable interest rate agreements for loans in the amount of EUR 42.1 million. The average nominal interest rate on financial liabilities in 2017 was reduced from 4.4% p.a. as of 31 December 2017 to 3.0% p.a. at the end of the reporting period.

As of 31 December 2017, trade payables and other liabilities decreased to EUR 14.7 million (31 December 2016: EUR 17.4 million). Included in this amount are trade payables of EUR 8.6 million (31 December 2016: EUR 10.7 million), and EUR 6.1 million were other liabilities (31 December 2016: EUR 6.7 million).

At EUR 828.0 million, the DEMIRE Group's total liabilities as of 31 December 2017 were higher than in the previous year (31 December 2016: EUR 785.4 million).

FINANCIAL POSITION

Financial management

The financial management of the DEMIRE Group is executed in accordance with the guidelines adopted by the Executive Board. This applies to both the liquidity management and financing. Centralised liquidity analysis helps to optimise cash flows. The primary goal is securing liquidity for the entire Group and maintaining the Group's financial independence. In doing so, the focus is on long-term and stable financing solutions that sustainably and positively support the Group's business development. The non-fulfilment of credit covenants for the financing of Logistikpark Leipzig was reported in the consolidated financial statements of DEMIRE AG as of 31 December 2016. During the refinancing process, this loan was redeemed prematurely on 27 July 2017 in the context of issuing the 2017/2022 corporate bond.

Proving the Supervisory Board with periodic information on the financial position on a regular basis is an integral part of DEMIRE's risk management system. The principles and objectives of capital management and control are presented in the Notes to the Consolidated Financial Statements.

Selected information from the consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS (Selected information in EURk)	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016	CHANGE	%
Cash flow from operating activities	35,814	35,352	462	1.3
Cash flow from investing activities	20,554	5,726	14,828	>100.0
Cash flow from financing activities	–13,783	–38,256	24,473	64.0
Net change in cash and cash equivalents	**42,585**	**2,822**	**39,763**	**>100.0**
Cash and cash equivalents at the end of the period	**73,874**	**31,289**	**42,585**	**>100.0**

The development of cash flow in the 2017 fiscal year largely reflects the impact of the refinancing activities. A detailed consolidated cash flow statement is contained in the Notes to the Consolidated Financial Statements.

Cash flow from operating activities amounted to EUR 35.8 million at the end of the 2017 fiscal year (2016 fiscal year: EUR 35.4 million) and was nearly unchanged versus the prior year. Within the cash flow from operating activities, there were lower gains from the sale of real estate and real estate companies in the amount of EUR 4.0 million, higher distributions/dividends to minority shareholders of EUR 0.8 million, as well as the changes in financial receivables and other financial assets as described in the section entitled "Net Assets".

Cash flow from investing activities reached EUR 20.6 million in 2017 after totalling EUR 5.7 million in the same period of 2016. The strong increase resulted not only from proceeds from the sale of real estate, which increased year-on-year by EUR 6.0 million, but also a decline of EUR 5.4 million in payments for investments in property, plant and equipment coupled with a decrease in payments for the acquisition of investment properties and of investments in fully consolidated companies, less net cash and cash equivalents acquired, of EUR 3.4 million.

Cash flow from financing activities amounted to EUR –13.8 million (2016 fiscal year: EUR –38.3 million) and reflected the refinancing activities in the second half of 2017 versus the same period in the prior year. The proceeds from the assumption of financial liabilities equalled EUR 403.5 million and mainly included the 2017/2022 corporate bond. The interest paid on financial liabilities amounted to EUR 46.5 million, and the repayment of financial liabilities totalled EUR 370.8 million. The net change in cash and cash equivalents amounted to EUR 42.6 million at the end of the 2017 fiscal year (2016 fiscal year: EUR 2.8 million). Cash and cash equivalents as of the end of the reporting period increased to EUR 73.9 million.

The DEMIRE Group was always in a position to fully meet its payment obligations throughout the reporting period.

FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

FINANCIAL KEY PERFORMANCE INDICATORS

Funds from operations (FFO)

The operating result of the DEMIRE Group is measured in terms of funds from operations (FFO), which represents earnings adjusted for measurement effects, other disposal and one-off effects and non-periodic income and expenses. FFO I (after taxes, before minorities) amounted to EUR 11.7 million as of the 31 December 2017 reporting date (2016 fiscal year: EUR 8.1 million) and FFO I after taxes and minorities amounted to EUR 5.4 million (2016 fiscal year: EUR 2.7 million). Taking into account the profit/loss from the sale of real estate, funds from operations (FFO II) after taxes and before minorities were EUR 12.6 million (2016 fiscal year: EUR 13.0 million) and EUR 6.6 million after taxes and minorities (2016 fiscal year: EUR 7.5 million).

FFO CALCULATION (Selected information in EURk)	**01/01/2017 –31/12/2017**	**01/01/2016 –31/12/2016***	**CHANGE**	**IN %**
Profit/loss before taxes	27,629	39,962	–12,333	–30.9
Minority interests	8,279	5,220	3,059	58.6
Earnings before taxes (EBT)	**35,908**	**45,182**	**–9,274**	**–20.5**
+/– Profit/loss from the sale of real estate companies	0	–3,961	3,961	–100
+/– Profit/loss from the sale of real estate	–944	–963	19	–1.9
+/– Profit/loss for investments accounted for using the equity method	–73	359	–432	>100
+/– Profit/loss from fair value adjustments in investment properties	–48,560	–38,414	–10,146	26.4
+/– Profit/loss from the valuation of derivative financial instruments	2,697	898	1,799	>100
+/– Other adjustments**	22,959	7,847	15,112	>100
FFO I before taxes	**11,986**	**10,948**	**1,038**	**9.5**
+/– (Current) income taxes	–248	–2,853	2,605	–91.3
FFO I after taxes	**11,738**	**8,095**	**3,643**	**45.0**
Thereof attributable to parent company shareholders	5,413	2,679	2,734	>100
Thereof attributable to non-controlling interests	6,325	5,416	909	16.8
+/– Profit/loss from the sale of real estate companies/real estate (after taxes)	862	4,924	–4,062	–82.5
FFO II after taxes	**12,600**	**13,019**	**–419**	**–3.2**
Thereof attributable to parent company shareholders	6,569	7,502	–933	–12.4
Thereof attributable to non-controlling interests	6,031	5,517	514	9.3
FFO I after taxes per share				
Basic FFO I per share (EUR)	0.22	0.16	0.06	37.3
Weighted average number of shares outstanding (in thousands)	54,261	51,364	2,897	5.6
Diluted FFO I per share (EUR)	0.17	0.12	0.05	38.9
Weighted diluted average number of shares outstanding (in thousands)	67,875	65,002	2,873	4.4
FFO II after taxes per share				
Basic FFO II per share (EUR)	0.23	0.25	–0.02	–8.4
Weighted average number of shares outstanding (in thousands)	54,261	51,364	2,897	5.6
Diluted FFO II per share (EUR)	0.19	0.20	–0.01	–7.3
Weighted diluted average number of shares outstanding (in thousands)	**67,875**	**65,002**	**2,873**	**4.4**

* Prior-year figures have been adjusted due to changes in classification

** Other adjustments contain:
- One-time refinancing costs (EUR 14.6 million; previous year: EUR 2.3 million)
- One-time transaction, legal and consulting fees (EUR 4.1 million; previous year: EUR 0.5 million)
- One-time administrative costs (EUR 1.9 million; previous year: EUR 2.3 million)
- Non-period expenses (EUR 2.5 million; previous year: EUR –0.5 million)
- One-time impairment (EUR 0; previous year: EUR 1.8 million)
- One-time maintenance costs (EUR 0 ; previous year: EUR 1.5 million)

Net asset value (EPRA NAV)

The NAV according to EPRA is the value of all tangible and intangible assets of the Company less liabilities and adjusted for the fair values of derivative financial instruments, deferred taxes and goodwill from deferred taxes.

EPRA NET ASSET VALUE (NAV) EURk	31/12/2017	31/12/2016	CHANGE	IN %
Net asset value (NAV)	285,417	271,945	13,472	5.0
Fair value of derivative financial instruments	0	–1,778	1,778	>100
Deferred taxes	42,893	35,030	7,863	22.4
Goodwill resulting from deferred taxes	–4,738	–4,738	**0**	**0.0**
EPRA NAV (basic)	**323,572**	**300,459**	**23,113**	**7.7**
Number of shares outstanding (in thousands) (basic)	54,271	54,247	24	0.0
EPRA NAV per share (EUR) (basic)	5.96	5.54	0.42	7.6
The effect of the exercise of convertible bonds and other equity instruments	12,048	12,047	1	0.0
EPRA NAV (diluted)	335,620	312,506	23,114	7.4
Number of shares outstanding (in thousands) (diluted)	67,885	67,885	**0**	**0.0**
EPRA NAV PER SHARE (DILUTED)	**4.94**	**4.60**	**0.34**	**7.4**

Net loan-to-value

The DEMIRE Group's net loan-to-value (net LTV) ratio is defined as the ratio of net financial liabilities to the carrying amount of investment properties and non-current assets held for sale. The development of the net LTV as of the balance sheet date was as follows:

NET LOAN-TO-VALUE (NET LTV) EUR millions	31/12/2017	31/12/2016
Financial liabilities	694.9	662.6
Cash and cash equivalents	73.9	31.3
Net financial debt	**621.0**	**631.3**
Financial liabilities Cash and cash equivalents Net financial debt	**1,034.1**	**1,005.6**
Net LTV in %	**60.1%**	**62.8%**

The year-on-year improvement in the net loan-to-value ratio mainly resulted from the value appreciation of the real estate portfolio and higher cash and cash equivalents compared with the previous year.

The maturities of existing loan agreements are broadly staggered over time. There will be only a limited amount of refinancing and follow-up financing necessary over the next two years. In 2019, a higher level of refinancing of EUR 19.7 million will be required. The liquidity requirements for follow-on financing and repayments (excluding convertible bonds) over the next few years are as follows:

MATURITIES EUR millions	2018	2019	2020	2021	2022	FROM 2023
	45.8	19.7	28.7	18.9	553.2	11.1

At the end of February 2017, DEMIRE Deutsche Mittelstand Real Estate AG prematurely prolonged the promissory note loan originally amounting to EUR 148 million and maturing in 2019 at a lower interest rate until 2022.

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators are non-quantifiable values that do not directly serve in steering the Company but play a fundamental role in the successful development of DEMIRE and its value. The non-financial performance indicators are based on expertise, competitive advantages and qualifications that have grown with its ongoing business activities and acting staff throughout the Company's history.

PERSONNEL

In the 2017 fiscal year as planned, DEMIRE resumed some of the strategic and organisational functions previously provided by external service providers. Above all, the administrative units at the Company's headquarters in Langen were quantitatively and qualitatively reinforced by experienced specialists, and the Group's in-house real estate management was selectively expanded.

Our corporate structure is based on flat hierarchies. This structure offers motivated and dedicated employees a variety of tasks with responsibility in several areas. Short paths to decision-making and direct open communication among all levels also promote effective cooperation. This structure demonstrates our awareness that our employees stand at the core of our corporate success and are an essential component in achieving our medium- to long-term corporate goals.

DEMIRE's market- and performance-oriented remuneration system helps keep managers and employees focused on achieving corporate and divisional targets. Remuneration is reviewed regularly within the Company and adapted to operational and personal goals company-wide. We also give employees the chance to further develop their professional skills both internally and externally so that their qualifications keep in step with Company's further planned development. In our effort to provide an attractive workplace, we focus our attention on ensuring employees have sufficient work areas and also provide generous lounge areas for an opportunity to encourage team building at locations throughout the Company. This helps us facilitate the exchange of knowledge within our workforce in a targeted manner and promotes collaboration among the various work and project groups.

As of 31 December 2017, the Group employed a total of 96 people (31 December 2016: 77), excluding the Executive Board, at its consolidated and non-consolidated entities. With around 60 employees, the majority of our staff works in real estate management. The proportion of female employees in relation to male employees is 48%. We welcome and encourage diversity within our Company and comply with the legal requirements for setting a quota for women on the Supervisory Board, Executive Board and first-tier management. The age structure of our employees is widely distributed. Around 5% of our employees are younger than 30 years of age, around 64% are between 31 and 50 years old, and another 31% are older than 50 years.

DIVERSITY

Diversity continues to be an important part of DEMIRE's future ability to compete. At DEMIRE, we believe that diversity in terms of gender, age and nationality is a key factor in teamwork, creativity and, ultimately, the Company's lasting success. We, therefore, promote a working environment and corporate culture in which individual differences are respected, valued and encouraged and where each individual can develop and use his or her potential and strengths. We actively oppose intentional and unintentional forms of discrimination.

	2017	2016
Average age of employees in years (as of 31 December)	45	42
Percentage of women employed (as of 31 December)	48	43
Percentage of employees aged 50 years or older (as of 31 December)	31	32
Percentage of employees with recognised severe disabilities or similar (as of 31 December)	4	3
Number of nationalities employed (as of 31 December)	5	3

MEASURES TO PROMOTE DIVERSITY

- Our flat hierarchies and the formation of project groups across several departments facilitate the exchange between the various divisions and employees with different expertise and levels of professional experience. Effective cooperation leads to a permanent reduction in bias among the employees.
- We also offer subsidies for the cost of fitness activities in an effort to help our employees stay healthy, fit and capable.
- Bonus payments are not the only way to reward exceptional employee performance and strong cooperation. Employee motivation is boosted particularly through recognition. With this in mind, we launched the “DEMIRE STAR” award in 2016, encouraging employees to nominate their co-workers for their extraordinary commitment.
- We support our employees as they go through various stages in life, such as raising and educating their children or caring for other family members, by giving employees the opportunity to have a home office or work part-time.

Targets for the proportion of women on the Supervisory Board, Executive Board and two management levels below Executive Board

As a listed and non co-determined company, DEMIRE AG is required by law to set targets for the proportion of women on the Supervisory Board, the Executive Board and, where applicable, the two management levels below the Executive Board.

The target for the proportion of women on the Supervisory Board, Executive Board and the first management level under the Executive Board until 30 June 2017 was set at zero in September 2015. At the end of June 2017, the targets for the proportion of women on the Supervisory and Executive Boards were set at zero for the period from 1 July 2017 to 30 June 2022 and at 25 % for the first management level below the Executive Board for the same period in accordance with the percentage of female executives at that time. Since 1 January 2016, the position of Compliance Officer with a direct reporting line to the Executive Board and, since 1 May 2017, the position of Head of Commercial Management, have been performed by women, representing a 22.2 % share of women in the first management level as of 31 December 2017. Setting a target for the second level of management under the Executive Board was waived due to the Company's flat hierarchies.

Tenants and service providers

DEMIRE relies on a high level of tenant loyalty which is why it strives for a lasting and faithful relationship with its tenants. By providing on-site support, the Company is able to secure the long-term rental income of properties while minimising the default risk. Our employees' strong link to the markets means that we are able to detect potential market opportunities in both the rental and transaction markets at an early stage. This helps us to further optimise our real estate platform, improve our operating performance and grow our real estate portfolio to our target of EUR 2 billion. To do this, we rely on long-standing partnerships with service providers, in addition to other institutional market participants in the real estate market.

Sustainability

DEMIRE strives to be responsible and, at the same time, take environmental and social aspects into account when conducting its business activities. DEMIRE supports measures within the Group that help to save energy and reduce emissions and will continue to pay attention to the sustainable use of resources when making business decisions in the future. Responsible and fair interaction with employees, customers, business partners and the public are a priority. In the medium term, DEMIRE also intends to implement further guidelines to anchor sustainability even more firmly within the Group.

Transparency

DEMIRE is a member of the EPRA European Public Real Estate Association representing listed real estate companies in Europe. DEMIRE supports the EPRA Best Practice Recommendations for a transparent presentation of the key performance indicators of listed real estate companies.

DEMIRE also actively supports numerous associations within and outside the real estate industry through its memberships in various committees and associations. As an active member of the German real estate association ZIA Central Real Estate Committee e. V., which is the voice of the German real estate industry, DEMIRE supports the Committee's work by representing its members both publically and politically.

DEMIRE is also a member of DIRK e. V., the German Investor Relations Association, which represents the investor relations activities of German listed companies. DEMIRE offers its support to members through its expertise, network access and practical knowledge of the capital markets by promoting communication among capital market participants. DEMIRE's Investor Relations department also actively exchanges with CIRO (Certified Investor Relations Officer) graduates and supports the planning and organisation of semi-annual IR workshops.

As one of more than 300 members of the German Institute for Compliance (DICO), DEMIRE promotes the development of good corporate governance and thereby consistently applies compliance standards internally. The Company's own Compliance Department ensures that DEMIRE adheres to defined policies and monitors in-house procedures and processes for compliance with the applicable laws and regulations.

Market research

DEMIRE's business model places a special focus on real estate investments in secondary locations in Germany outside of the Top 7 locations of Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart. A vast number of regularly published studies and market reports address the development of the Top 7 rental and transaction markets, but similar periodic studies on secondary locations are rare or non-existent. For this reason, one of DEMIRE's goals is to increase the transparency of secondary locations in the real estate market and, above all, point out to international market participants the advantages of investing in secondary locations versus the Top 7. In an effort to accomplish this, DEMIRE compiles an extensive study once per year together with the independent analysis company bulwiengesa that provides an analysis of a large number of mid-sized cities in the German real estate market focusing the most attention on the German commercial real estate markets outside of the Top 7 cities. The studies are freely available and can be accessed from our *Website*.

www.demire.ag

CHANGES IN THE COMPOSITION OF GOVERNING BODIES

After the resignation of Mr Günther Walcher as a member of the Supervisory Board effective at the close of 23 January 2017 and Dr Peter Maser at the close of 13 February 2017 following the change in the shareholder structure, DEMIRE was successful in winning both Mr Frank Hölzle and Mr Dr Thomas Wetzel as new Supervisory Board members. By decision of the District Court of Frankfurt/Main on 14 February 2017, both were appointed as members of the Supervisory Board. The appointments of these two new Supervisory Board members were confirmed by the shareholders at the Ordinary Annual General Meeting on 29 June 2017 and will expire with the Annual General Meeting that discharges the Supervisory Board for the fiscal year ending on 31 December 2020. Prof Dr Hermann Anton Wagner was reappointed chairman of the Supervisory Board.

As of 1 March 2017, Ralf Kind assumed his duties as CFO at DEMIRE AG and joined the Executive Board team of Hon.-Prof Andreas Steyer (CEO) and Markus Drews (COO).

On 12 April 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that Hon.-Prof Andreas Steyer would leave the Company's Executive Board effective 30 June 2017 to pursue new professional challenges. His Executive Board contract, which was set to expire on 31 March 2019, was cancelled prematurely by mutual agreement with the Supervisory Board. Mr Markus Drews was appointed Hon.-Prof Steyer's successor as Speaker of the Executive Board (CEO) on 1 July 2017.

On 16 November 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that the DEMIRE Deutsche Mittelstand Real Estate AG Supervisory Board and the Speaker of the Executive Board (CEO), Mr Markus Drews, had mutually agreed that on that day Mr Drews would immediately resign early from his position as Speaker of the Executive Board and member of the Executive Board as of 31 December 2017. Mr Drews' Executive Board responsibilities, particularly those related to the transaction business, were assumed by Executive Board member Ralf Kind (now CEO and CFO) with immediate effect.

REMUNERATION REPORT

The following report summarises the basic principles of the Executive Board and Supervisory Board remuneration systems.

REMUNERATION OF THE EXECUTIVE BOARD

The Supervisory Board determines the appropriate remuneration for the Executive Board. The criteria for the appropriateness of the total remuneration depend on the responsibilities and performance of the Executive Board member, the Company's situation and the sustainability of its development. Overall remuneration may not exceed the usual remuneration without specific reasons. Hereby, the Supervisory Board takes into consideration the relationship between the remuneration of Executive Board members, senior management and the overall workforce, and the development of remuneration over time. The Supervisory Board defines who is to be included in the categories of senior management and relevant workforce. The total remuneration of Executive Board members consists primarily of fixed remuneration and a variable remuneration component with short- and long-term incentives (performance bonus). Remuneration can be adjusted each calendar year as of 1 January.

In addition, Executive Board members Hon.-Prof Steyer and Mr Drews also each received 400,000 stock options in April 2015 under the 2015 Stock Option Programme resolved at the Annual General Meeting on 6 March 2015. By introducing this stock option programme, the Executive Board members who shape and implement the corporate strategy and are, therefore, largely responsible for the Company's development, have an opportunity to share in the risks and rewards of DEMIRE's business. For details about the stock option programme, please refer to the Notes to the Consolidated Financial Statements. With Mr Drews' departure from DEMIRE's Executive Board effective 31 December 2017, a lump sum amount was paid to compensate for the stock options. Since that payment, the options have been fully cancelled. Prof Steyer retains his stock options in accordance with his termination contract and may still exercise these options according to their terms and conditions.

The members of the Executive Board have a special right of termination should the majority of the Company's voting rights be acquired by a third party. If this special right of termination is exercised or the contract is annulled by mutual agreement within a period of six months after the change of control, the terminating member of the Executive Board receives the contractual claims for the remaining term of the appointment as an Executive Board member in the form of a lump-sum payment based on the remuneration of the previous full calendar year before termination, but not more than two years' remuneration.

Employment contracts contain a competition clause forbidding Executive Board members from establishing or acquiring a company competing with either the Company or an affiliated company, to directly or indirectly acquire an interest in such a company or be active in or for such a company during the term of the employment contract without a resolution of the Supervisory Board approving such activities. Moreover, Executive Board members are also prohibited from working within the Federal Republic of Germany for a company dependently, as a freelancer or in the employment of a company in any other manner whose business activities come in contact with the statutory corporate purpose of the Company for the duration of one year after the termination of the employment contract. During the time of the prohibition of the activities mentioned above, the Executive Board member is also forbidden from establishing, purchasing or being directly or indirectly involved in such a company. The employment contract also includes the pledge to treat all of the information disclosed confidentially and to not allow third parties access to business records or use this information for the Executive Board member's own benefit or the benefit of others.

The variable and fixed components of the remuneration of Executive Board members have maximum limits in terms of absolute value. As a rule, remuneration in excess of the amount intended for the remaining term of the employment contract is not granted. In the 2017 fiscal year, Ralf Kind and Markus Drews were granted special bonuses in the amount of EUR 300,000 and EUR 200,000, respectively, for their extraordinary service in connection with the issue of the 2017/2022 corporate bond in July 2017. For Mr Ralf Kind, another special bonus of EUR 150,000 is planned for his performance in 2017.

Executive Board remuneration also covers the board and executive functions at the DEMIRE Group's direct and indirect subsidiaries.

EXISTING EMPLOYMENT CONTRACTS

Mr Ralf Kind

On 17 February 2017, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG concluded a three-year contract with Mr Kind as a new member of the Executive Board starting 1 March 2017. In addition to an annual basic salary of EUR 230,000.00, which increased to EUR 250,000.00 on 1 July 2017, Mr Kind also receives performance and success-based bonuses of up to EUR 125,000.00 per year, as well as a payment based on the Company's share price performance under a virtual stock option programme. The fixed portion of remuneration is paid out monthly in the form of a basic salary. Mr Kind has a fixed-term employment contract.

Executive Board members each receive bonuses of 50% dependent on individual performance targets and 50% for reaching the performance targets set for the Executive Board as a whole. The achievement of the agreed performance targets is 40% based on the target achievement of the past fiscal year and 60% based on the average target achievement over the prior three fiscal years that precede the year in which the bonus is to be paid. The bonus is paid pro rata according to target achievement.

One Executive Board member is entitled to the customary contractual benefits in kind and fringe benefits. These benefits include the provision of a company vehicle; the reimbursement of expenses and travel costs; contributions to premiums for public or suitable private health and long-term care insurance in addition to the statutory employer contribution; contributions to a pension fund, if available; the continuation of the existing directors' and officers' liability insurance policy (D&O insurance); an accident and disability insurance policy under group accident insurance; continued remuneration in the case of an illness or accident; as well as death benefits.

The employment relationship terminates no later than the end of the month in which the respective Executive Board member has reached the end of 67 years of age.

The Executive Board contract of Mr Ralf Kind was adjusted in mid-April 2018 to ensure that from 1 January 2018 the annual base salary increases to EUR 360,000.00 and the performance- and success-related bonus is raised to EUR 180,000.00. The previously existing virtual stock option plan was also modified.

TERMINATED EMPLOYMENT CONTRACTS

(1) Hon.-Prof Andreas Steyer

In addition to his annual basic salary of EUR 250,000.00, Hon.-Prof Andreas Steyer received performance and success-based bonuses of up to 50% of his basic annual salary per annum in accordance with his Executive Board contract. His contract had been scheduled to expire in February 2019 but ended prematurely on 30 June 2017.

In accordance with the termination agreement dated 12 April 2017, the contractual claims of Mr Steyer until the end of 30 June 2017 were fully met, and he was granted 100% of the 2016 fiscal year bonus. As compensation for the loss of employment, the Company paid compensation to Mr Steyer in the amount of EUR 550,000.00, which became due on 30 June 2017 upon Mr Steyer's departure. The entitlements under the 2015 Stock Option Program will remain unchanged after the termination of his employment.

(2) Mr Markus Drews

On 2 December 2015, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG revised Markus Drews's employment contract by extending it by the term for which he was reappointed to the Company's Executive Board. In addition to an annual basic salary of EUR 230,000.00, Mr Drews received a performance and success-related bonus of up to EUR 125,000.00 per year. On 17 February 2017, the Supervisory Board extended the Executive Board contract of Markus Drews for another three years until the end of 2020. His annual basic salary was raised to EUR 250,000.00 as of 1 March 2017.

In accordance with the termination agreement dated November 2017, the contractual claims of Mr Drews until the end of 31 December 2017 were fully met, and he was granted a bonus of 100% for the 2017 fiscal year paid on 31 December 2017. As compensation for the loss of employment, the Company paid Mr Drews compensation of EUR 375,000.00. For the stock options granted under the 2015 Stock Option Programme and to compensate for his claims for stock appreciation rights under his Executive Board employment contract dated 22 February 2017, Mr Drews received a one-time compensation payment in the amount of EUR 590,000.00. Severance and compensation payments were due and paid on 30 November 2017.

REMUNERATION OF THE SUPERVISORY BOARD

The amount of Supervisory Board remuneration is determined by the Annual General Meeting and governed by Section 16 ("Compensation") of the Articles of Association. The current remuneration remains valid until the Annual General Meeting that resolves to revise it. The fixed remuneration payable annually as of the 2017 fiscal year was adjusted to EUR 30,000.00 by a resolution of the Annual General Meeting on 30 June 2016. The Supervisory Board's chairman receives three times the level of base remuneration and the vice chairman receives twice the level of base remuneration. Supervisory Board members who were not in office for a complete fiscal year receive compensation in accordance with the duration of their membership.

The Company also reimburses Supervisory Board members for expenses incurred in the exercise of their Supervisory Board duties, as well as VAT payable on their remuneration and expenses, insofar as these are charged separately.

For more information, please refer to the relevant explanations in the Notes to the Consolidated Financial Statements.

Value of benefits granted during the fiscal year (in EUR)

BENEFITS GRANTED	HON.-PROF ANDREAS STEYER, SPEAKER OF THE EXECUTIVE BOARD FROM 5 MARCH 2013 TO 30 JUNE 2017			
EURk	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
Fixed remuneration	125	125	125	250
Fringe benefits	8	8	8	17
Sum total	**133**	**133**	**133**	**267**
Variable remuneration (one-year)	0	0	63	125
Variable remuneration (multi-year)	0	0	0	0
Stock options	119	119	119	238
Sum total	**252**	**252**	**315**	**630**
Pension expenses	2	2	2	0
Severance payments	550	550	550	0
Total remuneration	**804**	**804**	**867**	**630**

BENEFITS GRANTED	FRANK SCHAICH, MEMBER FROM 1 FEBRUARY TO 31 OCTOBER 2016			
EURk	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
Fixed remuneration	0	0	0	153
Fringe benefits	0	0	0	7
Sum total	**0**	**0**	**0**	**160**
Variable remuneration (one-year)	0	0	0	31
Variable remuneration (multi-year)	0	0	0	0
Stock options	0	0	0	0
Sum total	**0**	**0**	**0**	**191**
Pension expenses	0	0	0	0
Severance payments	0	0	0	222
Total remuneration	**0**	**0**	**0**	**413**

BENEFITS GRANTED	MARKUS DREWS, SPEAKER OF THE EXECUTIVE BOARD FROM 1 JULY TO 15 NOVEMBER 2017, MEMBER FROM 1 DECEMBER 2014 TO 31 DECEMBER 2017			
EURk	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
Fixed remuneration	247	247	247	230
Fringe benefits	27	27	27	32
Sum total	**274**	**274**	**274**	**262**
Variable remuneration (one-year)	325	325	325	125
Variable remuneration (multi-year)	0	0	0	0
Stock options	158	158	158	238
Sum total	**757**	**757**	**757**	**625**
Pension expenses	5	5	5	2
Severance payments	375	375	375	0
Total remuneration	**1,137**	**1,137**	**1,137**	**627**

BENEFITS GRANTED	RALF KIND, SPEAKER OF THE EXECUTIVE BOARD SINCE 16 NOVEMBER 2017, MEMBER SINCE 1 MARCH 2017			
EURk	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
Fixed remuneration	202	202	202	0
Fringe benefits	10	10	10	0
Sum total	**212**	**212**	**212**	**0**
Variable remuneration (one-year)	554	300	554	0
Variable remuneration (multi-year)	0	0	0	0
Stock options	73	0	73	0
Sum total	**839**	**512**	**839**	**0**
Pension expenses	12	12	12	0
Severance payments	0	0	0	0
Total remuneration	**851**	**524**	**851**	**0**

Benefits paid during the fiscal year (in EUR)

BENEFITS GRANTED	HON.-PROF ANDREAS STEYER, SPEAKER OF THE EXECUTIVE BOARD FROM 5 MARCH 2013 TO 30 JUNE 2017	
EURk	FY 2017	FY 2016
Fixed remuneration	125	250
Fringe benefits	8	17
Sum total	**133**	**267**
Variable remuneration (one-year)	125	125
Variable remuneration (multi-year)	0	0
Stock options	0	0
Sum total	**258**	**392**
Pension expenses	2	0
Severance payments	550	0
Total remuneration	**810**	**392**

BENEFITS GRANTED	MARKUS DREWS, SPEAKER OF THE EXECUTIVE BOARD FROM 1 JULY TO 15 NOVEMBER 2017, MEMBER FROM 1 DECEMBER 2014 TO 31 DECEMBER 2017	
EURk	FY 2017	FY 2016
Fixed remuneration	247	230
Fringe benefits	27	32
Sum total	**274**	**262**
Variable remuneration (one-year)	325	125
Variable remuneration (multi-year)	0	0
Stock options	590	0
Sum total	**1,189**	**387**
Pension expenses	5	3
Severance payments	375	0
Total remuneration	**1,569**	**390**

BENEFITS GRANTED	FRANK SCHAICH, MEMBER FROM 1 FEBRUARY TO 31 OCTOBER 2016	
EURk	FY 2017	FY 2016
Fixed remuneration	0	153
Fringe benefits	0	7
Sum total	**0**	**160**
Variable remuneration (one-year)	0	0
Variable remuneration (multi-year)	0	0
Stock options	0	0
Sum total	**0**	**160**
Pension expenses	0	0
Total remuneration	**0**	**160**

BENEFITS GRANTED	RALF KIND, SPEAKER OF THE EXECUTIVE BOARD SINCE 16 NOVEMBER 2017, MEMBER SINCE 1 MARCH 2017	
EURk	FY 2017	FY 2016
Fixed remuneration	202	0
Fringe benefits	10	0
Sum total	**212**	**0**
Variable remuneration (one-year)	300	0
Variable remuneration (multi-year)	0	0
Stock options	0	0
Sum total	**512**	**0**
Pension expenses	12	0
Total remuneration	**524**	**0**

REPORT ON RISKS, OPPORTUNITIES AND OUTLOOK

RISK REPORT

RISK MANAGEMENT SYSTEM

The objective of the risk management system is to ensure the Company's lasting viability, recognise risks at an early stage, monitor the compliance of the risk strategy derived from the corporate strategy, control of the Company through the appropriate or necessary actions, as well as monitor and optimise the performance risk ratio. Risk management covers all organisational rules and activities and the periodic and Group-wide implementation of the risk strategy. The Group-wide risk management system covers all of the DEMIRE Group's affiliated companies, except Fair Value REIT-AG, included in the consolidated financial statements. Fair Value REIT-AG has its own risk management system that is adequate and in line with the strategy of the overall Group.

The focus of risk management is securing liquidity and identifying and limiting risks from acquisitions, divestitures, redevelopment, as well as the rental and management of the real estate portfolio. Identified risks are and quantified as best as possible. Given the DEMIRE Group's flat organisational structure, the Executive Board is directly involved in all major decisions. The Executive Board is also responsible for monitoring the implementation of the measures agreed upon to limit risk and for their adherence. The flat hierarchy allows a risk management system with comparatively simple, transparent structures.

The risk management process is documented in a risk management handbook that is reviewed regularly and revised as necessary. A risk catalogue lists all of the significant risks DEMIRE is subject to or could be subject to in the future. Risks include strategic and operational factors, as well as events and actions that have a material impact on DEMIRE's existence, economic condition and achievement of its objectives.

The Supervisory Board is regularly informed in detail of the development of the business, the performance of investments and the status and further development of the risk management system; thereby making the control activities of the Supervisory Board an essential element of the risk management system. New risks that pose a major risk and any sharply negative changes in existing risks are reported to the Supervisory Board on an ad hoc basis.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE FINANCIAL REPORTING PROCESS

The internal control and risk management system in the financial reporting and consolidation processes represents one of the cornerstones of the Group risk management. This system comprises all accounting-related processes and all risks and controls with respect to accounting.

The accounting processes are directed towards the achievement of the following goals:

- Safeguard the efficiency of operations and the protection of assets
- Guarantee the accuracy and reliability of internal and external accounting
- Ensure compliance with applicable legal provisions, in particular, the compliance of the consolidated financial statements and the combined management report with current standards

DEMIRE Deutsche Mittelstand Real Estate AG, as the legal parent company, also prepares the consolidated financial statements. Impairment tests carried out centrally, particularly the market valuation of all properties by independent external experts, ensure the uniform and standardised application of the valuation criteria. The grouping and preparation of required data for the Notes to the Consolidated Financial Statements and the combined management report are also carried out at the Group level. These activities are preceded by the bookkeeping, the preparation of the annual financial statements, and the gathering of additional information from Group companies by the Group's own property management company DEMIRE Immobilien Management GmbH, as an internal service provider for the property companies, in accordance with uniform requirements.

The required analyses and the preparation of the quarterly, interim and annual financial statements are fully and promptly communicated and internally monitored. For risk management purposes, the plausibility, accuracy and completeness of postings are monitored and reviewed by the Group's own employees. The employees involved in this process meet the qualitative requirements and are trained periodically. The two-man rule is an important control instrument used in this process.

Other essential tools include
- uniform accounting policies for the majority of Group companies;
- a clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process; as well as
- the use of external specialists to the extent necessary to provide an expert opinion on the market value of real estate, among other things.

Together with our external consultants and service providers, new laws, accounting standards and other official pronouncements are continuously analysed for their relevance and their impact on the annual and consolidated financial statements and the combined management report. The Group makes adjustments to Group accounting policies when necessary. In the 2017 fiscal year, this occurred to the extent required under new accounting provisions.

To ensure the adequacy of the accounting and the relevant overall presentation of the consolidated and annual financial statements, including the combined management report, the following measures and controls are regularly implemented, evaluated and further developed in a structured process with our service providers:
- The identification and analysis of key risk and control areas
- Monitoring and plausibility checks to monitor the processes and their results at the level of the Executive Board and the operational units
- Preventative control measures in finance and accounting and of the operational business processes essential for accounting
- Measures to ensure the orderly, complete and timely computerised processing of accounting-related issues and data
- Measures for monitoring of accounting-related internal control and risk management system and the steps necessary to eliminate any control weaknesses

Proven and established systems cannot completely rule out the occurrence of individual errors and violations and, therefore, cannot always fully guarantee the accurate, complete and timely recording of facts in group accounting. Non-recurring business transactions harbour certain risk potential, particularly those involving a high degree of complexity and/or processing under extreme time pressure. The control risk through the use of external service providers has been counteracted as far as possible by internalising activities.

GENERAL RISK SITUATION

The Company's decision in 2013 to realign its focus towards the German commercial real estate market was successfully implemented through a large number of strategic investments. In 2016, the portfolio was analysed in detail, and the properties identified as non-core real estate were sold, which has a marked positive effect on the risk profile of the DEMIRE Group. As part of the annual real estate and budget planning, the properties are also divided into the real estate investment categories Core Plus, Value-Added and Redevelopment. Under the DEMIRE 2.0 strategy, certain properties were identified for the Redevelopment real estate investment category that will be repositioned on the market for further letting in the future following their comprehensive restructuring and modernisation. This is one example of how DEMIRE reacts proactively at an early stage to any potential changes in the earnings situation within its real estate portfolio. The share of real estate in the Redevelopment portfolio as a percentage of the overall portfolio as of the 31 December 2017 balance sheet date was 6.3% measured at market value. By simplifying the Group's structure and transferring project companies to Germany from abroad, legal risks have also declined.

In the past 2017 fiscal year, the early prolongation of a promissory note loan in the amount of EUR 148 million at considerably better terms took place in February 2017 and the placement and tapping of the rated, unsecured 2017/2022 corporate bond totalling EUR 400 million were executed in July and September 2017. The financial risk was brought down significantly through the early refinancing of higher-interest liabilities using the proceeds from the corporate bond, and particularly as a result of the future lower average interest costs, the elimination of certain amortisation costs and covenants from former bank loans and an improvement in the average term of debt financing and liquidity.

INDIVIDUAL RISKS

The following gives an overview of the major risks for the DEMIRE Group. For the quantification of risk, particularly with respect to the impact of changes in interest rates, please see the sensitivity analysis contained in the Notes to the Consolidated Financial Statements under the sections "Investment Properties" and "Financial Instruments".

Macroeconomic, market-related and sector risks

The DEMIRE Group's portfolio is exposed to a variety of macroeconomic, market-related and sector risks, as described below.

Macroeconomic risk

Macroeconomic changes may have a positive or negative impact on our net assets, financial position and results of operations. In Germany, moderate growth is expected again in 2018, which is expected to lead to a rise in employment accompanied by a demand for new office space. Private consumption led by rising wages and salaries will continue to be a growth driver of the German economy. This trend could also benefit our rental of retail space.

This favourable domestic climate, however, faces a number of global uncertainties. US-driven protectionist tendencies and the uncertain outcome of the Brexit negotiations may be particularly detrimental to EU economies as well as the global economy overall. Uncertainty about the global economy's further development could lead to economic instability, limited access to debt and equity or non-fulfilment of contractual obligations of tenants, and thereby have an adverse effect on the Company's net assets, financial position and results of operations.

We believe that a severe economic deterioration within the next twelve months is unlikely and, therefore, estimate the risk of a negative impact to be low.

Real estate market risk in Germany

DEMIRE Deutsche Mittelstand Real Estate AG holds commercial real estate mainly consisting of office and retail buildings in medium-sized cities and emerging peripheral areas of metropolitan areas throughout Germany. As a result, DEMIRE's business success depends significantly on the development of the German real estate market. In view of the sharp increase in rental levels in Germany, there is the risk that a further increase will not occur and a trend of declining rents may set in due to future negative economic conditions. There is generally the risk of a loss of value due to the fact that the DEMIRE Group's primary business exclusively involves German commercial real estate. Uncertainties on the part of tenants regarding Germany's future economic development could lead to a decline in demand, a drop in prices or rise in vacancies. Macroeconomic factors, such as expected levels of unemployment, inflation, interest rates, tax changes and investments, also affect tenants' willingness to conclude or extend their contracts. An increase in the current very low level of interest rates could reduce the demand for real estate in the short to medium term and make it more difficult to sell largely non-strategic real estate from DEMIRE's portfolio. The broad diversification through acquisitions of commercial real estate in almost all federal states in the 2015 and 2016 fiscal years has contributed to the fact that changes in specific locations have only a minor impact on the portfolio overall. The macroeconomic situation in Germany, along with a persistently low level of interest rates and generally positive corporate expectations, continue to support the favourable environment of the German real estate market.

We currently believe that there is a low probability of negative developments in the real estate market in 2018 and, therefore, estimate the risk of a negative impact to be low.

FINANCIAL RISK

Financing and liquidity risk

Liquidity management serves to ensure the Group's solvency at all times. Based on conservative assumptions, the funds necessary for the Group's operational management are planned and dispersed at the level of the Group companies and parent company. Liquidity is derived from the properties' current income less management, administrative and financing costs at the property-holding level and the Company level, as well as from the proceeds from group companies in the form of dividends, profit distributions and withdrawals.

There is a risk that at some point during the year, the Company may not have access to sufficient liquidity to meet its current obligations.

There is the risk that the refinancing of maturing financial debt may not be possible or only possible at conditions that are less favourable than expected.

Additional liquidity requirements may arise from events beyond DEMIRE's operational control, especially as a result of the operating and other risks referred to below.

The funds available as of the balance sheet date and the cash flow planned for 2018 are sufficient for the current needs of the ongoing business activities.

Risks from covenant obligations

There is a risk of a decline in the income and market values of real estate. This could cause a deterioration in the ratio of financial liabilities to market value (loan-to-value ratio "LTV"), the debt service coverage ratio ("DSCR"), the interest service coverage rate ("ISCR") or the ability to service debt, which could ultimately result in a violation of the covenant obligations arising from debt financing. As a result, DEMIRE may be obliged to provide further collateral, make additional redemption payments or increase deposits in pledged deposit accounts to provide more collateral or, ultimately, be confronted with the extraordinary termination of individual financing arrangements or an increase in extraordinary terminations. This could lead to a significant adverse effect on DEMIRE's liquidity.

As of the balance sheet date, the LTVs of all of the Group's financial liabilities were clearly below the levels stipulated in the respective financing agreements. In the case of the promissory note loan and financing of Sihlegg Investments Holding GmbH, the DSCR complies with the capital coverage required by the respective agreements as of 31 December 2017.

In the event of borrowing or acquiring debt and the issuance of (preferred) shares by DEMIRE AG or its relevant affiliated companies, the terms and conditions of the 2017/2022 corporate bond also stipulate increasing requirements for the net total loan-to-value ratio ("net-LTV"), the net secured LTV and the fixed charge coverage ratio ("FCCR") in order to ensure a minimum cash flow to finance interest and principal payments on existing liabilities.

As part of the bond placement, the internationally renowned rating agencies Standard & Poor's and Moody's issued a BB+ and Ba2 rating for the 2017/2022 corporate bond in July 2017 and confirmed this rating in September 2017 with the tapping of the bond. DEMIRE is required to comply with the conditions necessary to maintain the credit rating of the rating agencies.

Compliance with the relevant covenants and rating conditions is accordingly monitored and reported on an ongoing basis. The Executive Board estimates the risk from the deterioration of the covenants and the rating and the resulting effects on net assets, financial position and results of operations to be low.

Interest rate risk

The DEMIRE Group uses debt capital to finance German commercial real estate. Debt capital includes predominantly fixed and variable rate loans, as well as tradable instruments, including corporate bonds and financial instruments with conversion options in company shares. The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board.

For loans with variable interest rates, a rise in the interest rate leads to a burden for the Group. As of the balance sheet date, financial liabilities of EUR 652.8 million had fixed interest rates and EUR 42.1 million had variable interest rates. Upon repayment of the variable-interest financial liabilities in the third quarter of 2017, the corresponding interest rate hedges were also dissolved.

The interest rate level also has an impact on the acquisition price of newly acquired real estate. In addition, it plays a significant role in the valuation of investment properties. Given the expectations regarding the interest rate development for the next few years, the Executive Board estimates interest rate risk and the resulting effects on net assets, financial position and results of operations to be low.

Currency risk

There are no foreign currency risks for the existing portfolio of commercial real estate in Germany, as all business transactions are settled in EUR. The Executive Board estimates currency risk and the resulting effects on net assets, financial position and results of operations to be very low.

OPERATING RISK

Commercial real estate in Germany is mainly subject to classic rental risk whereas valuation risk is less likely in view of the current favourable market conditions.

Rental and property management risks

There are risks of rent reductions, delinquent rents and space vacancies. In addition, index-based rent increases may not always be fully enforced, delayed or not enforced at all. Furthermore, in addition to revenue shortfalls, rental-related costs may arise (e.g. tenant incentives, expansion costs, payment of moving expenses, or rent-free periods). If DEMIRE were unable to lease its properties at attractive terms, this could have a negative impact on the Company's net assets, financial position and results of operations.

There is a risk that leases have formal defects and therefore agreements cannot be enforced or are void.

There is the risk of unexpected costs for maintenance and repairs or for adjustments of properties to modern requirements, also due to delays in the implementation, for example, as the result of a delay in receiving the building permit, that may also cause a corresponding delay in the start of rental agreements and thus in the inflow of rental income.

Due to the tenant structure, there were no significant rental risks at the time the report was prepared, which had a direct impact on the earnings situation of the Group. In the 2017 fiscal year, 48.2 % (31 December 2016: 47.8 %) of contractual rents could be attributed to the ten largest tenants. There is however a dependency on a few tenants who provide a significant share of the rental income. Deutsche Telekom (GMG Generalmietgesellschaft mbH) is the largest tenant with a cumulative share of total contractual rents equal to 30.6 % (31 December 2016: 30.1 %) across several rental contracts and several property locations. If DEMIRE were not able to replace this tenant or another one of the largest 10 tenants with a new tenant for the corresponding space after the end of the contract or its extraordinary termination, this would lead to a significant decline in rental income and thus have a significant negative effect on the Company's net assets, financial position and results of operations. The Executive Board estimates the risk from rental and property management risks and the resulting effect on the assets, financial position and results from operations as low to medium.

Valuation risk

The investment properties contained in the consolidated financial statements are recognised at their fair values as defined by IAS 40. These fair values are based on appraisals conducted by independent appraisers at least once annually. Various factors play a role in these appraisals: For one, circumstances such as the socioeconomic development of the respective location and the development of rental periods, rents and vacancy rates, as well as qualitative factors such as location and the property's condition are used as parameters in the assessment.

During subsequent valuations of investment properties in the course of quarterly, half-year or annual financial statements, negative changes may occur to the fair values of the respective properties as a result of possible changes in the internal and external parameters used in the valuation report. This would result in impairments, which could have a negative or, in some cases, significantly negative effect on the Group's profitability. This would not, however, have a direct impact on the Group's liquidity. The Executive Board estimates valuation risk and the resulting effects on net assets, financial position and results of operations to be low.

Acquisition risk

Part of the success of the Company depends on its ability to find suitable and strategic real estate or interests in real estate companies in economically attractive regions and of good condition at reasonable prices and with solvent tenants. The lack of investment opportunities in real estate could drive up the price of such properties. In addition, availability depends on many (macro) economic factors beyond the Company's influence. In situations of scarce availability, the competition for real estate will be stronger, and competitors with greater financial resources and/or lower interest charges could be able to offer higher prices. Stronger competition for scarce resources can also result in a generally higher price level for real estate and thus have a negative effect on the Company's target to grow its real estate portfolio to EUR 2 billion.

There is the risk of unexpected costs for maintenance and repair measures or for adjustments of properties to modern requirements. These risks can also arise if the buyer is only able to carry out a limited technical due diligence due to the time pressure from the seller. Hidden damage can thus occur later or more comprehensively so that an appropriate warranty claim of the seller would not be possible or may not be enforced.

The acquisition of real estate, particularly portfolios of real estate, may lead to a mis/overestimation of earnings and synergy potential, which may have a negative impact on the net assets, financial position and results of operations of the Company compared to the planning. The Executive Board estimates acquisition risk and the resulting effects on net assets, financial position and results of operations to be low.

Sales risk

After the sale of real estate, there could be buyer warranty claims if the real estate does not fulfil the promised characteristics, e.g. state of refurbishment, no contamination or tenant. These can have a negative effect on the net assets, financial position and results of operations of the Company. The Executive Board estimates the risks arising from sales risks and the resulting effects on net assets, financial position and results of operations to be low.

OTHER RISKS

Legal risk

Risks to DEMIRE's business model result primarily from changes in the legal environment. In addition, DEMIRE may be liable for legacy issues not yet known such as contaminated sites, environmental contamination, harmful building materials or be sued for non-compliance with building code requirements.

Other legal risks can generally arise from a variety of conflicts, such as those in relation to rentals or personnel matters. Rental disputes are also a part of the everyday life of real estate companies, which must be handled professionally. Significant legal disputes that could pose a significant risk are currently not pending or foreseeable. Sufficient provisions have been recognised for ongoing legal disputes. Overall, the Executive Board estimates the legal risks and the financial impact on the net assets, financial position and results of operations as low.

Legal risk can also result from portfolio investments in countries with comparatively less stable legal systems. Given the advancing stage of the Company's withdrawal from Eastern Europe and the Black Sea Region, these risks are believed to be low in comparison to previous fiscal years.

Compliance risk

At the beginning of 2017, DEMIRE introduced a Group-wide Code of Conduct and conducted compliance training to deepen and clarify the guidelines and principles. However, our existing compliance processes and controls may not be sufficient to prevent deliberate unlawful behaviour by employees of the DEMIRE Group, which could harm DEMIRE's reputation and confidence in our business. In addition, if DEMIRE were unable to detect unlawful behaviour and take appropriate organisational and disciplinary action, sanctions and fines could be imposed which could adversely affect the Company's net assets, financial position and results of operations. The Executive Board estimates compliance risk and the resulting effects on net assets, financial position and results of operations to be low.

Tax risk

DEMIRE's tax structure is complex because of the different taxable entities (tax groups and taxation at the level of individual companies) and various legal forms existing within the Group.

Restrictions that are relevant to DEMIRE include restrictions on what is referred to as the interest barrier as well as those for minimum taxation and extended trade tax deductions for property holdings. In addition, changes in the tax regulations, particularly the (intragroup) use of loss carryforwards could lead to higher tax expenses and payments.

The Company believes that there are currently no other material tax risks beyond those for which it has already recognised provisions. Tax risk may arise in the context of tax audits or routine changes in the existing portfolio or as part of the portfolio's expansion, particularly through purchases of interests in companies holding properties.

Risk related to the REIT status of Fair Value REIT-AG

Fair Value REIT-AG, in its capacity as a German Real Estate Investment Trust-Aktiengesellschaft (REIT), must meet certain legal requirements to maintain its REIT status and benefit from the tax exemptions provided to REITs. These requirements include

- the share's admission to trading on a regulated market;
- the restriction of real estate trading and non real estate-related services in return for payment;
- compliance with the free float ratio of a minimum 15 %;
- compliance with the maximum direct interest of less than 10 % of the shares or voting rights;
- minimum equity of 45 % of the value of immovable assets;
- a proportion of immovable assets of at least 75 % of total assets;
- at least 75 % of gross income must be derived from immovable assets;
- distribution of at least 90 % of the net profit under commercial law by the end of the following fiscal year; and
- restrictions on business purpose

As a REIT, Fair Value REIT-AG is exempt from corporate and trade taxes. If Fair Value REIT-AG does not fulfil the above-mentioned requirements on a permanent basis, it may face penalties and – in the event of repeated non-compliance – the loss of the tax exemption and the withdrawal of its status as a German REIT. Under certain circumstances, this would lead to additional tax payments and significant outflows of liquidity, and could also lead to claims for compensation by small shareholders of Fair Value REIT-AG if the REIT status was lost. These can have a significant negative effect on the net assets, financial position and results of operations of the Company.

The Executive Board estimates tax risk and the resulting effects on net assets, financial position and results of operations as low to medium.

Personnel risk

The DEMIRE Group could lose members of the Executive Board or employees or be unable to replace them with sufficiently qualified staff in a timely manner. The Executive Board estimates personnel risk and the resulting effects on net assets, financial position and results of operations as low to medium.

IT risk

The IT systems of DEMIRE, its subsidiaries and their service providers may lose important data irretrievably or may be the victim of unauthorised access from outside parties. Both of these events could cause business disruptions and costs and may ultimately lead to financial losses. The Executive Board estimates IT risk and the resulting effects on net assets, financial position and results of operations as low.

OVERALL ASSESSMENT OF THE RISK SITUATION

The risk situation of the DEMIRE Group and the Company has fundamentally improved during the reporting period. This is essentially due to the prolongation of the promissory note and the placement and tapping of the unsecured corporate bond 2017/2022 at significantly better interest rates and the resulting improved liquidity position compared to prior debt financing, e.g. the LBBW loans, the A- and B-notes of Germavest and the corporate bond 2014/2019. These financing measures significantly reduced interest expenses and repayment obligations and the associated cash outflow. At the same time, the early repayment of the encumbered loans of Logistikpark Leipzig GmbH, Sihlegg Investments Holding GmbH and DEMIRE Objektgesellschaft Germavest GmbH (formerly Germavest Real Estate S.à r.l.) resulted in a substantial amount of real estate value being freed up from mortgage collateral. By further diversifying its funding sources, DEMIRE has greater flexibility for future growth. As part of the placement of its corporate bond, DEMIRE received its first rating from the recognised rating agencies Standard&Poor's and Moody's. As a result, DEMIRE has further expanded its visibility on the capital market. The current rating is BB/Ba2 with a stable outlook. DEMIRE aims for an investment grade rating in the medium term. This would allow the Company to finance its future growth by raising capital at attractive conditions.

According to current estimates, the Executive Board is not aware of any risks that could endanger the existence of the Company. The Company is convinced that it will be able to take advantage of the opportunities and challenges that arise in the future without having to incur unacceptably high risks.

OPPORTUNITIES REPORT

MACROECONOMIC AND SECTOR OPPORTUNITIES

The macroeconomic and sector-specific environment is currently favourable for DEMIRE and continues to offer good opportunities for the development of a value-creating real estate portfolio: Germany has a robust and healthy economic development. As a result, demand for commercial space is sustainably stable. The DEMIRE Group wants to use this favourable environment to further increase the value of the Company – through the careful and professional selection of additional real estate and active real estate management of the portfolio. We continue to see more opportunity than risk for our existing business as a result of Great Britain's decision to leave the European Union (Brexit vote). As part of the British exit process, international companies, who have their European headquarters in the UK, could be looking for alternatives in mainland EU countries. Germany, with the headquarters of the European Central Bank in Frankfurt am Main, offers – as it turns out – good opportunities.

BUSINESS OPPORTUNITIES

The strong growth experienced in recent years, particularly from the takeover of the majority interest in Fair Value REIT-AG at the end of 2015, has given DEMIRE the necessary size to conclude framework agreements with national utility suppliers for basic utilities and lower its costs through volume purchases and better service conditions. The Company's greater size will have the added advantage that it makes better use of intragroup real estate management and thereby reduces the costs in the everyday management of real estate.

The gradual insourcing of real estate management and corporate functions, as well as the associated streamlining and harmonisation of processes and IT structures, also provide economic benefits. Real estate management can reduce allocable costs and improve the direct contact with the tenant. If this leads to longer lease terms and chances of follow-up leases, turnover and vacancies will continue to decline.

In addition, the increased demand, especially for commercial space in the regions in which DEMIRE holds real estate, also offers opportunities for new lettings of the remaining vacancy.

FINANCIAL OPPORTUNITIES

DEMIRE plans to use the low interest rate environment to further reduce the average interest rate on debt. For this purpose, existing liabilities with comparatively high interest charges were replaced by more favourable refinancing in 2017.

At the same time, the financing options for future real estate acquisitions continue to be favourable and, from the company's point of view, will remain so for the foreseeable future.

OVERALL ASSESSMENT OF DEMIRE'S OPPORTUNITIES

DEMIRE has laid the foundations for succeeding as one of the leading German commercial real estate holders with a balanced risk/reward profile and attractive operating cash flows. In the medium term, DEMIRE wants to offer its shareholders not only the prospect of value appreciation but also regular dividend payments. The Executive Board considers DEMIRE's opportunities as good to further increase its business volume and profitability in the coming years through planned internal and external growth as well as through a further simplification of the current Group structure and associated improved cost efficiency. For this purpose, the Executive Board adopted a comprehensive medium-term strategic plan DEMIRE 2.0 in the past fiscal year 2017, which essentially includes the measures for the implementation of the next growth phase of the Company.

REPORT ON OUTLOOK

ECONOMIC CONDITIONS – GERMANY AHEAD OF AN ECONOMIC BOOM

DEMIRE Mittelstand Real Estate AG expects the general economic conditions for companies in the real estate industry to remain favourable overall in 2018. The current macroeconomic environment in Germany appears robust and should result in continued economic growth in 2018. Various institutions are forecasting gross domestic production growth in a range of approximately 2.0 % to 2.6 % for the year 2018. The Institute for the World Economy (IfW) expects GDP growth in Germany to reach around 2.5 % in the current year and 2.3 % in 2019. The unemployment rate is expected to fall below 5 %, and the inflation rate is anticipated to reach 2 %. Domestic demand and foreign trade are to remain the driving forces of the German economy, even though the economic momentum among trading partners is likely to weaken somewhat over the forecast period. The IfW expects exports to increase a further 6.2 % in 2018 and another 4.8 % in 2019. Private consumption is also set to rise again strongly in light of the further improvement in the labour market and the tax reductions and higher benefits contained in the coalition agreement of the new German government. The IfW expects private consumption to increase by 1.7 % this year and by another 2.2 % next year – the highest level since 1999 – due to measures planned by the federal government. Next year's increase will be due primarily to the fiscal policy measures planned by the new federal government, which among others provide for a reduction in the contribution rate to unemployment insurance, better mothers' benefits (Mütterrente II) and building allowances for families with children, in addition to a range of investments and programmes in the areas of infrastructure, education and employment. Above all, these changes are expected to result in an increase in the disposable income of private households.

Based on the above factors, the long-lasting upswing should continue with the German economy approaching boom territory. In the medium term, the IfW sees limits on further growth in economic output increasingly due to bottlenecks in capacity. Although corporations are increasing their investments, this will only be able to provide limited relief to the shortage in production capacity. Financing conditions will remain very favourable for the foreseeable future, and the expected turnaround in interest rates is likely to provide even more fuel for credit demand in the near term.

Since the beginning of 2018, the global economy has been experiencing a strong upswing that is expected to peak sometime next year. At 3.9 %, world output last year achieved its highest growth rate (calculated in terms of purchasing power parities) since 2011 and is expected to increase by another 4.0 % in the current year and a further 3.8 % in 2019. Experts raised their forecasts by 0.1 and 0.2 percentage points, respectively, for the years 2018 and 2019, mainly due to the tax reforms adopted by Donald Trump. At the same time, economic sentiment has deteriorated somewhat recently due to growing uncertainty over the expected pace of monetary tightening in the US and concerns over the US president's punitive tariffs.

SECTOR PERFORMANCE – POSITIVE TREND TO CONTINUE IN 2018

The business development of DEMIRE is significantly influenced by the development of the real estate sector, particularly the commercial real estate market in which the Company operates. The general conditions for German commercial real estate in the investment and rental markets continued to be positive throughout the year 2017. The key drivers were the low level of interest rates, the booming economy, as well as strong rental markets that created vigorous demand for investment products.

Transaction market for commercial real estate

According to the real estate services company JLL, the transaction volume on the German commercial real estate market of approx. EUR 56.8 billion in 2017 not only reached the recent record set in 2015 but even managed to exceed it by EUR 1.7 billion, for an increase of 7 % compared to the prior year.

Expectations for the year 2018 are overwhelmingly positive. All indicators point to a continuation of the boom in real estate. The macroeconomic forecasts, which were recently revised higher, signal further growth. Consequently, rental markets remain strong, supported by corporate investment. A key criterion for real estate investors is and remains the question of a medium-term increase in interest rates and the consequences of this increase for the investment market. According to JLL, however, a real rate hike is not expected before the middle to end of 2019. Demand on the transaction market is still evident and intact, fuelled by the continued and significantly positive yield spread of investments in real estate relative to government bonds. This spread should narrow in the medium term not only as a result of declining real estate yields but due to rising bond returns. As the yield spread narrows further, traditional bond investors, such as insurance companies, are likely to turn slightly more to the bond market.

Office real estate market

Employment growth is boosting demand for business space and directly affecting the office rental markets in the services sector. The space turnover in the Top 7 locations reached a level of roughly 4.2 million m² in 2017, a rise of almost 7%, placing it once again above the previous year's record level. Based on an analysis of 15 locations (including the Top 7 locations Berlin, Hamburg, Cologne, Dusseldorf, Frankfurt, Stuttgart and Munich) and other selected B locations (Bremen, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Magdeburg and Nuremberg), the real estate experts at the German real estate group DIP identified a decline in the average vacancy rate of the 15 DIP markets, which fell from 5.9% at the end of 2016 to 4.9% at the end of 2017. Given the steady, high rate of net absorption of space, DIP forecasted a decline of about 1.1 million m² in the total volume of short-term available office space to a level of 5.5 million m² in 2017 in the 15 German markets analysed.

The DIP experts are again expecting higher-than-average demand for office space in 2018 given the dynamic economic development, which will meet with a very narrow market that will be undergoing a further reduction in vacancy rates and a high absorption of modern, competitive office space. JLL also expects the rental market to maintain its momentum in 2018; however, due to a lack of sufficiently available new, modern space, the market is not expected to approach the level achieved in the year 2017.

Retail real estate market

According to DIP, the strong interest of investors and retail tenants, specifically in top locations located in the most sought-after cities and growth centres, will persist. This long-term dynamic trend is anticipated to be fuelled largely by the positive development in private household incomes. In December 2017, the GfK consumer confidence index reached a level of 10.7, which was the highest level achieved in the month of December over the past 15 years. Germany's favourable domestic environment, the labour market, income trends and very low average inflation in recent years, combined with the European Central Bank's low interest rates were responsible for this comparatively high level of consumption. Thus, Germany will continue to remain the most important retail market in Europe in 2018. The ever-increasing volume of online retail sales (growth of 10% in 2017 to around EUR 49 billion) coupled with a certain level of market saturation from a general lack of product differentiation, has led to a moderate decline in the growth momentum of traditional retailers in recent years. In Germany, the share of brick-and-mortar retailing to total retail sales is still around 90%. Compared to the Top 7 locations, DIP found that prime retail rents are also stable overall in the other locations that were analysed. DIP's real estate experts anticipate a further contraction in prime yields in 2018 to a very low level due to the continued potential for value appreciation and allure of retail real estate at a time when market supply remains low.

Logistics real estate market

According to DIP, estimates and market forecasts are assuming an average growth rate in online sales of roughly 8% p.a. until 2021. This shows that the growth in online sales is expected to be far higher than that of brick-and-mortar retailers, which are projected to reach an average growth rate of just 0.6% p.a. over the same period. This striking dynamic can already be seen today in the high demand for logistics space. At around EUR 8.8 billion, the transaction volume for logistics real estate in 2017 exceeded the previous year's result by around 87% (2016: EUR 4.7 billion) and accounted for over 15% of the total turnover of commercial real estate investments. The high demand for ultra-modern space is leading to a rise in project developments that usually only occurs to a limited extent as a result of speculation when markets have a high degree of pre-lettings. The growing share of higher-quality new buildings and the tight market are also leading to higher rents at both top and B locations. The price level for top properties picked up in the course of 2017 bringing yields significantly below 5 %. Based on the average of the 15 DIP locations analysed, the prime yield in 2017 was 5.6 %, or around 50 bps below the previous year's level (2016: 6.1 %). Looking ahead, DIP's real estate experts expect to see a further narrowing of the yield spread between logistics investments and commercial buildings due to recent developments, the strong growth of online retailing, and the rising number of modern properties being completed.

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

DEMIRE Deutsche Mittelstand Real Estate AG expects conditions to be stable to good overall in the 2018 fiscal year. As a result, DEMIRE expects its positive business performance to continue.

The Company's focus is on further implementing the DEMIRE 2.0 strategy. Since DEMIRE started pursuing this strategy in July 2017, it has seen a significant improvement in its key figures. Rental income has remained stable, despite the sale of non-strategic real estate. The decline in rental income as a result of the sale of properties was largely offset by a high level of lettings and a reduction in vacancies. The EPRA vacancy rate of the real estate portfolio was reduced by 220 basis points to 9.4 % within one year (31 December 2016: 11.6 %). Funds from operations (FFO I before minorities, after taxes) increased significantly year-on-year by EUR 3.6 million to EUR 11.7 million thanks to the positive effects of the DEMIRE 2.0 strategy.

In addition to expanding its portfolio, DEMIRE also plans to further optimise its portfolio in the 2018 fiscal year, by making selective sales and further reducing vacancies in the real estate portfolio. The successful refinancing of various liabilities through the placement of a EUR 400 million corporate bond at considerably better terms in 2017 will lead to a significant increase in cash flows in the 2018 fiscal year. With the tax improvements implemented at the end of 2017, the Company has also realised the potential for continued sustainable earnings. Management's focus will now be on the growth expected in the current fiscal year as the Company achieves its primary goal of raising the volume of its portfolio to EUR 2 billion over the next 12 to 18 months. To do so, DEMIRE will receive support from its new strategic investor Apollo Global Management and its fellow anchor shareholder, Wecken & Cie. With this support, DEMIRE is confident that it will be able to continue expanding its earnings base and profitability by permanently improving the cost structure of its in-house real estate management and within its Group subsidiaries.

DEMIRE Deutsche Mittelstand Real Estate AG's overall results in the 2018 fiscal year are therefore expected to be characterised by rental income from the real estate portfolio, a net increase in the portfolio from transactions (particularly acquisitions) and a further improvement in its cost base.

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

The economic sector forecasts suggest that the commercial real estate market in Germany and, consequently, DEMIRE Deutsche Mittelstand Real Estate AG's business can look forward to a continued positive environment – also in the segment of secondary locations in Germany, which is DEMIRE's focus.

Taking into account the properties already sold and expected to be sold, DEMIRE plans to generate rental income of between approximately EUR 71 to 73 million in the 2018 fiscal year from the letting of real estate held in its portfolio as of 31 December 2017. This forecast does not take into consideration the effects of any acquisitions planned in 2018. Active real estate management and an improvement in vacancy rates through efficient investment are also expected to support a rise in rental income. Based on the rental income expected and the positive effects already recognised from the implementation of the first milestones of the DEMIRE 2.0 strategy in the 2017 fiscal year, DEMIRE expects sharply higher FFOs in 2018. The significant drop in current interest expenses and successful optimisation of the Group's tax structure at the end of 2017 will lead to an increase in the expected funds from operations (FFO I, before minorities, after taxes) to a range of EUR 16 to 18 million in the year 2018. Real estate acquisitions during the current 2018 fiscal year may also lead to a further rise in the FFO forecast during the fiscal year.

DEMIRE also plans to achieve further milestones under its DEMIRE 2.0 strategy, such as a further reduction in its net loan-to-value ratio (net-LTV) from 60.1 % at the end of December 2017 to a level approaching 50 %, which would enable it to qualify for an investment grade rating and finance its future growth at more favourable financing conditions. Should the Company achieve its operating targets for growth and the optimisation of the portfolio as planned, DEMIRE believes this will broaden the potential for net value appreciation in its real estate portfolio and lead to an expansion in its net asset value (NAV). DEMIRE will also strive in the medium term to be capable of paying a dividend in the years ahead.

THE ASSESSMENT OF DEMIRE'S FUTURE DEVELOPMENT IS BASED ON THE FOLLOWING ESSENTIAL ASSUMPTIONS:

- The German economy and specifically the real estate market, labour market and related consumption should remain robust
- Brexit will not have a significant negative impact on the economy in Germany or the eurozone
- The eurozone and Germany will not be negatively or sustainably influenced by geopolitical upheavals in the global economy or on the capital markets
- Central banks will not significantly increase key interest rates
- There will be no material tightening of credit institutions' requirements for providing transaction financing or refinancing
- There will be no major changes in the conditions for financing on the capital market
- No significant changes in the taxation of real estate investments
- There will be no unforeseen regulatory changes affecting DEMIRE's business
- The risk of rental loss, e.g. due to bankruptcies, will remain low

Aquisition-related information

COMPOSITION OF SUBSCRIBED CAPITAL

A.) AS OF 31 DECEMBER 2017

As of 31 December 2017, the Company had fully paid-up subscribed capital in the amount of EUR 54,270,744.00 divided into 54,270,744 no-par value bearer shares with a notional interest in share capital of EUR 1.00; the Group held 5,000 of these shares. A total of 13,000 no-par value bearer shares were not recorded in the commercial register until the beginning of February 2018. The shares of DEMIRE Deutsche Mittelstand Real Estate AG have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

An increase of 23,800 shares resulted from conversions of the 2013/2018 convertible bond. Following the exercise of conversion rights of the 2013/2018 convertible bond and the issue of 23,800 new shares from Conditional Capital I/2013, the Company's share capital is conditionally increased by up to an amount of EUR 6,261,288.00, divided into a maximum of 6,261,288 no-par value bearer shares with a notional interest of EUR 1.00. The original number of convertible bonds was 11,300,000. Following the conversion of a further 23,800 bonds in the reporting period, the remaining number of conversion rights equalled 10,613,963. The purpose of the conditional capital increase was to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds that were issued based on the authorisation of the Annual General Meeting of 23 October 2013.

b) Development after 31 December 2017

On 26 February 2018, with the approval of the Supervisory Board, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved to increase the Company's share capital from authorised capital by an amount of EUR 5,425,774.00, bringing the total from EUR 54,270,744.00 to EUR 59,696,518.00 by issuing 5,425,774 new, no-par value bearer shares with a notional interest of EUR 1.00 each and full dividend entitlement as of 1 January 2017 (the "new shares") in exchange for a cash contribution and excluding the subscription rights of the Company's shareholders. The capital increase was entered in the commercial register on 5 April 2018.

Without a prospectus, the new shares are to be admitted to trading on the Regulated Market of the Frankfurt Stock Exchange and at the same time to the subsegment of the Regulated Market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. AEPF III 15 S.à r.l., a holding company owned by Apollo European Principal Finance Fund III – both subsidiaries of Apollo Global Management LLC – has committed itself in a subscription agreement to fully subscribe to the new shares.

On 1 March 2018, BRH Holdings GP, Ltd., Cayman Islands, notified DEMIRE Deutsche Mittelstand Real Estate AG, that the voting rights of BRH Holdings GP, Ltd. and its controlled subsidiaries (the "Notifying Parties") exceeded the threshold of 30% on 26 February 2018 and amounted to 32.19% (17,471,893 voting rights) on that day.

The Notifying Parties also informed DEMIRE Deutsche Mittelstand Real Estate AG on 2 March 2018 that their voting rights exceeded the 50% threshold on 28 February 2018 and amounted on that day to 59.12% (32,084,524 voting rights).

In accordance with Section 43 (1) of the German Securities Trading Act (WpHG), the Notifying Parties have informed DEMIRE Deutsche Mittelstand Real Estate AG on 26 March 2018 as follows in connection with these notifications:

1. On 26 February 2018 AEPF III 15 S.à r.l., a subsidiary of BRH Holdings GP, Ltd., has published the attainment of control pursuant to Section 35 (1) sentence 1 in conjunction with Section 10 (3) sentence 1 and 2 of the German Securities Acquisition and Takeover Act (WpÜG)) and announced that it will offer to the shareholders of DEMIRE Deutsche Mittelstand Real Estate AG to acquire their no-par value bearer shares in DEMIRE Deutsche Mittelstand Real Estate AG in a mandatory offer (the "Mandatory Offer").
2. The investment is aimed at implementing strategic objectives.
3. It is intended to acquire further voting rights by means of purchase in the course of the Mandatory Offer and otherwise.
4. It is intended to exert an influence on the issuer's administrative, management and supervisory bodies.
5. It is intended to change the capital structure by increasing the equity ratio. A change of the dividend policy is not intended.
6. The acquisition of the voting rights was partly achieved by way of attribution within the meaning of Section 34 (2) WpHG (acting in concert), and, in this respect, neither own funds nor borrowings were required. The acquisition of the voting rights directly held by AEPF III 15 S.à r.l. was financed with their own funds.

In accordance with Section 43 (1) of the German Securities Trading Act (WpHG), shareholders Klaus Wecken, Ferry Wecken and Ina Wecken have notified DEMIRE Deutsche Mittelstand Real Estate AG on 3 April 2018 of the following:

1. The investment is aimed at implementing strategic objectives.
2. It is intended to acquire further voting rights in DEMIRE Deutsche Mittelstand Real Estate AG in the next twelve months by means of purchases or otherwise.
3. It is intended to exert an influence on DEMIRE Deutsche Real Estate AG's administrative, management and supervisory bodies.
4. A significant change of the capital structure of DEMIRE Deutsche Mittelstand Real Estate AG, in particular with regard to the debt/equity ratio is intended. A change of the dividend policy is intended insofar as an improvement of the operating results shall be achieved in order to make future distributions possible.
5. The acquisition of the voting rights was partially achieved by way of attribution within the meaning of Section 34 (2) WpHG (acting in concert) and, in this respect, neither their own funds nor borrowings were required. The acquisition of the voting rights directly held were financed by own funds.

Prior to the publication of the Annual Report, 30,160 conversion rights were exercised, and 30,160 new no-par value bearer shares were created.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

There are no restrictions on voting rights or the transfer of shares.

DIRECT OR INDIRECT CAPITAL INTERESTS THAT EXCEED 10% OF THE VOTING RIGHTS

a.) As of 31 December 2017

On 31 December 2017, the following DEMIRE Deutsche Mittelstand Real Estate AG shareholders held interests in the Company representing more than 3%, 5% or 10% of the voting rights:

- Mr Klaus Wecken held a total of 28.98% of the shares through his interest in Wecken & Cie, Basel, Switzerland.
- Mr Rolf Elgeti, as general partner of Obotritia Capital KGaA, held a total of 9.98% of the shares through interests in Jägersteig Beteiligungs GmbH, Försterweg Beteiligungs GmbH and Obotritia Beteiligungs GmbH.
- Mr Günter Walcher held a total of 5.56% of the shares through his interest in M1 Beteiligungs GmbH.
- Mrs Sigrid Wecken held a total of 5.00% of the shares.
- Mr Willem Rozendaal held a total of 4.67% of the shares through his interest in Alpine Real Estate Invest GmbH.
- Ketom AG held a total of 4.03% of the shares.

On 31 December 2017, the Company was not aware of any further notifications of direct or indirect interests that exceeded 3%, 5% or 10% of the voting rights.

b.) Development after 31 December 2017

The 5,425,774 new shares from the 10% capital increase approved on 26 February 2018 are to be admitted for trading without a prospectus on the Regulated Market of the Frankfurt Stock Exchange and, at the same time, the subsegment of the Regulated Market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. AEPF III 15 S.à r.l., a holding company owned by Apollo European Principal Finance Fund III – both subsidiaries of Apollo Global Management LLC ("Apollo managed funds") – has committed itself in a subscription agreement to fully subscribe to the new shares.

The Company was notified by Apollo managed funds that they currently hold 150,000 shares, which corresponded to an interest of approx. 0.28% of the share capital at that time and have concluded purchase agreements for the acquisition of 1,089,061 shares. In connection with the capital increase, Apollo managed funds have has entered into a cooperation agreement with the major shareholder of the company, Wecken & Cie. ("Wecken"), as well as with a subsidiary of Wecken & Cie. and with members of the Wecken family (together with Wecken the "Wecken Group"), which together hold 29.91% of the current share capital and convertible bonds, which after exercise of the conversion right, entitle the holder to acquire a further 10.23% of the share capital as of 26 February 2018. As a result of its obtained control over the Company, Apollo managed funds on 26 February 2018 announced to publish a mandatory tender offer to the shareholders of the Company to acquire all shares of the Company at a price of EUR 4.35 per share. The offer document was published on 16 April 2018 at www.aepf-mandatory-offer.de/en/.

Due to the attribution of voting rights as defined by Section 34 WpHG, Mr Klaus Wecken with 42.42% and Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd. with 32.19% each reported on 26 February 2018 that they have exceeded the 30% threshold. As of 27 February 2018, Mr Klaus Wecken controlled 46.06% and ODDO BHK Asset Management SAS 3.84% of the voting rights due to the attribution of voting rights as defined by Section 34 WpHG. As of 28 February 2018, Mr Klaus Wecken, Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd., each controlled 59.12% of the voting rights and exceeded the 50% threshold due to the attribution of voting rights as defined by Section 34 WpHG.

On 29 March 2018, Ms Sigrid Wecken notified the Company that her voting rights had fallen below the threshold of 5% and amounted to 4.99%.

In the context of the published offer document at www.aepf-mandatory-offer.de/en/, the bidder AEPF III 15 S.à r.l. has given notification that it and the members of the Wecken Group together at the time of publication of the Offer Document held 37,928,711 DEMIRE shares. This number corresponds to approximately 63.51% of the current voting rights and share capital of DEMIRE AG.

Further notifications regarding direct or indirect shareholdings exceeding 3%, 5% and 10% of the voting rights were not available to the Company at the time of publishing this report.

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

TYPE OF VOTING RIGHT CONTROL WHEN EMPLOYEES HOLD AN INTEREST IN SHARE CAPITAL AND DO NOT EXERCISE THEIR CONTROL RIGHTS DIRECTLY

Such interests do not exist.

LEGAL REGULATIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION GOVERNING THE APPOINTMENT AND REPLACEMENT OF MEMBERS OF THE EXECUTIVE BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Appointment and replacement of Executive Board members

Pursuant to Section 84 AktG, Executive Board members are appointed by the Supervisory Board for a term of no more than five years. Repeat appointments are permissible. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG consists of one or more persons. The number of Executive Board members is stipulated by the Supervisory Board. The Supervisory Board decides on the appointment, revocation of appointment and the conclusion, modification and termination of employment contracts to be concluded with Executive Board members. The Supervisory Board is authorised to appoint chairpersons and deputy chairpersons and deputy members to the Executive Board.

Amendments to Articles of Association

Changes to the Articles of Association require a resolution of the Annual General Meeting pursuant to Section 179 (1) AktG, which requires a majority of three-fourths of the capital represented in the voting unless specified otherwise in the Articles of Association. However, where an amendment relates to a change in the purpose of the Company, the Articles of Association may only specify a larger majority. Section 20 (1) of DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association makes use of the option to deviate therefrom pursuant to Section 179 (2) AktG and provides that resolutions can generally be passed by a simple majority vote and, if a capital majority is required, by a simple capital majority unless mandatory provisions require otherwise. The Supervisory Board is authorised to resolve amendments to the Articles of Association that related to their wording only. The Supervisory Board is also authorised to amend the wording of Section 5 of the Articles of Association with respect to the amount and composition of the share capital in correspondence to the scope of capital increases from authorised capital.

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised Capital

a.) As of 31 December 2017

Based on the resolution of the Annual General Meeting of 29 June 2017, Authorised Capital I/2016 amounting to EUR 19,722,889.00 and the related provisions of Section 6 of the Articles of Association (Authorised Capital) were cancelled. The Executive Board was authorised, with the Supervisory Board's consent, to increase the Company's share capital by up to EUR 27,128,872.00 (Authorised Capital I/2017) by issuing up to 27,128,872 new, no-par value bearer shares against contribution in cash and/or in kind once or several times in partial amounts until 28 June 2022. Shareholders are generally entitled to subscription rights. The new shares can also be subscribed for by one or several banks with the obligation to offer the new shares to shareholders for subscription. With the Supervisory Board's consent, the Executive Board is authorised to exclude shareholder subscription rights for fractional amounts, cash capital increases of up to 10% of the share capital at an issue price that is not substantially below the stock market price, meet the obligations of option or conversion rights, issue shares to employees and execute capital increases against contribution in kind.

b.) Development after 31 December 2017

On 26 February 2018, with the consent of the Supervisory Board, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved to increase the Company's share capital from authorised capital by EUR 5,425,774.00 from EUR 54,270,744.00 to EUR 59,696,518.00 by issuing 5,425,774 new, no-par value bearer shares with a notional interest in the share capital of EUR 1.00 each and full dividend entitlement as of 1 January 2017 (the "new shares") against cash contribution and by excluding shareholders subscription rights. The capital increase was entered in the commercial register on 5 April 2018. Following this partial utilisation, Authorised Capital I/2017 amounts to EUR 21,703,098.00.

There were no changes from 31 December 2017 to the time the Annual Report was published.

Conditional capital

a.) As of 31 December 2017

Following the exercise of conversion rights from the 2013/2018 convertible bond from conditional capital, the Company's capital is conditionally increased in an amount of up to EUR 6,261,288.00, divided into a maximum of 6,261,288 no-par value bearer shares (Conditional Capital I/2013). The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds based on the authorisation of the Annual General Meeting of 23 October 2013. A total of 13,000 shares arising from the exercise of conversions rights were not yet recorded in the commercial register as of 31 December 2017.

Based on the resolution of the Annual General Meeting on 30 June 2016, the Conditional Capital I/2015 in the amount of EUR 2,434,105.00, divided in up to 2,434,105 no-par value bearer shares was cancelled. Based on the resolution of the Annual General Meeting on 30 June 2016, the Company's share capital was conditionally increased (Conditional Capital I/2016) by up to EUR 3,000,000.00, divided into 3,000,000 new, no-par value bearer shares. The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds that will be issued based on the authorisation under Agenda Item 8 of the Company's Annual General Meeting on 23 October 2013 in the amended version pursuant to the Annual General Meeting of 6 March 2015. The new shares will be issued at the exercise or conversion price to be determined in accordance with the authorising resolution of the Annual General Meeting of 23 October 2013 under Agenda Item 8.

Based on the resolution of the Extraordinary General Meeting of 6 March 2015, the Company's share capital is also conditionally increased by up to EUR 1,000,000.00, divided into a maximum of 1,000,000 new no-par value bearer shares (Conditional Capital II/2015). The conditional capital increase will be executed only to the extent that the holders of stock options that were issued by the Company pursuant to the authorising resolution of the Extraordinary General Meeting on 6 March 2015 in the context of the Company's 2015 Stock Option Programme exercise their subscription rights for shares of the Company, and the Company does not meet the obligations of the subscription rights with the Company's own shares. In the 2015 fiscal year, the Executive Board was granted a maximum number of 800,000 stock options, and employees were granted a maximum number of 200,000 stock options.

Based on the resolution of the Annual General Meeting of 29 June 2017, Conditional Capital II/2016 in the amount of EUR 14,359,523.00 and divided into a maximum of 14,359,523 no-par value bearer shares and the related provisions of Section 5 (7) of the Articles of Association were cancelled. At the same meeting, Conditional Capital I/2017 of up to EUR 16,854,584.00 and divided into a maximum of 16,854,584 new, no-par value bearer shares was created with the corresponding amendment made in the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments) that were issued or will be issued (i) based on the authorisation resolved by the Annual General Meeting of 28 August 2015 under Agenda Item 8 to grant convertible bonds and/or bonds with warrants and/or (ii) the authorisation resolved under Agenda Item 7 to issue convertible bonds and/or bonds with warrants or profit participation rights and/or profit participation bonds (or a combination of these instruments) by the Company or its direct or indirect affiliated companies and grant conversion or option rights to new no-par value shares of the Company or establish a conversion obligation. The issue of new shares is carried out at the exercise or conversion price to be determined in accordance with the respective authorisation resolved by the Annual General Meeting.

The conditional capital increases from Conditional Capital I/2016 and I/2017 will be carried out only to the extent that the holders or creditors of conversion or option rights exercise these rights or to the extent that holders meet their conversion obligation, unless a cash settlement is granted or own shares or shares created from authorised capital are used for servicing. The shares will participate in profits as of the start of the previous fiscal year provided they are created as a result of exercise before the start of the Company's Annual General Meeting, or otherwise as of the start of the fiscal year in which they were created from the exercise of subscription rights. With the Supervisory Board's consent, the Executive Board is authorised to determine the further details of the conditional capital's execution.

b.) Development after 31 December 2017

Prior to the publication of the annual report, a total of 30,160 convertible bonds were converted into no-par value shares of DEMIRE Deutsche Mittelstand Real Estate AG.

Authorisation to issue convertible bonds or bonds with warrants

By resolution of the Annual General Meeting of 23 October 2013 and with the consent of the Supervisory Board, the Executive Board is authorised to issue bearer and/or registered convertible bonds and/or bonds with warrants on one or several occasions until 30 September 2018 for a total nominal amount of up to EUR 50,000,000.00, with or without a limitation on the duration, and to offer option or conversion rights for new no-par value bearer shares of the Company with a notional interest in the share capital of up to EUR 25,000,000.00 to holders or creditors of bonds. The option or conversion rights can be serviced using existing or future conditional or authorised capital, existing or own shares or a shareholder's shares. They can be issued by Group companies or against contribution in kind. The shareholders are entitled to subscription rights that can be excluded in the event of fractional amounts, an issue in exchange for cash if the option or conversion rights do not exceed 10% of the share capital, in the event the issue price of the bonds is not materially below their market value and in order to grant holders of option and/or conversion rights with subscription rights in the case of a contribution in kind. Based on the authorisation of the Annual General Meeting and with the Supervisory Board's consent, the Executive Board has issued convertible bonds for a total nominal amount of EUR 26,300,000.00 with conversion rights – subject to an adjustment due to existing dilution protection – for up to 14,300,000 no-par value bearer shares of the Company with a notional interest in the Company's share capital of EUR 14,300,000.00. The authorisation to issue convertible bonds and/or bonds with warrants beyond the remaining unutilised nominal amount of up to EUR 23,700,000.00 was cancelled with a resolution of the Annual General Meeting of 28 August 2015. A new authorisation was resolved permitting the issue of bearer and/or registered convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments).

The Executive Board's authorisation by resolution of the Annual General Meeting of 28 August 2015 under Agenda Item 7 to issue - with the consent of the Supervisory Board - convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds with a total value of up to EUR 125,000,000.00 was cancelled with the resolution of the Annual General Meeting on 29 June 2017. At that same Annual General Meeting, the Executive Board was authorised with the approval of the Supervisory Board to grant bearer and/or registered convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments – together referred to as "bonds") on one or several occasions until 28 June 2022 for a total nominal amount of up to EUR 125,000,000.00, with or without a limitation on the duration, and to offer holders or creditors of bonds conversion or option rights for no-par value bearer shares in the Company with a notional interest in the share capital of up to a total of EUR 25,000,000.00 according to the bond's terms and conditions.

Authority to purchase treasury shares

Based on the resolution of the Annual General Meeting of 15 October 2014, the Company is authorised to acquire up to 10% of the share capital existing on the date of the resolution until 14 October 2019. The number of shares acquired under this authorisation together with other treasury shares already purchased or owned by the Company may not exceed 10% of the Company's respective existing share capital. This authorisation may be exercised in whole or in partial amounts on one or several occasions.

Purchases are made over the stock exchange by means of a public repurchase offer or a public solicitation directed to shareholder to submit offers to sell:

If the purchase of shares is executed on the stock exchange, the consideration paid per share (each excluding ancillary purchase costs) by the Company may not exceed or fall below 10% of the average closing price of the Company's shares in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) on the three trading days preceding the purchase. If the Company is listed on several stock exchanges, the Company's respective last ten closing prices on the Frankfurt Stock Exchange are relevant.

If the purchase is conducted by way of a public offer to all of the Company's shareholders or by a public solicitation to shareholders to submit offers to sell, the purchase or sales prices offered or the range of purchase and selling prices per share, excluding ancillary acquisition costs, may not exceed or fall below 10% of the average closing price of the Company's shares in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) on the ten trading days preceding the publication of the offer or the solicitation to submit sales offers. If the Company is listed on several stock exchanges, the Company's respective last ten closing prices on the Frankfurt Stock Exchange prior to the offer's publication are relevant.

If there is a significant difference in the share's trading price compared to the purchase or selling prices offered or the range of the purchase or sales prices offered after the publication of a purchase offer or the solicitation to submit offers to sell, the offer or solicitation to submit offers for sale may be adjusted. In this case, the relevant amount is based on the corresponding share price prior to the publication of the adjustment, and the 10% threshold for exceeding or falling below the market price is applied to this amount.

The volume of the offer may be limited. If the total subscription to the offer exceeds this volume, acceptance takes place on a pro rata basis. Preferential acceptance may be given to smaller numbers up to 100 tendered shares per shareholder.

The Executive Board is authorised to utilise the Company's repurchased shares to sell them on the stock exchange, redeem the shares while reducing share capital, transfer these shares to third parties as consideration for business combinations or the acquisitions of companies or interests in companies, offer the shares for sale to employees, use the shares to service warrant or conversion rights or to dispose of the shares other than over the stock exchange provided the selling price is not substantially lower than the stock market price.

This authorisation has not yet been utilised.

MATERIAL AGREEMENTS OF THE COMPANY THAT ARE CONDITIONAL UPON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID AND THE RESULTING EFFECTS

Some debt financing contracts provide for an extraordinary termination right of creditors in the event of a change of control at affected Group companies.

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

In the event a majority of the Company voting rights are purchased by a third party, Mr Ralf Kind (Executive Board member since 1 March 2017) has the extraordinary right to terminate his contract. If this extraordinary termination right is exercised, or the contract is terminated by mutual agreement within a period of six months after the change of control, Mr Kind will receive the existing contractual entitlement for the remainder of his term of office in the form of a one-time compensation payment based on the remuneration paid in the last full calendar year prior to his resignation, but not exceeding two years' remuneration. Cash compensation will be increased by the value of the Executive Board member's rightful share options. If no other valuation date was agreed between the parties, the value of the stock options is the value at the time the change of control becomes effective.

CORPORATE GOVERNANCE REPORT / CORPORATE GOVERNANCE STATEMENT

On 12 April 2018, the Company's Executive Board submitted its Corporate Governance Statement pursuant to Sections 315d and 289f HGB and made it generally and permanently accessible in the section „Company“ under „Corporate Governance“ on its website at www.demire.ag.

MANAGEMENT REPORT OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG

In addition to reporting on the DEMIRE Group's situation, the following presents the Company's development in the past fiscal year. The fundamental statements in the Group's management report on the market, strategy, management and the opportunities and risks of the business apply equally to the Company.

DEMIRE Deutsche Mittelstand Real Estate AG is the operational management unit of the DEMIRE Group. In the 2017 fiscal year, it generated revenue from providing or receiving management services from the project companies. The number of employees, excluding Executive Board members, increased in the reporting year to an average of 20 (previous year: 13).

The Company's annual financial statements as of 31 December 2017 were prepared in accordance with German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). Supplementary regulations from the Articles of Association did not arise.

RESULTS OF OPERATIONS, FINANCIAL POSITION, LIQUIDITY POSITION AND NET ASSETS

Results of operations

In the 2017 fiscal year, DEMIRE Deutsche Mittelstand Real Estate AG incurred a net loss of EUR 45.6 million.

STATEMENT OF INCOME (EXCERPT) EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016	CHANGE	%
Revenue	7,104	5,774	1,330	23.0
Other operating income	2,366	3,117	–751	–24.1
Staff costs	–5,159	–2,562	2,597	>100
Other operating expenses, depreciation & amortisation	–11,356	–9,328	2,066	22.2
Income from investments	56	658	–602	–91.5
Income from loans	14,742	12,303	2,439	19.8
Impairment of financial assets	–10,522	–1,035	9,487	>100
Financial result	–38,582	–6,814	–31,768	>100
Result before taxes	–45,627	–9,510	–36,117	>100
Income taxes and other taxes	0	286	286	n. a.
Net loss	–45,769	–9,224	–36,545	>100

The Company's revenue was generated primarily from management fees in connection with transaction-related and ongoing advisory services for Group companies which generally amounted to 2 % of the interests' acquisition costs and 1 % of the loans granted in the case of new acquisitions concluded before 2015. Since 2016, the fees have been calculated based on the services rendered to the respective company based on predetermined criteria (such as real estate value, rental income, lettable space. etc.). Revenue amounted to EUR 7.1 million in the reporting period, which was more than 20 % higher than the previous year's level of EUR 5.8 million.

Other operating income contains primarily income from the premium of the bond amounting to EURk 1,625.

Staff costs increased to EUR 5.2 million (2016 fiscal year: EUR 2.6 million). The rise in staff costs resulted from severance payments made to the two departing Board members in 2017 and was also due to additional new hirings in the context of the business expansion.

Other operating expenses and depreciation/amortisation increased by EURk 2,066 to EUR 11.4 million. The exceptionally high expenses in 2017 resulted from one-time consulting and service fees directly related to repayments and refinancing, as well as ancillary financing costs in connection with the new 2017/2022 corporate bond, including the full repayment of a EUR 32 million loan, which caused additional ancillary financing costs.

Income from loans of financial fixed assets totalling EUR 14.7 million related exclusively to loans granted to affiliated companies for the financing of the acquisition of real estate companies and real estate by subsidiaries and sub-subsidiaries of the Company. The financial result in the 2017 fiscal year amounted to EUR –38.6 million (2016 fiscal year: EUR –6.8 million). Financial liabilities raised by DEMIRE AG were generally passed on to subsidiaries and sub-subsidiaries with a marked-up interest rate, and existing loans were repaid prematurely.

Impairment of financial assets in the reporting year amounted to EUR 10.5 million (2016 fiscal year: EUR 1.0 million).

In the 2017 fiscal year, a total loss of EUR 19.6 million (2016 fiscal year: EUR 3.5 million) was assumed based on the recently concluded profit transfer and control agreements between DEMIRE AG and DEMIRE Commercial Real Estate GmbH, DEMIRE AG and DEMIRE Commercial Real Estate VIER GmbH, DEMIRE AG and DEMIRE Condor Properties GmbH, DEMIRE AG and der DEMIRE Commercial Real Estate ZWEI GmbH and DEMIRE AG and DEMIRE Commercial Real Estate DREI GmbH.

The result before taxes totalled a loss of EUR 45.6 million compared to a loss of EUR 9.5 million in the 2016 fiscal year, due to higher acquisition-related expenses and increased impairment of financial assets.

Financial position

The Company’s financial management is carried out in accordance with the guidelines adopted by the Executive Board. The primary objective is to ensure liquidity and maintain financial independence. All financial obligations and credit clauses (financial covenants) were upheld during the fiscal year and as of the balance sheet date.

Routine reporting to the Supervisory Board on the financial situation is an integral part of DEMIRE AG’s risk management system.

Liquidity position

STATEMENT OF CASH FLOWS EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016	CHANGE	%
Cash flow from operating activities	–61,198	18,775	–79,973	>100
Cash flow from investing activities	–181,891	–43,143	–138,748	>100
Cash flow from financing activities	272,917	23,327	249,590	>100
Net change in cash and cash equivalents	**29,828**	**–1,041**	**30,869**	**>100**
Cash and cash equivalents at the end of the period	**30,116**	**288**	**29,828**	**>100**

Operating activities resulted in a cash outflow of EUR 61.2 million after a cash inflow of EUR 18.8 million in the previous 2016 fiscal year. The main drivers of this development were interest payments for debt and compensation for debt restructuring. The repayment of liabilities also led to a significant reduction in cash flow from operating activities.

The cash outflow from investing activities increased due to the higher level of loans granted to affiliated companies. The volume of loans granted significantly exceeded the repayments of affiliated companies.

A new corporate bond was issued in the 2017 fiscal year. The proceeds of this placement were used to refinance and repay existing loans. As a result, cash flow from financing activities increased significantly compared to the previous year.

In the 2017 fiscal year, DEMIRE AG was able to meet all of its payment obligations. The payment obligations could not be financed from the cash flow from operating activities.

Net assets

BALANCE SHEET – ASSETS (Selected information in EURk)	31/12/2017	31/12/2016	CHANGE	%
Assets				
Fixed assets	472,257	331,000	141,257	42.7
Current assets/prepaid expenses	61,424	34,972	26,452	75.6
Total assets	**533,681**	**365,972**	**167,709**	**45.8**

BALANCE SHEET – EQUITY AND LIABILITIES (Selected information in EURk)	31/12/2017	31/12/2016	CHANGE	%
Equity and liabilities				
Equity	73,573	119,318	–45,745	–38.3
Provisions	1,804	4,602	–2,798	–60.8
Liabilities	458,304	242,052	216,252	89.4
Total equity and liabilities	**533,681**	**365,972**	**167,709**	**45.8**

The Company's total assets as of the 31 December 2017 reporting date amounted to EUR 533.7 million. This corresponds to an increase of EUR 167.7 million or around 46 % compared to the previous year's figure of EUR 366.0 million.

Fixed assets increased in the fiscal year mainly due to the loan granted to Demire Objektgesellschaft Germavest GmbH in the amount of EUR 94.0 million (previous year: EUR 0 million) and loans granted to Kurfürster Immobilien GmbH in the amount of EUR 35.6 million (previous year: EUR 0 million).

Current assets, including prepaid expenses, increased by EUR 26.5 million to EUR 61.4 million compared to their level of EUR 35.0 million as of 31 December 2016. Cash and cash equivalents of EUR 30.1 million represented the largest single item under current assets. The increase in current assets was mainly attributable to the rise in cash and cash equivalents through the placement and tapping of the 2017/2022 corporate bond. A compensating effect on current assets resulted from the offsetting of receivables from affiliated companies against liabilities to these companies. As a result, DEMIRE AG reduced its receivables by approximately EUR 11 million.

Prepaid expenses rose by EUR 3.3 million to EUR 6.1 million (31 December 2016: EUR 2.8 million) as a result of the new 2017/2022 corporate bond, net of the reversal of deferred expenses.

On the equity and liabilities side of the balance sheet, the Company's equity declined from EUR 119.3 million as of 31 December 2016 to EUR 73.6 million as of 31 December 2017. The decline resulted mainly from the net loss for the year of EUR 45.8 million.

The equity ratio fell from 32.6 % to 13.8 % as of 31 December 2017, due to a higher net loss for the year compared to the previous year.

Provisions of EUR 1.8 million as of 31 December 2017 (31 December 2016: EUR 4.6 million) mainly relate to other staff costs, outstanding invoices and costs for preparing and auditing the annual financial statements and consolidated financial statements. The decline resulted from the utilisation of the provision in connection with the early repayment of financial liabilities.

The Company's liabilities increased from EUR 242.1 million to EUR 458.3 million as of 31 December 2017. The main reason for this increase was the issue of the 2017/2022 corporate bond totalling EUR 400.0 million. Liabilities due to affiliated companies declined from EUR 73.0 million to a total of EUR 26.2 million as of 31 December 2017 as a result of the netting of loans and receivables from affiliated companies.

DEMIRE AG is better positioned for the years ahead as a result of several optimisation measures undertaken as part of its DEMIRE 2.0 corporate strategy. The issue of the new corporate bond leads to a sustained reduction in financial expenses, and the additional profit transfer agreements concluded in 2017 reduced the Group's tax expense for the 2017 fiscal year.

Comparison of prior year forecasts with actual business development

The 2017 annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG are strong reflections of the restructuring of the liabilities side of the balance sheet and the optimisation of the tax structure. As a result of the severance payments upon the departures of Hon Prof. Andreas Steyer and Markus Drews and the increase in the number of employees, staff costs increased by more than half in the reporting year. Bringing major tasks for the holding company back in house during the fiscal year that were previously carried out by external providers helped to offset this rise in staff costs and has already led to a reduction in legal, advisory and accounting costs. DEMIRE, however, has not yet been able to realise all of the potential savings from these changes during the transitional phase.

The previous year's target for a slight improvement in both the EBIT and net profit/loss for the period was not achieved due to various one-time effects related to the refinancing of financial liabilities.

Impairments of receivables from affiliated companies in the amount of EURk 835 had a negative impact on EBIT. In addition, consulting costs related to additional optimisation measures increased by more than EUR 3 million compared to the previous year.

The net profit/loss for the period was mainly influenced by additional impairment on financial assets of EUR 10.5 million. Due to the redemption of old financial liabilities, early repayment fees became due. As a result, interest expenses were significantly higher than in the previous year. Another negative effect on the net profit/loss for the period came from the losses assumed from subsidiaries.

Report on outlook

For the 2018 fiscal year, the Company is forecasting a slight improvement in EBIT and in the net profit/loss for the period. As a result of the profit-and-loss transfer agreements concluded in previous years, the results achieved by the subsidiaries are transferred to DEMIRE AG. Consequently, in the 2018 financial year, management fees will only be agreed with entities outside of the tax group which is expected to result in a decline in revenues and an increase in profit-and-loss transfers compared to the prior year. In order to optimise the Group structure, a similar level of expenses is expected in the 2018 fiscal year compared to the previous year. Furthermore, the Company does not expect any significant unplanned expenses from refinancing in the 2018 fiscal year as in the previous year.

Frankfurt am Main, 25. April 2018
DEMIRE Deutsche Mittelstand Real Estate AG

Dipl.-Betriebsw. (FH) Ralf Kind
Executive Board (CEO/CFO)

CONSOLIDATED FINANCIAL STATEMENTS

"We have achieved significant improvements in our operating performance and key financial ratios in the 2017 fiscal year."

Ralf Kind, CEO/CFO of the DEMIRE AG

CONSOLIDATED STATEMENT OF INCOME

For the fiscal year from 1 January to 31 December 2017

EURk	TZ.	2017	2016
Rental income		73,716	76,371
Income from utility and service charges		14,624	15,746
Operating expenses to generate rental income		–32,708	–33,547
Profit/loss from the rental of real estate	**D.1**	**55,632**	**58,570**
Revenue from the sale of real estate companies		0	7,471
Net assets from real estate companies sold		0	–3,510
Profit / loss from the sale of real estate companies	**D.2**	**0**	**3,961**
Revenue from the sale of real estate		28,389	21,966
Expenses relating to real estate sales		–27,445	–21,003
Profit/loss from the sale of real estate	**D.3**	**944**	**963**
Profits from investments accounted for using the equity method		73	0
Losses from investments accounted for using the equity method		0	–359
Profit/loss from investments accounted for using the equity method	**D.4**	**73**	**–359**
Profit/loss from fair value adjustments in investment properties	D.5	48,560	38,414
Impairment of receivables	D.6	–2,763	–2,058
Other operating income	D.7	5,052	5,550
Other operating income and other effects		**50,849**	**41,906**
General and administrative expenses	D.8	–15,304	–14,505
Other operating expenses	D.9	–7,523	–7,367
Earnings before interest and taxes		**84,671**	**83,169**
Financial income		940	1,153
Finance expenses		–49,703	–39,134
Interests of minority shareholders		–8,279	–5,226
Financial result	**D.10**	**–57,042**	**–43,207**
Profit/loss before taxes		**27,629**	**39,962**
Income taxes	D.11	–333	–2,852
Deferred taxes	D.11	–7,864	–9,460
Net profit/loss for the period		**19,432**	**27,649**
Thereof, attributable to:			
Non-controlling interests		**5,649**	**2,979**
Parent company shareholders		**13,783**	**24,670**
Basic earnings per share	D.12	0.25	0.48
Diluted earnings per share	D.12	0.22	0.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the fiscal year from 1 January to 31 December 2017

in TEUR	2017	2016
Net profit / loss for the period	**19,432**	**27,649**
Currency translation differences	– 125	124
Other comprehensive income	**– 125**	**124**
Total comprehensive income	**19,307**	**27,773**
Thereof, attributable to:		
Non-controlling interests	**5,649**	**2,979**
Parent company shareholders	**13,658**	**24,794**

CONSOLIDATED BALANCE SHEET

As of 31 December 2017

ASSETS EURk	TZ.	31/12/2017	31/12/2017
ASSETS			
Non-current assets			
Intangible assets	E.1.1	6,985	7,005
Property, plant and equipment	E.1.2	1,875	1,753
Investment properties	E.1.3	1,021,847	981,274
Investments accounted for using the equity method	E.1.4	200	126
Other financial assets	E.1.5	1,990	11,328
Total non-current assets		**1,032,897**	**1,001,486**
Current assets			
Real estate inventory	E.2.1	1,734	2,222
Trade accounts receivable and other receivables	E.2.2	18,577	23,614
Financial receivables and other financial assets	E.2.3	5,184	10,293
Tax refund claims		2,588	811
Cash and cash equivalents	E.2.4	73,874	31,289
Total current assets		**101,957**	**68,229**
Non-current assets held for sale	**E.3**	**12,262**	**24,291**
TOTAL ASSETS		**1,147,116**	**1,094,006**

EQUITY AND LIABILITIES EURk	TZ.	31/12/2017	31/12/2016
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital		54,271	54,247
Reserves		231,146	217,698
Equity attributable to parent company shareholders		**285,417**	**271,945**
Non-controlling interests		33,684	36,692
TOTAL EQUITY	E.4	**319,101**	**308,637**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	E.5.1	42,893	35,030
Minority interests	E.5.2	71,931	62,822
Financial liabilities	E.5.3	665,767	620,623
Other liabilities	E.5.4	39	865
Total non-current liabilities		**780,630**	**719,340**
Current liabilities			
Provisions	E.6.1	1,016	1,739
Trade payables and other liabilities	E.6.2	14,663	17,378
Tax liabilities	E.6.3	2,559	4,892
Financial liabilities	E.5.3	29,147	42,020
Total current liabilities		**47,385**	**66,029**
TOTAL LIABILITIES		**828,015**	**785,369**
TOTAL EQUITY AND LIABILITIES		**1,147,116**	**1,094,006**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the fiscal year from 1 January to 31 December 2017

EURk	2017	2016
Group profit / loss before taxes	**27,629**	**39,962**
Financial expenses	57,982	44,360
Financial income	– 940	– 1,153
Proceeds from the sale of real estate inventory	– 488	0
Change in trade accounts receivable and other receivables	1,508	2,186
Change in financial receivables and other financial assets	12,382	1,005
Change in provisions	– 723	500
Change in trade payables and other liabilities	– 1,370	– 4,376
Profit / loss from fair value adjustments in investment properties	– 48,560	– 38,414
Gains from the sale of real estate and real estate companies	– 944	– 4,923
Interest proceeds	403	400
Income taxes paid	– 461	– 1,318
Change in reserves	– 674	594
Depreciation and amortisation and impairment	2,941	2,058
Distributions to minority shareholders / dividends	– 6,752	– 5,906
Remaining amortisation of financial liabilities	– 5,689	0
Other non-cash items *	– 430	376
Cash flow from operating activities	**35,814**	**35,351**
Payments for investments in property, plant and equipment	– 6,463	– 11,888
Payments for the purchase of investment properties and interests in fully consolidated companies, less net cash equivalents acquired	– 973	0
Acquisition of interests in in fully consolidated companies in the context of a business combination	0	– 4,352
Proceeds from the sale of real estate	27,990	21,966
Cash flow from investing activities	**20,554**	**5,726**
Proceeds from capital increases*	0	15,822
Proceeds from the issuance of financial liabilities*	403,535	60,907
Interest paid on financial liabilities	– 46,537	– 33,487
Payments for the redemption of financial liabilities	– 370,781	– 81,497
Cash flow from financing activities	**– 13,783**	**– 38,255**
Net change in cash and cash equivalents	**42,585**	**2,822**
Cash and cash equivalents at the start of the period	31,289	28,467
Cash and cash equivalents at the end of the period	**73,874**	**31,289**

* Previous-year figures have been adjusted due to changes in classification.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the fiscal year from 1 January to 31 December 2017

EURk	SHARE CAPITAL	RESERVES						
	SUBSCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS INCL. GROUP PROFIT / LOSS	RESERVES FOR TREASURY SHARES	CURRENCY TRANSLATION	EQUITY ATTRIBUTABLE TO PARENT COMPANY SHARE-HOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
1 January 2017	**54,247**	**132,618**	**85,242**	**– 310**	**147**	**271,945**	**36,692**	**308,637**
Currency translation differences	0	0	0	0	– 125	– 125	0	– 125
Total other comprehensive income	**0**	**0**	**0**	**0**	**– 125**	**– 125**	**0**	**– 125**
Net profit / loss for the period	0	0	13,783	0	0	13,783	5,649	19,432
Total comprehensive income	**0**	**0**	**13,783**	**0**	**– 125**	**13,658**	**5,649**	**19,307**
Capital increase (related to the conversion of convertible bonds)	24	0	0	0	0	24	0	24
Stock option programme	0	– 84	0	0	0	– 84	0	– 84
Mandatory convertible bond	0	– 1	0	0	0	– 1	0	– 1
Dividend payments	0	0	0	0	0	0	– 1,226	– 1,226
Other changes	0	– 132,532	132,408	0	0	– 125	– 7,431	– 7,555
31 December 2017	**54,271**	**0**	**231,433**	**– 310**	**22**	**285,417**	**33,684**	**319,101**
1 January 2016	**49,292**	**121,120**	**60,651**	**– 310**	**– 57**	**230,697**	**34,205**	**264,902**
Currency translation differences	0	0	0	0	124	124	0	124
Total other comprehensive income	**0**	**0**	**0**	**0**	**124**	**124**	**0**	**124**
Net profit / loss for the period	0	0	24,670	0	0	24,670	2,979	27,649
Total comprehensive income	**0**	**0**	**24,670**	**0**	**124**	**24,794**	**2,979**	**27,773**
Capital increase (related to the conversion of convertible bonds)	24	– 1	0	0	0	23	0	23
Stock option programme	0	594	0	0	0	594	0	594
Cash capital increases	4,931	12,080	0	0	0	17,011	– 304	16,707
Costs of raising equity under capital increases	0	– 1,105	0	0	0	– 1,105	0	– 1,105
Dividend payments	0	0	0	0	0	0	– 782	– 782
Other changes	0	– 70	– 79	0	80	– 69	594	525
31 December 2016	**54,247**	**132,619**	**85,242**	**– 310**	**147**	**271,945**	**36,692**	**308,637**

Notes to the consolidated financial statements for fiscal year 1 January to 31 December 2017

A. GENERAL INFORMATION

1. BASIS OF PREPARATION

DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE AG") is recorded in the commercial register in Frankfurt/Main, Germany, the location of the Company's headquarters, under the number HRB 89041.

As of 31 December 2017, the Company's scope of consolidation pursuant to Section 313 (2) HGB includes DEMIRE AG as the parent company and the companies listed in Appendix 1 ("DEMIRE" or the "DEMIRE Group").

The Company's registered office is located in Frankfurt/Main, Germany. With the entry in the commercial register on 23 December 2016, the Company's business address was changed to Robert-Bosch-Straße 11, Langen, Germany.

The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

DEMIRE AG itself has not carried out any investments in real estate or real estate projects to date. Investments are generally processed through real estate companies. Interests in these real estate companies are either directly or indirectly held by DEMIRE (through intermediate holding companies), whereby DEMIRE AG does not have direct ownership in any real estate. DEMIRE focuses on the German commercial real estate market and is active as an investor in and portfolio manager of secondary locations. Accordingly, DEMIRE acquires, manages and leases commercial properties. Value appreciation is to be achieved through active real estate management, which may include the targeted sale of properties when they are no longer a strategic fit or when they have exhausted their potential for value appreciation.

The presentation currency of the consolidated financial statements of DEMIRE AG is the euro (EUR). Unless otherwise stated, all amounts are stated in thousands of euros (EURk). For computational reasons, rounding differences amounting to +/– one unit (EUR, %, etc.) may occur in the information presented in these financial statements.

The consolidated financial statements of DEMIRE AG for the fiscal year ended 31 December 2017 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), pursuant to Section 315e of the German Commercial Code (HGB). All International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and interpretations of the IFRS Interpretations Committee (IFRS IC), formerly the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) mandatory for the 2017 fiscal year were taken into consideration. Furthermore, all statutory disclosure and explanation requirements of the German Commercial Code (HGB) that are in addition to the provisions of the IASB have been fulfilled, particularly those for the preparation of a group management report.

These consolidated financial statements were prepared on 25 April 2018 by the Executive Board.

2. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

2.1 First-time application of new and amended standards and interpretations in the 2017 fiscal year

The accounting policies applied in the consolidated financial statements are the same as those applied in the 2016 fiscal year except for the changes mentioned below. The following new and amended standards and interpretations that are material from DEMIRE AG's perspective were applied for the first time in the 2017 fiscal year.

FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS IN THE 2017 FISCAL YEAR

		ENDORSED ON	MANDATORY APPLICATION FOR FISCAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE AG'S CONSOLIDATED FINANCIAL STATEMENTS
Amendments to IAS 7	Disclosure Initiative (issued on 29 January 2016)	6 November 2017	1 January 2017	Additional disclosures in the Notes
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016)	6 November 2017	1 January 2017	No effect

The standards applied for the first time in the 2017 fiscal year have no effect on the net assets, financial position or results of operations of DEMIRE AG's consolidated financial statements.

The first-time application of "Amendments to IAS 7" resulted in additional disclosures in the Notes to the Consolidated Financial Statements. Changes in liabilities from financing activities must be disclosed following the amendment of IAS 7. DEMIRE AG has provided the required information.

The amendments to IAS 12 have no effect on DEMIRE AG's consolidated financial statements.

2.2 Standards and interpretations for future mandatory application

The following IASB standards have been endorsed by the EU but mandatory only after 31 December 2017.

STANDARDS AND INTERPRETATIONS THAT REQUIRE FUTURE MANDATORY APPLICATION

		ENDORSED ON	MANDATORY APPLICATION FOR FISCAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE AG'S CONSOLIDATED FINANCIAL STATEMENTS
IFRS 9	Financial Instruments (issued on 24 July 2014)	22 November 2016	1 January 2018	No material effect
IFRS 15	Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015)	22 September 2016	1 January 2018	No material effect
Clarifications to IFRS 15	Revenue from Contracts with Customers (issued on 12 April 2016)	31 October 2017	1 January 2018	No material effect
IFRS 16	Leases (issued on 13 January 2016)	31 October 2017	1 January 2019	No material effect
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	26 February 2018	1 January 2018	No material effect
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)	3 November 2017	1 January 2018	No effect
Amendments to IFRS 9	Prepayment Features with Negative Compensation (issued on October 12, 2017)	22 March 2018	1 January 2019	Effect is currently being assessed
Amendments to IAS 40	Transfers of Investment Property (issued on December 8, 2016)	14 March 2018	1 January 2018	No effect
Annual Improvements	Annual Improvements to IFRS 2014–2016 Cycle (issued on 8 December 2016)	Scheduled for 2018	1 January 2018 / 1 January 2017	No effect

In July 2014, the IASB published the final version of IFRS 9 "Financial Instruments", which has since been adopted by the EU. The new standard IFRS 9 will replace the current provisions of IAS 39 "Financial Instruments: Recognition and Measurement". The new rules for the accounting of financial instruments are to be applied for the first time for fiscal years beginning on or after 1 January 2018. The initial application is always to be carried out retrospectively, whereby various simplification options may be used.

An assessment conducted by DEMIRE came to the conclusion that IFRS 9 will have no effect on the recognition and measurement of financial instruments held by the Group as of 31 December 2017. Whereas the recognition of impairment under IAS 39 was based on incurred losses, IFRS 9 is based on expected losses. DEMIRE came to the conclusion that the first-time application of the new standard will have no significant effect on the sum of impairments. Because the Company has not been involved in hedge accounting as of the reporting date, the changes with respect to hedge relationships are currently not applicable.

The amendments to IFRS 9, which specify the regulations for the classification of financial assets with early termination options and contain clarifications on modifications to financial liabilities, have no impact on the consolidated financial statements of DEMIRE AG.

DEMIRE does not utilise the option for early application.

IFRS 15 "Revenue from Contracts with Customers" is mandatory for fiscal years beginning 1 January 2018. In addition, DEMIRE has decided on the early application of IFRS 16 as of 1 January 2018.

As part of the analyses carried out in accordance with IFRS 15/IFRS 16, DEMIRE has identified and acknowledged the performance obligations described in more detail below. Rental income is generated from leases classified as operating leases and is recognised as rental income over time. The property taxes and insurance charged as part of the utility and service charges do not constitute a separate performance obligation and are allocated to the rents. These allocations are considered to be fully variable and are therefore (from the lessee's point of view) not to be capitalised as part of the lease payments.

With regard to other costs (gas, electricity, water, etc.), the Company has come to the conclusion that, in this case, it is acting as a principal and therefore continues to bear material risks. In this respect, the Company will continue to present gross revenue and corresponding costs, as it has done until now. The first-time application of the new standard, also in terms of the presentation of other income streams (e. g. the sale of real estate or real estate companies), only results in insignificant changes versus the prior accounting.

The early application of IFRS 16 has no material impact on DEMIRE's consolidated financial statements as the changes are marginal for the lessor. There are only a few cases in which DEMIRE or its subsidiaries act as lessees and, therefore, have no material effect. DEMIRE classifies most of the income from utility and service charges as non-lease components, which must be recognised under IFRS 15. Property taxes and insurance are accounted for as other components of the lease in accordance with IFRS 16. The Company has come to the conclusion that it acts as a principal for the utility and service charges that are to be treated as services under IFRS 15.

Overall, the effects of the first-time application of the aforementioned standards are not expected to have a material impact on the presentation of the net assets, financial position and results of operations. The analysis of these effects had already been largely completed when the consolidated financial statements were prepared. IFRS 15 and IFRS 16 were introduced on 1 January 2018 using the modified retrospective method. The cumulative effect from the first-time application was recognised in equity as of 1 January 2018.

The amendments to IFRS 2 "Share-based Payment" result in an adjustment to the vesting conditions (service conditions, market conditions and other performance conditions) in the context of the measurement of cash-settled share-based payments. An analysis concluded that the amendments to IFRS 2 will not have a material impact on the consolidated financial statements of DEMIRE AG.

DEMIRE does not make use of the early application option.

The following standards published by the IASB and IFRS IC have not yet been endorsed into European law by the EU.

STANDARDS AND INTERPRETATIONS THAT REQUIRE FUTURE MANDATORY APPLICATION

		ENDORSED ON	MANDATORY APPLICATION FOR FISCAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE AG'S CONSOLIDATED FINANCIAL STATEMENTS
IFRS 17	Insurance Contracts (issued on 18 May 2017)	Scheduled for Q4 2018	1 January 2021	Effect is currently being assessed
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	Scheduled for Q1 2018	1 January 2018	No effect
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments (issued on 7 June 2017)	Scheduled for 2018	1 January 2019	No effect
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	Scheduled for 2018	1 January 2019	No effect
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	Scheduled for 2018	1 January 2019	No effect
Amendments to References to the Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	Scheduled for 2019	1 January 2018	Effect is currently being assessed
Annual Improvements	Annual Improvements to IFRS Standards 2015–2017 Cycle (issued on 12 December 2017)	Scheduled for 2018	1 January 2019	No effect

DEMIRE AG plans to apply the new standards mentioned above when they take effect in the EU. The IASB and IFRS IC standards will be transformed into European law through their endorsement by the EU. Early adoption is impossible due to the pending endorsement. Based on our current knowledge, there is likely to be only a minor effect on the presentation of DEMIRE AG's net assets, financial position and results of operations from the standards not yet adopted into European law.

DEMIRE AG has not yet conclusively analysed the effects associated with the first-time adoption of IFRS 17, the amendments to IFRS 9 or the amendments to the IFRS framework so that no reliable statements can yet be made in this regard. The Company plans to complete the necessary detailed analyses in the course of the 2018 fiscal year.

3. KEY DISCRETIONARY DECISIONS, JUDGEMENTS AND ASSUMPTIONS

In the DEMIRE AG consolidated financial statements, estimates, discretionary decisions and assumptions were made to a limited extent that affect the amount and recognition of the assets and liabilities, income and expenses and contingent liabilities. The estimation of future business development takes into account the future economic environment deemed as realistic in the sector and region in which DEMIRE AG and its subsidiaries operate at the time of preparing the consolidated financial statements. All knowledge currently available is taken into account. The estimates are based on past experience and other assumptions that are considered appropriate for the circumstances. The estimates, discretionary decisions and assumptions made by DEMIRE AG are reviewed on an ongoing basis but may differ from the actual amounts.

When applying the accounting and valuation methods, the Company's management must make discretionary decisions. This applies to the following matters in particular:

- In the case of real estate, at each balance sheet date, DEMIRE AG must determine whether the real estate should be allocated to real estate inventory or investment properties. The classification is based on the following assessment:
  - Investment properties: Sustainable management is the focus of the properties concerned. These properties are thus held to generate rental income and/or for value appreciation.
  - Real estate inventory: The primary aim with these properties is either a "buy & sell" or "develop & sell" strategy. Consequently, these properties are held for sale in the course of ordinary business activities.
- If DEMIRE AG obtains control over an acquired entity or acquires assets, it must be determined whether the transaction should be classified as a business combination according to IFRS 3, or an acquisition of a group of assets or net assets (aggregated assets). If a business operation defined as an integrated group of activities is acquired in addition to assets and liabilities, this constitutes a business combination that must be accounted for according to IFRS 3. An integrated group of activities is defined, for example, as business processes in the areas of property management, credit management and accounting. Additionally, the fact that staff is employed at the acquired real estate company is another indication that a business operation has been acquired.

An explanation of the estimates and assumptions made with respect to individual items in the consolidated balance sheet, consolidated statement of income or consolidated statement of comprehensive income is given in the items that follow in the notes to the consolidated financial statements together with the respective relevant Note disclosures.

Impairment of receivables	Note D.6
Income taxes	Note D.11
Goodwill impairment test	Note E. 1.1.1
Deferred tax assets and liabilities	Note E. 5.1
Provisions	Note E. 6.1

B. SCOPE AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements apply to DEMIRE AG and all of its controlled subsidiaries. The scope of consolidation is shown in Appendix 1.

As of the balance sheet date, the consolidated financial statements comprise the subgroup DEMIRE and the subgroup Fair Value REIT. The subgroup DEMIRE comprises the consolidated financial statements of DEMIRE AG and its subsidiaries as of the acquisition date, that is, from the date on which control was acquired. The Fair Value REIT subgroup comprises the consolidated financial statements of Fair Value REIT-AG and its subsidiaries. Fair Value REIT-AG is the parent company of the subgroup Fair Value REIT.

The financial statements of the DEMIRE AG subsidiaries are prepared using uniform accounting and valuation methods on the same balance sheet date as the parent company's financial statements.

DEMIRE AG's direct and indirect interests in the subsidiaries also correspond to the share of voting rights. The contributions of the non-consolidated companies to the Group's revenue, net income and total assets' were not considered to be significant. These companies were, therefore, not included in the consolidated financial statements.

DEMIRE controls an investee when and only when the following characteristics have been met:

- the power of control over the investee (i.e. based on its existing rights, DEMIRE has the option of controlling those activities of the investee that have a material influence on the investee's return),
- a risk exposure from or rights to variable returns from its involvement in the investee; and
- the ability to use its power of control over the investee to influence the return on the investee.

Generally, the ownership of a majority of the voting rights is assumed to result in control. If DEMIRE does not hold a majority of the voting rights or comparable rights in an investee, then all facts and circumstances are taken into account when assessing whether DEMIRE has the power of control over this investee. Factors to consider include:

- contractual agreements with others exercising voting rights,
- rights resulting from other contractual agreements,
- voting rights and potential voting rights of the Group.

The consolidation of a subsidiary begins on the day on which DEMIRE acquires control over the subsidiary. It ends when the DEMIRE loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or sold during the reporting period are recognised in the consolidated financial statements as of the date on which DEMIRE acquires control over the subsidiary until the date on which control ceases.

In the case of company acquisitions, DEMIRE assesses whether a business combination according to IFRS 3 or acquisition of a group of assets and liabilities exists as aggregated assets.

Acquisitions of real estate project companies that are not a business operation as defined by IFRS 3 are accounted for as a direct purchase of real estate. The acquisition costs of the project company are allocated to the individually identifiable assets and liabilities on the basis of their fair values.

Interests in the net assets of subsidiaries that are not attributable to DEMIRE (“non-controlling interests”) are reported under the item “Non-controlling interests” within the Group’s equity, but separately from the parent company shareholders’ equity.

Acquisitions of real estate project companies that are not a business operation as defined by IFRS 3 are accounted for as a direct acquisition of a group of assets and liabilities (aggregated assets) within the framework of a share deal or asset deal. For this reason, according to IFRS 3.2b), the individual acquired identifiable assets and the assumed liabilities are to be identified and recognised as acquired aggregate assets. The acquisition costs of a group of assets are to be allocated to the individual identifiable assets and liabilities at the time of acquisition on the basis of their fair values. Such a transaction or event does not result in goodwill or a difference arising from the capital consolidation.

Acquisitions of other companies are accounted for in the context of the capital consolidation according to the acquisition method by offsetting the transferred consideration of the interests with the pro rata revalued equity of the subsidiaries at the time of acquisition. In the case of initial consolidation, the conditions at the time of acquisition of the interests in the consolidated subsidiary are generally taken into account. Any subsequently resulting differences are allocated to the assets and liabilities to the extent that their fair values deviate from the actual carrying amounts in the financial statements. In subsequent periods, identified hidden reserves are carried in line with the accounting of the corresponding assets and liabilities. Any remaining positive difference from capital consolidation is recognised as goodwill and any negative difference is recognised in profit or loss after a reassessment of whether all acquired assets and all liabilities assumed have been correctly identified.

If other (non-Group) shareholders have an interest in the equity of the subsidiary on the balance sheet date, this item is allocated to “interests of non-controlling shareholders”. In determining the consolidated result attributable to non-controlling interests, consolidation effects recognised through profit or loss are also taken into account.

Intercompany revenues, expenses and income as well as all receivables and liabilities between the consolidated companies are eliminated.

Interests held by DEMIRE in associates and joint ventures are accounted for using the equity method. Investments in which DEMIRE is able to exert a significant influence generally based on a shareholding between 20 % and 50 %, must be accounted for according to the equity method. Under the equity method, the acquisition costs are annually increased or decreased by the changes in equity of the investee attributable to DEMIRE. At the first-time consolidation of the investee under the equity method, differences that arise are accounted for in accordance with the principles of full consolidation. Gains and losses from transactions between fully consolidated Group companies and associated companies and joint ventures are eliminated in proportion to DEMIRE’s interest in the investee.

The quorum majority of Fair Value REIT-AG in the shareholder meetings of the subsidiaries that decides on the control of the subsidiaries is decisive for the Group's assessment. The voting rights in BBV Immobilien-Fonds Erlangen GbR, Munich ("BBV 02"), BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich ("BBV 10") and IC Fonds & Co Gewerbeobjekte Deutschland 15. KG, Munich ("IC 15"), are not the sole factor in determining who controls the companies. Although the share of voting rights is less than 50 %, Fair Value REIT-AG is the largest single shareholder in the aforementioned companies. The assessment of the control of the investees as a prerequisite for full consolidation leads to the conclusion that Fair Value REIT-AG was able to make use of extensive rights in the case of all fully consolidated fund companies also in the past fiscal year by means of a simple majority in the shareholders' meeting, such as the adoption of the annual financial statements, the determination of the amount of dividends and the selection of the property or fund manager. Empirically it can be shown that Fair Value REIT-AG regularly casts significantly more than 50 % of the votes at all shareholder meetings. For transactions in the context of property disposals, however, a qualified 66 % or 75 % majority of the voting rights is required, although this transaction does not constitute a material operating activity. In addition, Fair Value REIT-AG receives annual dividends from its investees that are based on the current results.

Changes to the scope of consolidation in the reporting period

The scope of consolidation remained unchanged during the reporting period.

Changes to the scope of consolidation in the prior year

Companies acquired in the prior year

Acquisitions in the prior period included a 94.9 % interest in the real estate project company Kurfürster Immobilien GmbH, Leipzig. The Company's "Kurfürsten Galerie" property is located in Kassel. Also acquired was a 100 % interest in Ritterhaus Immobilienverwaltung GmbH, Düsseldorf, which holds the operating assets of Kurfürster Immobilien GmbH. Condor Yellow BV GmbH, Frankfurt/Main was founded and holds the operating assets of Condor Objektgesellschaft Yellow GmbH, Frankfurt/Main. DEMIRE Parkhaus Betriebsgesellschaft mbH, Berlin, was also founded and will hold and operate the DEMIRE car parks in the future. There were also investments made in DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf (47.5 % of the interests) and in G+Q Effizienz GmbH, Berlin (49 % of the interests), which were accounted for according to the equity method.

In addition, PRAEDIA GmbH, Berlin, which was acquired on 17 March 2015, was consolidated for the first time in the previous year. In the 2015 fiscal year, consolidation was waived for materiality reasons. DEMIRE holds 51 % of the capital and voting rights in PRAEDIA GmbH.

At the time of the initial consolidation and based on 100% of the assets and liabilities and taking into account non-controlling interests, the following amounts were recognised at the time of acquisition of Kurfürster Immobilien GmbH, which is the main acquisition in the reporting period:

EURk	AMOUNTS RECOGNISED AS OF THE ACQUISITION DATE
Assets acquired	**52,679**
Liabilities assumed	**38,804**
Net assets at 100%	**13,875**
Thereof interests of non-controlling shareholders	3
Acquisition costs	**13,872**

Disposals in the prior year

The disposals of fully consolidated subsidiaries concerned the legacy portfolio, specifically, Magnat Tbilisi Office LLC (Georgia), Magnat Tbilisi Residential 1 LLC (Georgia), Magnat Asset Management GmbH (Austria) and Magnat Capital Markets GmbH (Austria). Also sold were the investments in SQUADRA Immobilien GmbH & Co. KGaA and R-Quadrat Polska Alpha Sp. z o.o., which were previously accounted for using the equity method.

Mergers in the prior year

In the prior year, Magnat Investment II B.V. (The Netherlands) and Magnat Investment IV B.V. (The Netherlands) were merged with Magnat Investment I B.V. (The Netherlands).

DISCLOSURES ACCORDING TO IFRS 12

a) Disclosures relating to fully consolidated subsidiaries

Fair Value REIT-AG, Munich, and its subsidiaries were fully consolidated for the first time in the DEMIRE AG consolidated financial statements as of 31 December 2015, as the Fair Value REIT subgroup. Only the assets and liabilities of Fair Value REIT-AG were consolidated in DEMIRE AG's consolidated financial statements. In the reporting period, dividend distributions of EURk 1,266 were allocated to the non-controlling shareholders of Fair Value REIT-AG. The disclosures in accordance with IFRS 12.12(g) are listed in the table below.

FAIR VALUE REIT-AG BALANCE SHEET EURk	31/12/2017	31/12/2016
Non-current assets	291,048	296,907
Current assets	28,569	21,237
thereof cash and cash equivalents	24,192	16,776
Non-current liabilities	175,490	184,997
thereof non-controlling interests	64,153	61,708
Current liabilities	16,577	16,157
thereof financial liabilities	9,797	9,275
Net assets	**127,550**	**120,590**
Statement of income		
Revenue	27,735	27,622
Interest income	406	0
Interest expense	–3,124	3,375
Other income	0	0
Net profit/loss for the period	**12,571**	**6,909**

A share in the profit for the period for the 2017 fiscal year in the amount of EURk 2,803 was attributable to non-controlling shareholders (22.3%) of Fair Value REIT-AG.

C. ACCOUNTING POLICIES

The consolidated financial statements were prepared based on the assumption of a going concern. In the opinion of the Executive Board, there is no intention or need to discontinue business activities.

Assets and liabilities are presented according to their terms (due in more than/less than one year). Deferred taxes are generally reported as non-current.

The statement of income is structured according to the recommendations of the European Public Real Estate Association (EPRA).

Assets are generally measured at the cost of acquisition or production, except for the fair value measurement of investment properties pursuant to IAS 40 and the measurement of interest swaps and caps.

Assets, equity and debt instruments, excluding share-based payments under IFRS 2, that are measured at fair value based on other standards are valued uniformly according to the provisions of IFRS 13.

If fair value is determined using a valuation method, the fair value should be assigned to one of the following three levels of the fair value hierarchy depending on the available observable parameters and the respective importance of these parameters for the overall measurement:

- Level 1: Input factors are quoted (unadjusted) prices in active markets for identical assets or liabilities that are available as of the valuation date.
- Level 2: Other input factors than the quoted prices in Level 1 and factors which are either directly observable or can be indirectly derived for the asset or liability.
- Level 3: Input factors for the asset or liability are not observable.

The accounting policies for the individual balance sheet items as well as items in the statement of income are presented in the notes to the consolidated statement of income (Section D) and the consolidated balance sheet (Section E).

D. NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

Revenues consist of rental income (net rents and ancillary rental costs), income from the sale of real estate companies and income from the disposal of real estate.

DEMIRE has entered into commercial property lease agreements for its investment properties. These agreements stipulate that DEMIRE shall retain all the significant risks and opportunities connected with the ownership of properties rented and therefore classifies these lease contracts as operating leases. The income from these contracts is recognised as rental income and principally free from seasonality. Income from ancillary rental costs is allocable ancillary costs that were passed on to tenants.

When real estate companies and properties are sold, income is recognised when

- the opportunities and risks (possession, benefits and obligations) associated with ownership have been transferred to the acquirer;
- DEMIRE retains neither rights of disposition nor effective control over the object of sale;
- the amount of revenue and the costs arising in connection with the sale can be reliably determined; and
- it is likely enough that the Group will receive an economic benefit from the sale.

1. PROFIT/LOSS FROM THE RENTAL OF REAL ESTATE

The profit/loss from the rental of real estate in the amount of EURk 55,632 (previous year: EURk 58,570) consists of the following:

in TEUR	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Net rents	73,716	76,371
Income from ancillary rental costs	14,624	15,746
Rental revenue	**88,340**	**92,117**
Allocable operating expenses to generate rental income	–19,095	–19,611
Non-allocable operating expenses to generate rental income	–13,613	–13,936
Operating expenses to generate rental income	**–32,708**	**–33,547**
Profit/loss from the rental of real estate	**55,632**	**58,570**

The slight decline in rental revenue to EURk 88,340 (previous year: EURk 92,117) mainly resulted from the sale of real estate during the reporting year.

Ancillary rental costs were recognised as expenses to generate rental income and amounted to EURk 32,708 in the reporting year (previous year: EURk 33,547). Of the operating expenses, an amount of EURk 19,095 (previous year: EURk 19,611) is generally allocable and can be passed on to tenants. This figure includes an amount of EURk 1,795 (previous year: EURk 2,275) that could not be passed on due to vacancy. Operating expenses of EURk 13,613 (previous year: EURk 13,936) are not allocable, of which EURk 1,706 (previous year: EURk 1,320) relate to staff costs at DEMIRE Immobilienmanagement GmbH.

2. PROFIT/LOSS FROM THE SALE OF REAL ESTATE COMPANIES

No real estate companies were sold during the 2017 fiscal year. In the previous year, the profit/loss from the sale of real estate companies in the amount of EURk 3,961 consisted of the following transactions:

EURk	DATE OF DISPOSAL	PROCEEDS FROM DISPOSAL	DISPOSAL OF NET ASSETS (INCL. CURRENCY TRANSLATION RESERVE)	GAINS/LOSSES ON DISPOSAL
Magnat Tbilisi Office LLC	05/02/2016	0	3	3
Magnat Tbilisi Residential 1 LLC	04/02/2016	0	0	0
Magnat Asset Management GmbH	14/07/2016	141	–99	42
Magnat Capital Markets GmbH	14/07/2016	146	–313	–167
SQUADRA IMMOBILIEN GMBH & CO. KG (at equity)	27/12/2016	7,184	–2,665	4,519
R-Quadrat Polska Alpha sp.z o.o. (at equity)	26/07/2016	0	–436	–436
Total		**7,471**	**–3,510**	**3,961**

Summary financial information for fully consolidated companies sold during the prior year:

EURk	MAGNAT TBILISI OFFICE LLC	MAGNAT TBILISI RESIDENTIAL 1 LLC	MAGNAT ASSET MANAGEMENT GMBH	MAGNAT CAPITAL MARKETS GMBH
Aggregated assets	0	0	1,315	878
thereof cash and cash equivalents	0	0	141	146
Aggregated liabilities	**1**	**0**	**1,118**	**509**

3. PROFIT/LOSS FROM THE SALE OF REAL ESTATE

During the fiscal year, the Group generated a profit/loss from the sale of real estate in the amount of EURk 944 (previous year: EURk 963). The main properties sold were the Teltow and Krefeld properties owned by Fair Value REIT-AG, the Hohenstein-Ernstthal property owned by Hanse-Center Objektgesellschaft mbH and several properties held by Condor Objektgesellschaft Yellow GmbH.

4. PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The profit from investments accounted for using the equity method of EURk 73 (previous year: EURk –359) primarily concern the revaluation of DEMIRE Assekuranzmakler GmbH & Co. KG and G+Q Effizienz GmbH due to higher carrying amounts as a result of the proportionate profits for the period not yet distributed.

5. PROFIT/LOSS FROM FAIR VALUE ADJUSTMENTS IN INVESTMENT PROPERTIES

The result from the fair value adjustment in investment properties in the amount of EURk 48,560 (previous year: EURk 38,414) concerns the properties of domestic and foreign direct and indirect subsidiaries located in Germany. At EURk 9,766, the greatest value appreciation relates to Fair Value REIT-AG. Other significant profits resulted from the revaluation of Logistikpark Leipzig GmbH in the amount of EURk 7,804, DEMIRE Objektgesellschaft Germavest GmbH in the amount of EURk 6,625 and DEMIRE Objektgesellschaft Armstripe GmbH in the amount of EURk 5,070.

The fair values of properties are based on appraisal reports from external, independent experts. In particular, the positive economic situation in Germany along with a further increase in demand from foreign investors for commercial real estate in conjunction with solid lettings led to a significant change in the valuation factors in the reporting year and consequently to an increase in the properties’ market values. Please refer to Note E.1.3 for details on the valuation methods applied.

6. IMPAIRMENT OF TRADE ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Impairment of trade accounts receivable and other receivables consist of the following:

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Trade accounts receivable and other receivables	–2,763	–1,543
Loans to investments accounted for using the equity method	0	–515
Total	**–2,763**	**–2,058**

Impairment losses on trade accounts receivables mainly relate to rental receivables in the amount of EURk 1,046 for properties located in Germany and purchase price receivables from the legacy portfolio in the amount of EURk 1,016.

7. OTHER OPERATING INCOME

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Derecognition of liabilities	1,217	507
Reversal of impairment losses on receivables	880	33
Income from facility management	485	282
Forbearance commission	359	0
Compensation for damages	332	0
Income from the reversal of provisions	316	100
Other non-periodic income	313	2,748
Income from allocated expenses	219	309
Benefits in kind	117	109
Tax refunds for prior years	109	321
Insurance compensation	51	0
Gains from foreign currency differences	9	16
Income from the disposal of property, plant and equipment	0	221
Others	645	904
Total	**5,052**	**5,550**

The increase in the line item derecognition of liabilities mainly resulted from liabilities barred by the statute of limitations. Income from facility management resulted from the provision of facility management services by PRAEDIA GmbH.

Income from the reversal of provisions resulted mainly from the reversal of provisions for building maintenance. Other non-periodic income primarily includes retroactive credits for the corrected settlement of operating costs relating to prior years. The decline in non-periodic income was due to the unusually high amount of income resulting from the subsequent compensation for the use of walkways and parking spaces by the city of Ulm and retroactive credits for the corrected settlement of operating costs relating to prior years.

8. GENERAL AND ADMINISTRATIVE EXPENSES

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Staff costs	–5,410	–3,855
Legal and consulting fees	–3,726	–3,841
Accounting and audit costs	–1,585	–2,541
Expenses for real estate expert opinions	–609	–589
IT costs	–603	–446
Fund management costs	–536	–514
Advertising and travel expenses	–445	–492
Compensation of trust costs	–275	–268
Costs for vehicles	–253	–302
Supervisory Board remuneration	–180	–292
Expenses for investor relations	–126	–154
Recruitment costs	–103	–52
Compensation of expenses	–88	–338
Leasing costs	–57	–52
Expenses for facility management	0	–106
Others	–1,308	–663
Total	**–15,304**	**–14,505**

Staff costs for staff employed by the ultimate parent company are solely included in general and administrative expenses. The increase in staff costs mainly resulted from the higher number of employees at the Group due to the Company's business expansion and as a result of severance payments for former members of the Executive Board. Legal and consulting costs of EURk 3,726 are mainly the result of non-recurring expenses related to restructuring measures within the Group.

9. OTHER OPERATING EXPENSES

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Non-periodic expenses from the settlement of operating costs relating to prior years	–1,483	–1,888
Non-deductible input taxes	–1,301	–965
Marketing activities	–830	0
Fees and ancillary costs of monetary transactions	–797	–413
Occupancy costs	–363	–281
Third-party services	–315	–391
Brokerage fees	–230	–818
Expenses for facility management	–213	0
Expenses for Annual General Meeting and investor relations	–186	–540
Impairment of property, plant and equipment	–178	–110
Stock options programme	–123	0
Property management	–105	–104
Losses from foreign currency differences	–104	–26
Insurance fees	–81	–59
Others	–1,214	–1,772
Total	**–7,523**	**–7,367**

The subsequent settlement of operating costs is customary and essentially stems from the real estate portfolios purchased in the abbreviated 2014 fiscal year. Non-deductible input taxes resulted from non-capitalisable legal and consulting fees incurred by DEMIRE AG, which is not entitled to a full input tax deduction. Marketing activities concern marketing costs incurred during the sales of properties held by Fair Value REIT-AG.

Share-based compensation entitlements of an Executive Board member who left the Company and still holds stock options accruing as of 1 July 2017 have been recognised under other operating expenses (EURk 123). Until 30 June 2017 and in the prior year, these expenses were recognised as staff costs.

10. FINANCIAL RESULT

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Financial income	940	1,153
Finance expenses	–49,703	–39,134
Interests of minority shareholders	–8,279	–5,226
Financial result	**–57,042**	**–43,207**

The increase in financial expenses resulted mainly from early repayment penalties of EURk 4,000 for the 2014/2019 corporate bond redeemed as of 21 September 2017 and the accelerated amortisation of previously deferred transaction costs.

Minority interests in the amount of EURk –8,279 (previous year: EURk –5,226) concern minority shareholders of Fair Value REIT-AG subsidiaries recognised as debt. The increase of these interests resulted primarily from valuation gains in properties.

11. INCOME TAXES

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Current income taxes	–333	–2,852
Deferred income taxes	–7,864	–9,460
Total income taxes	**–8,197**	**–12,313**

Current income tax expenses of EURk 333 (previous year: EURk 2,852) include corporate taxes, trade taxes and capital gain taxes and were incurred almost entirely in Germany. The decrease in current income taxes resulted from the conclusion of profit transfer agreements between DEMIRE AG and a few subsidiaries in the 2017 fiscal year. These agreements provide for the utilisation of the parent company's tax loss carryforwards, resulting in lower tax expenses.

Deferred income taxes of EURk 7,864 (previous year: EURk 9,460) consist of deferred tax income of EURk 585 (previous year: EURk 1,273) and deferred tax expenses of EURk 8,449 (previous year: EURk 10,733). Deferred tax expenses essentially resulted from temporary differences in the valuation of investment properties pursuant to IAS 40. Deferred tax income essentially resulted from being offset by deferred taxes on tax loss carryforwards.

As of the balance sheet date, non-utilised tax loss carryforwards totalled EURk 61,751 (previous year: EURk 42,842) from investees included in the consolidated financial statements. Deferred tax assets on these loss carryforwards are only capitalised when it is likely that profits will be realised in the foreseeable future and can be offset against these tax loss carryforwards. In the DEMIRE Group, deferred taxes on tax loss carryforwards at the level of the same taxable entity were capitalised only to the extent that deferred tax liabilities were recognised.

Tax reconciliation statement

The tax reconciliation statement between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 28.78 % (previous year: 28.78 %). The Group tax rate of 28.78 % includes the 15 % applicable corporate tax rate, 5.5 % solidarity surcharge and 12,95 % trade tax (municipal rate for Langen: 370 %; trade tax rate 3,5 %). The calculation of the deferred taxes of domestic real estate companies is based on a tax rate of 15,83 %. These companies generate income exclusively from managing their own real estate. Only the corporate tax rate and the solidarity surcharge apply to these companies because of the option to deduct the profit from the management of own real estate from the profit under trade tax law. The calculation of deferred taxes for foreign companies acquired during the reporting period was also based on a tax rate of 15,83 % because these companies are not subject to trade taxes.

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Profit/loss before taxes	**27,629**	**39,962**
Group tax rate	**28.78 %**	**28.78 %**
Expected income taxes	**7,952**	**11,501**
Profit/loss before taxes	–6,708	–3,069
Group tax rate	5,602	2,533
Expected income taxes	–20	–1,247
Tax effects arising from non-utilised losses and non-recognised temporary differences for which no deferred tax assets were capitalised	3,407	2,805
Tax effects arising from the recognition of deferred tax assets for tax loss carryforwards which were not capitalised in prior periods	–1,882	–179
Others	–154	–31
Actual income taxes	**8,197**	**12,313**

Tax-free income mainly resulted from the sale of real estate companies. Income from investments accounted for using the equity method is reported under profit/loss for investments accounted for using the equity method and the profit/loss from the sale of real estate companies in the consolidated statement of income. The tax effect from non-deductible operating expenses is mainly the result of the income tax-related interest barrier rule.

According to IAS 12, deferred tax liabilities are also to be recognised on the difference between the proportionate share in equity of a subsidiary in the consolidated statement of income and the carrying amount of the subsidiary in the parent company’s balance sheet under tax law (outside basis differences), if realisation is to be expected. These differences mainly resulted from retained earnings in domestic and foreign subsidiaries.

DEMIRE did not recognise deferred tax liabilities for the accumulated results of subsidiaries amounting to EURk 8,759 (previous year: EURk 5,849), since these profits are intended to be reinvested indefinitely.

Recognising deferred taxes on outside basis differences as temporary differences means that future tax effects should be reported at the time profits originate, even if a distribution of profits to the parent company and the corresponding taxation of the parent company will occur only in future periods. The Company can determine the timing of distributions and the retention of earnings from subsidiaries. Except for the mandatory distributions from Fair Value REIT-AG, dividend distributions from subsidiaries are neither planned nor foreseeable. Therefore, the recognition of deferred taxes for outside basis differences was waived with the exception of the deferred taxes recognised for Fair Value REIT. The recognition of deferred taxes for outside basis differences at the level of Fair Value REIT amounted to EURk 10.775 as of 31 December 2017 (previous year: EURk 8,506).

For other disclosures relating to deferred tax assets and liabilities, please refer to Note E.5.1.

12. EARNINGS PER SHARE

Earnings per share

Basic earnings per share is computed by dividing the net profit/loss for the period attributable to DEMIRE AG shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share is computed by adjusting net profit/loss for the period and the number of shares outstanding based on the assumption that convertible instruments are converted, and warrants in connection with share-based payments are exercised.

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Net profit/loss	**19,432**	**27,649**
Net profit/loss attributable to parent company shareholders	13,783	24,670
Interest expenses from convertible bonds	1,052	860
Net profit/loss attributable to parent company shareholders (diluted)	14,835	25,530
Number of shares		
Number of shares outstanding as of the balance sheet date	54,271	54,247
Weighted average number of shares outstanding	54,261	51,364
Impact of conversion of convertible bonds	13,614	13,638
Weighted average number of shares (diluted)	67,875	65,002
Earnings per share (EUR)		
Basic earnings per share (EUR)	0.25	0.48
Diluted earnings per share (EUR)	0.22	0.39

As of 31 December 2017, the company had potential ordinary shares outstanding from the 2013/2018 convertible bond, which entitle the holders of the convertible bonds to an exchange for 10,613,963 shares (previous year: 10,637,763 shares) and the holders of the 2015/2018 mandatory convertible bond to an exchange for 3,000,000 shares of EUR 15,000,000 (previous year: EUR 15,000,000).

13. STAFF COSTS

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Salaries	–6,559	–4,965
Statutory social expenses	–557	–425
Total	**–7,116**	**–5,390**

Staff costs of EURk 7,116 are generally recognised in general and administrative expenses and relate mainly to DEMIRE AG (EURk 5,024). This item also includes staff costs of EURk 1,706 from DEMIRE Immobilien Management GmbH, which are reported in expenses incurred to generate rental income and not in administrative costs. Of the statutory social expenses, about half are attributable to contributions to statutory pension insurance.

In the reporting period, the staff costs for DEMIRE AG include expenses for share-based payments of EURk 482 (previous year: EURk 594). This was offset by the release of capital reserves of EURk 617 as described in section G.4 d (Share-based Payments).

E. NOTES TO THE CONSOLIDATED BALANCE SHEET

1. NON-CURRENT ASSETS

The development of the individual items can be found in the schedule of non-current assets (Appendix 4).

1.1 Intangible assets

Upon initial recognition, individually acquired intangible assets are measured at their acquisition cost. Subsequently, intangible assets with a limited period of use are amortised on a straight-line basis usually over a period of three to five years based on their estimated useful economic life and are tested for possible impairment when there are any relevant indications thereof. Impairment of intangible assets is recognised in profit or loss.

Intangible assets with an indefinite useful life are not subject to scheduled amortisation. These assets are subjected to an impairment test at least once annually either on the basis of the individual asset value or as a cash-generating unit. An impairment test is also carried out when an event impairing value occurs.

Intangible assets are tested for impairment if circumstances or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As soon as the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised through profit or loss. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount that could be achieved by selling an asset or a cash-generating unit in a transaction at market conditions between knowledgeable parties willing to contract after deduction of the sale costs.

Impairment losses are reversed once the reason for the previously recognised impairment ceases. This excludes goodwill for which there is a general prohibition of reversal of impairment under IFRS.

1.1.1 Goodwill

Upon first-time recognition, goodwill is measured at acquisition cost, which is calculated as the excess of the sum of the consideration transferred, the amount of non-controlling interests and any previously held interests over the acquired identifiable assets and assumed liabilities. After first-time recognition, goodwill is measured at acquisition cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in the context of a business combination is allocated to the Group’s cash-generating units that are expected to benefit from the merger as of the purchase date.

Goodwill is regularly tested for impairment at least once a year. The determination of the recoverable amount requires assumptions and estimates regarding the future development of earnings and the sustainable growth rate of the cash-generating unit or group of cash-generating units to which goodwill has been allocated.

The goodwill arising from the first-time consolidation of the MAGNAT Investment I B.V. subsidiary has already been fully impaired in previous periods.

Goodwill of EURk 6,783 arising from the first-time consolidation of Fair Value REIT-AG as of 31 December 2015 was allocated to Fair Value REIT.

The Group carried out the annual impairment test as of 31 December 2017. The recoverable amount of the cash-generating unit (CGU) Fair Value REIT was calculated on the basis of the calculation of value in use using cash flow forecasts based on financial plans approved by the management for a period of five years. The management's plans are based on past experience and the best possible estimates of future developments. The cash flow forecasts are based on a discount rate (WACC) of 4.15 %. The projections for cash flows after five years are based on the average amount of cash flows for the detailed planning period. The recoverable amount determined on the basis of the value in use was then compared with the carrying amount of the CGU in order to assess its value. As a result of this analysis, management identified sufficient headroom between the value in use and the carrying amount of the CGU. No change in the material assumptions deemed possible by the management results in the carrying amount exceeding the recoverable amount. Accordingly, DEMIRE has not identified any impairment as of 31 December 2017.

The key basic assumptions for the calculation of the value in use and the sensitivity analysis versus the assumptions made:

Rental cash flows – The CGU Fair Value REIT focuses on the acquisition and management of commercial real estate in Germany. Fair Value REIT invests directly in real estate as well as indirectly through the participation in real estate partnerships. Accordingly, cash flows for direct ownership and the subsidiaries were planned. Rental income and rental costs were derived from contracted leases or based on assumptions for the probability of contract prolongations and vacancies for specific rental areas. The planned maintenance expenditures are largely based on concrete planned measures, or on a flat rate based on past experience. The operating costs of the properties have been indexed and extrapolated based on the previous years' figures.

Rental cash flows could drop as a result of rent reductions, rental losses or rising vacancies. Moreover, a reduction in the real estate portfolio could lead to a decline in cash flows. Even if cash flows fell by 10 %, no impairment would result as of 31 December 2017.

Discount rate – The discount rate is based on the CGU's weighted average cost of capital (WACC). The weighted average cost of capital takes into account both the cost of capital for debt and equity. The equity costs are derived from the expected return of equity investors of the Fair Value REIT subgroup. Borrowing costs were derived from the average financing costs of comparable companies. Sector-specific risk was determined by applying individual beta factors. The beta factors were determined on the basis of publicly available market data. An increase in the discount rate of 0.5 % as of 31 December 2017 would not have resulted in the need for impairment.

1.1.2 Other intangible assets

Other intangible assets mainly contain mainly computer software. A useful life of three to five years is applied to other intangible assets. Amortisation of EURk 28 (previous year: EURk 18) is reported in the statement of income in the line item "other operating expenses".

1.2 Property, plant and equipment

Office and operating equipment

Property, plant and equipment include office and operating equipment. Straight-line depreciation is based on a useful life of 3 to 15 years. Depreciation is reported in the statement of income in the line item "other operating expenses" amounting to EURk 150 (previous year: EURk 91).

Technical equipment

The technical equipment of EURk 1,370 (previous year: EURk 1,370) includes the operating facility (hotel inventory) of Kurfürster Immobilien GmbH acquired in the prior period.

1.3 Investment properties

The Company's investment properties include those properties that are held for rental income generation and value appreciation and not for their proprietary use or sale in the ordinary course of business. Investment properties are measured at acquisition cost plus incidental acquisition costs at the time of acquisition. In accordance with the option provided for in IAS 40 in conjunction with IFRS 13, investment properties are measured at fair value in their subsequent recognition, whereby changes in the fair value are generally recognised in profit or loss. Advance payments on real estate purchases are recognised as advance payments in the item property, plant and equipment.

When measuring investment properties, the key valuation parameters are expected cash flows, assumed vacancy rates, their changes during the planning horizon and the discounting and capitalisation rates. The discounted cash flow method is used unless market values can be derived from sales of comparable properties. The valuation is carried out in accordance with International Financial Reporting Standards (IFRS), International Standards of Valuation of Real Estate for Investment Purposes ("International Valuation-Standards") and the RICS Valuation – Professional Standards (January 2014) of the Royal Institution of Chartered Surveyors.

Valuation of real estate

Fair values of investment properties owned by DEMIRE are determined based on the discounted cash flow method (DEMIRE subgroup since 30 June 2017).

The discounted cash flow method provides the basis for the dynamic investment calculation and is used to calculate the present value of future expected, time-staggered and varying levels of cash flows. After identifying all value-relevant factors, the expected and partially projectable future cash flows are summed up for each period. The result of the cash inflows and outflows is discounted up to a fixed point in time (valuation date) using the discount rate. In contrast to the German discounted earnings model of the Valuation Ordinance (WertV), however, the cash flows during the period under consideration are explicitly quantified and not shown as annuity payments. Since the importance of future cash flows decreases as a result of discounting and the forecast uncertainty increases over the observation period, the stabilised net income of a property is usually capitalised using a growth implicit minimum interest rate (capitalisation rate) following a 10-year period (detailed observation period) and discounted to the valuation date when assessing investment decisions in real estate.

The assumptions used in the valuation model reflect the average of investors' assumptions dominant in the market on the respective valuation date. These valuation parameters reflect the customary market expectations as well as the extrapolation of analysed past values of the property to be valued or of one or more comparable properties.

The valuation parameters are assessed in the context of determining the market value at the discretion of the appraiser and can be divided into two groups:

The property-specific valuation parameters include, for example, rental revenue for initial and subsequent rentals, extension probabilities for the existing rental agreements, vacancy periods and vacancy costs, unallocable ancillary costs, expected capital expenditures by the owner, expansion and rental costs for initial and subsequent rentals as well as overall property- and rental-specific total rate of return on the capital tied in the investment.

Macroeconomic factors include, in particular, the development of market and rental prices during the detailed observation period and the inflation expectations assumed in the calculation model. In order to meet fair value disclosure requirements, DEMIRE has defined groups of assets and liabilities based on their nature, characteristics and risks and on the levels of the fair value hierarchy described above.

The Group's management team is essentially involved in and oversees the process of evaluating investment properties, which takes place at least once per fiscal year. In doing so, the results made available by independent experts are checked for plausibility and compared with values in previous years. The evaluation results are also compared to the management's own assumptions made in the framework of early risk detection and any deviations are discussed with the expert. The portfolio's performance is also discussed in regular meetings with the Supervisory Board, which ensures that the development of the real estate portfolio's value is continuously monitored.

The determination of fair values depends on the underlying key, non-observable input factors (Level 3), which are specified in Appendix 2 and 3.

The resulting changes in value (valuation gains and losses) result specifically from the adjustment in capitalisation and discount rates and from the reduction in the advantage of some existing leases, which were concluded at a rate above the current market level ("over rents").

Fair value development during the reporting period:

EURk	2017	2016
Fair value at beginning of the fiscal year	**981,274**	**915,089**
Additions (change in scope of consolidation)	0	37,106
Reclassifications from advance payments and real estate inventory	0	11,191
Additions	6,247	11,480
Disposals	0	–8,270
Reclassifications to non-current assets, held for sale (see Note E.3)	–10,440	–23,736
Unrealised gains from fair value measurement included in item D.5 of the statement of income	49,005	50,176
Unrealised losses from fair value measurement included in item D.5 of the statement of income	–4,240	–11,762
Fair value as of 31 December	**1,021,847**	**981,274**

The additions to investment properties in the amount of EURk 6,247 mainly result from subsequent acquisition and production costs for Hanse-Center Objektgesellschaft mbH and Fair Value REIT-AG.

A sensitivity analysis of the key unobservable input parameters showed the following effect of the investment properties on the fair value:

CHANGE IN VALUE	DISCOUNT RATE / PROPERTY YIELD		MARKET RENT[1]	
	–0.50%	0.50%	–10%	10%
in EURk	60,548	–50,510	–80,881	80,599
in %	5.92%	–4.94%	–7.91%	7.89%

[1] Taking into account rental income, vacancy rates, administration and maintenance costs.

A substantial increase in maintenance costs, vacancy rates or property yields would lead to a lower fair value of the properties if the assumptions for the remaining input parameters remained unchanged.

1.4. Investments accounted for using the equity method

Investments in subsidiaries in which DEMIRE has (only) a significant influence are reported under investments accounted for using the equity method. Moreover, interests in joint arrangements are also reported under investment accounted for using the equity method if they qualify as joint ventures as defined by IFRS 11. At each balance sheet date, DEMIRE determines whether there is objective evidence that the value of an investment accounted for using the equity method might be impaired. Relationships with these companies are of an operational nature. The business activities of these companies are primarily property management. These are non-listed interests for which there is no active market. These are essentially companies in the real estate sector with minor business activities.

Interests in companies over which DEMIRE can exert a significant influence but where the possibility of control is not available, are accounted for using the equity method in accordance with IAS 28. Similarly, interests in joint ventures are accounted for using the equity method in accordance with IFRS 11. The interests are initially valued at acquisition cost. The difference between the acquisition cost and the proportionate equity represents goodwill. Subsequently, the carrying amount of the interests increases or decreases in accordance with the share in the profit/loss for the period (including the effects of currency translation). The application of the equity method ends when the possibility of significant decisive influence over the respective company no longer exists or when the company no longer qualifies as an associate or joint venture. Simultaneously existing assets whose settlement is neither planned nor probable are allocated to the investments accounted for using the equity method according to the economic purpose of the net investment.

The reconciliation of the carrying amount of investments accounted for using the equity method is determined by DEMIRE's share in the profit or loss transferred in accordance with the annual or interim financial statements.

The investments in companies accounted for using the equity method amounted to EURk 200 (previous year: EURk 126) as of 31 December 2017. This includes the shareholding in Irao Magnat 28/2 LLC, Tbilisi, Georgia, of EURk 116 (previous year: EURk 116) and a transferred profit for the year of EURk 0 (previous year: EURk 0). Also included are G+Q Effizienz GmbH, acquired in the previous year for EURk 40 with a transferred profit for the year of EURk 31 and DEMIRE Assekuranz GmbH & Co. KG, Düsseldorf, also acquired in the previous year for EURk 43 with an assumed profit for the year of EURk 42.

1.5. Other financial assets

Financial assets are classified and accounted for at the date of acquisition in accordance with the categories of IAS 39.

DEMIRE classifies financial assets as either
- financial assets measured at fair value through profit or loss,
- loans and receivables,
- financial investments available-for-sale, or
- derivative financial instruments that meet the requirements for effective hedging.

No financial assets held for trading purposes or financial investments held to maturity have been recognised.

First, it is determined whether there is an objective indication for the impairment of financial assets that are individually significant and of groups of financial assets that are individually not significant. If DEMIRE determines that an individual financial asset that is analysed individually, whether significant or not, does not provide an objective indication of impairment, DEMIRE allocates the asset to a group of financial assets with comparable default risk profiles and evaluates these combined for impairment. Assets that are individually tested for impairment and for which an impairment loss is recognised are not included in the impairment assessment on a group basis. In the case of impairment, the carrying amount of the financial asset in question is reduced through profit and loss by means of a valuation allowance account.

If the amount of the impairment is reduced in one of the following reporting periods and if this reduction can be attributed objectively to an event occurring after the impairment, the previously recognised impairment loss is reversed. However, the impairment reversal is limited to the amount of the amortised cost at the time of the reversal. Reversals of impairments for financial assets allocated to the loans and receivables category are recognised through profit or loss.

The carrying amount of other financial assets amounts to EURk 1,990 (previous year: EURk 11,328) and essentially comprises non-current securities. The decline in other financial assets resulted from the disposal of the receivable settlement balance for terminated shares in BBV 9 Geschäftsführungs-GmbH&Co. KG at Fair Value REIT-AG.

2. CURRENT ASSETS

2.1 Real estate inventory

In accordance with IAS 2, real estate inventory is measured at the lower of acquisition or production costs and the net realisable value. The net realisable value is the estimated sales proceeds in the normal course of business less the estimated costs until completion and the estimated selling costs. In addition to the directly attributable unit costs, the acquisition or production costs also include the overhead costs attributable to the production process.

The net realisable value is calculated in each subsequent period. If the circumstances that had previously led to an impairment of the inventory's value to a level below its acquisition or production cost no longer exists or if there is a substantive indication of an increase in the net realisable value due to changes in economic circumstances, the impairment loss is reversed to the extent that the new carrying amount corresponds to the lower of acquisition and production costs and the adjusted net realisable value (i.e. the original impairment loss is the upper limit for the reversal of the impairment). This is the case, for example, when real estate inventory recognised at net realisable value due to a decline in the selling price is still in the portfolio in a subsequent period, and the selling price has risen again.

Of the real estate inventory, an amount to EURk 1,734 (previous year: EURk 2,222) is attributable to developed and undeveloped properties that are intended for resale. The decline in the carrying amount is primarily a result of a sale at R-Quadrat Bulgaria EOOD.

2.2 Trade accounts receivable and other receivables

The following table shows the composition of trade accounts receivable and other receivables as of 31 December 2017.

EURk	31/12/2017 GROSS	IMPAIRMENT	31/12/2017 NET	31/12/2016 GROSS	IMPAIRMENT	31/12/2016 NET
Trade accounts receivable against third parties	3,734	926	2,808	7,620	2,159	5,461
Receivables from the sales of the investment in SQUADRA Immobilien GmbH & Co. KG	7,543	0	7,543	7,184	0	7,184
Purchase price receivables from sales of legacy portfolio	2,880	1,879	1,001	2,880	860	2,020
Unbilled service charges	2,091	0	2,091	3,188	0	3,188
Receivables from processing value-added tax	1,794	0	1,794	1,895	0	1,895
Purchase price receivables from BBV 02	1,367	0	1,367	1,361	0	1,361
Deposits	586	0	586	369	0	369
Receivables due from former owners of Kurfürster Immobilien GmbH	366	0	366	366	0	366
Administrator accounts	12	0	12	0	0	0
Building cost subsidy	0	0	0	588	0	588
Receivables from settlement balance BBV 09	0	0	0	517	0	517
Others	1,008	0	1,008	665	0	665
Total	**21,382**	**2,805**	**18,577**	**26,633**	**3,019**	**23,614**

All trade accounts receivable against third parties are of a short-term nature and are usually due within a time horizon of fewer than three months.

If in the case of trade accounts receivable there are objective indications (such as the probability of insolvency or significant financial difficulties of the borrower) of failure to pay all amounts due under the originally agreed terms, an impairment loss is recognised through profit or loss using an impairment account.

As of the 31 December 2017 reporting date, impairments amounted to EURk 2,805 (previous year: EURk 3,019). Impairment losses are reported in the consolidated statement of income under the item “impairment of receivables”.

2.3 Financial receivables and other financial assets

Financial receivables and other financial assets of EURk 5,184 (previous year: EURk 10,293) primarily consist of receivables from the loan to Taurecon Real Estate Consulting GmbH, Berlin, amounting to EURk 2,746 and from the loan to Taurecon Beteiligungs GmbH, Berlin, amounting to EURk 2,342, which holds minority shareholdings in certain Group companies of DEMIRE. The year-over-year decline in financial receivables and other financial assets mainly resulted from the derecognition of the call option (early termination right of the 2014/2019 corporate bond).

Taking into account corresponding impairments, financial receivables and other financial assets do not contain any overdue receivables.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank balances carried at their nominal value. Cash and cash equivalents in foreign currencies are translated at the closing rate on the balance sheet date.

Cash and cash equivalents of EURk 73,874 (previous year: EURk 31,289) include cash on hand and bank balances. Cash and cash equivalents also include deposit payments received by tenants in the amount of EURk 591 (previous year: EURk 567), which was offset by liabilities in the same amount.

3. NON-CURRENT ASSETS HELD FOR SALE

For assets held for sale, it must be determined whether they can be sold in their present state and whether their disposal is highly probable. If this is the case, assets held for sale are recorded and measured in accordance with the relevant regulations of IFRS 5. Non-current assets held for sale are carried at the lower of the carrying amount and the fair value less costs to sell. Impairment losses recognised in subsequent measurement are recognised as expenses. A later increase in fair value less costs to sell for an asset is recognised as a gain, but only up to the amount of the cumulative impairment loss recognised in previous periods.

Non-current assets held for sale in the amount of EURk 12,262 (previous year: EURk 24,291) as of the balance sheet date exclusively consist of properties held for sale. The most important properties are the property in Darmstadt (partial sale) belonging to Blue Ringed S. à r.l. and the property in Apolda belonging to Glockenhofcenter Objektgesellschaft mbH. Notarised deeds of purchase are available, and the transfer of benefits and obligations is expected in the 2018 fiscal year.

4. EQUITY

Subscribed capital increased by EURk 24 in the reporting period to a total of EURk 54,271 due to conversions of the 2013/2018 convertible bonds. The 2013/2018 convertible bonds are divided into 10,613,963 bearer shares (previous year: 10,637,763) with a notional par value of EUR 1.00. All shares are fully paid in. Restrictions on voting rights or the transfer of shares have not been agreed. Shares of the Company with special rights conferring control powers were not issued.

Capital reserves pursuant to Section 272 (4) no. 1 HGB were utilised during the reporting year. As a result of this utilisation, the accumulated loss of parent company preparing the consolidated financial statements as of 31 December 2017 was reduced. Capital reserves also changed due to an expense of EURk 532 under the Stock Option Programme (see Note G. 4d), partly offset by the cancellation of expenses of EURk 617 previously recognised within equity due to the departure of an Executive Board member. The member’s entitlements were fully compensated via a one-time payment.

The *currency translation reserve* encompasses the currency differences of fully consolidated companies and those accounted for using the equity method whose functional currency is not the euro.

The item *non-controlling interests* concerns the interests of third-party shareholders in the equity and net profit/loss of fully consolidated subsidiaries. The consolidated profit/loss attributable to the shareholders of the parent company is the difference between the consolidated profit/loss before non-controlling interests and the non-controlling interests reported in the statement of income.

In the case of a capital increase, the profit participation of new shares may be determined in deviation from Section 60 (2) AktG.

Shareholders are not entitled to share certificates to the extent this is permitted by law.

Authorised Capital I/2016
By resolution of the Annual General Meeting of 30 June 2016 and with the Supervisory Board's consent, the Executive Board is authorised to increase the Company's subscribed capital until 29 June 2021 by issuing up to 24,653,611 new, ordinary, no-par value bearer shares each with a notional interest of EUR 1.00 against cash contribution or contribution in kind on one or several occasions in partial amounts of up to EUR 24,653,611.00 (Authorised Capital I/2016). Shareholders are generally entitled to subscription rights.

On 10 August 2016, the Company's Executive Board and the Supervisory Board resolved to increase the Company's subscribed capital from authorised capital once by EUR 4,930,722.00 to EUR 54,237,944.00 against cash contribution by issuing 4,930,722 new, ordinary, no-par value bearer shares each with a notional interest in subscribed capital of EUR 1.00. After partial utilisation, the remaining Authorised Capital I/2016 amounted to EUR 19,722,889.00.

By resolution of the Annual General Meeting of 29 June 2017, Authorised Capital I/2016 of EUR 19,722,889.00 and the related provisions of Section 6 of the Articles of Association (Authorised Capital) were cancelled. With the Supervisory Board's consent, the Executive Board was authorised to increase the Company's share capital by up to EUR 27,128,872.00 (Authorised Capital I/2017) by issuing up to 27,128,872 new, no-par value bearer shares against contribution in cash and/or in kind once or several times in partial amounts until 28 June 2022. Shareholders are generally entitled to subscription rights. The new shares can also be subscribed to by one or several banks with the obligation to offer the new shares to shareholders for subscription. With the Supervisory Board's consent, the Executive Board is authorised to exclude shareholder subscription rights for fractional amounts in the case of cash capital increases of up to 10% of the share capital at issue prices not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, issue shares to employees and execute capital increases against contribution in kind.

Authorisation to repurchase own shares
The Company has been authorised to acquire up to 10% of the existing subscribed capital outstanding as of the date of authorisation from the date of the resolution of 15 October 2014 for a period of five years, i.e. until 14 October 2019. The number of shares acquired under this authorisation, together with other Company shares already purchased by the Company or already owned, may not exceed 10% of the Company's respective existing subscribed capital.

5. NON-CURRENT LIABILITIES

5.1 Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the balance sheet under tax law and for unutilised tax loss carryforwards (liability method). In evaluating if deferred tax assets can be utilised, DEMIRE takes into account whether it is rather likely or unlikely that deferred taxes cannot be realised. The realisation of deferred tax assets depends on whether taxable income will be generated at the time of the reversal of the temporary differences from which the temporary differences can be deducted. This assessment is based on DEMIRE's tax planning. Deferred tax assets for tax loss carryforwards were recognised in the amount of EURk 7,516 (previous year: EURk 4,523).

Deferred taxes are measured using the local tax rates that are expected at the time the asset is realised or the liability settled. This is based on the tax rates applicable on the balance sheet date. The effects of changes in tax legislation are taken into account as early as the year in which the changes take effect. Deferred taxes relating to items recognised directly in equity are not recognised in the statement of income, but directly in equity. A valuation allowance is recognised for deferred tax assets if the realisation of future tax benefits is unlikely. Deferred tax assets and liabilities are offset against each other provided that the claims and obligations exist against the same tax authority.

DEMIRE recognised deferred taxes for temporary differences and so-called “inside basis differences” of Fair Value REIT-AG by applying the company-specific tax rate as of the balance sheet date. Because Fair Value REIT-AG is generally exempt from taxes, no taxes are incurred at the level of Fair Value REIT as long as its status as a tax-exempt REIT (Real Estate Investment Trust) is maintained. In addition to the “inside basis differences”, “outside basis differences” were also recognised for Fair Value REIT-AG according to the “tax transparent entity” approach. This approach assumes a deemed disposal of all properties directly held by Fair Value REIT-AG and indirectly held through trusts.

Deferred tax assets and applying tax liabilities consist of temporary differences in the following balance sheet items:

EURk	31/12/2017	31/12/2016
Tax loss carryforwards	7,516	4,523
Financial liabilities	134	1,354
Investment properties	0	0
Interest swap	0	200
Deferred tax assets before offsetting	**7,650**	**6,078**
Offsetting	–7,650	–6,078
Deferred tax assets	**0**	**0**
Investment properties	49,217	37,683
Real estate inventory	0	0
Financial liabilities	1,326	3,425
Deferred tax liabilities before offsetting	**50,543**	**41,108**
Offsetting	–7,650	–6,078
Deferred tax liabilities	**42,893**	**35,030**

The requirements of IAS 12.74 are met with respect to the deferred tax assets arising from tax loss carryforwards in the amount of EURk 7,516 prior to their offsetting (previous year: EURk 4,523).

The following table shows the change in deferred taxes in the reporting period:

EURk	01/01/2017	STATEMENT OF INCOME	31/12/2017
Investment properties	–37,683	–11,534	–49,217
Interest swaps	200	–200	0
Tax loss carryforwards	4,523	2,993	7,516
Financial liabilities	–2,071	877	–1,192
Total	**–35,030**	**–7,864**	**–42,893**

The item “financial liabilities” mainly refers to deferred taxes related to the debt instruments of the 2013/2018 convertible bond, the 2017/2022 corporate bond and the 2015/2018 mandatory convertible bond.

Tax loss carryforwards and deductible temporary differences that were not taken into account when determining deferred taxes and are generally non-forfeitable amounted to EURk 30,711 (previous year: EURk 40,990). In the reporting year, there were unrecognised asset items for deferred taxes amounting to EURk 7,448 (previous year: EURk 7,980).

The change in deferred taxes in the 2016 fiscal year and its structure can be broken down as follows:

EURk	01/01/2016	STATEMENT OF INCOME	31/01/2016
Investment properties	–27,870	–9,813	–37,683
Real estate inventory	–6	6	0
Interest swaps	88	112	200
Tax loss carryforwards	3,937	586	4,523
Financial liabilities	–1,719	–352	–2,071
Total	**–25,570**	**–9,460**	**–35,030**

5.2 Minority interests

The non-controlling interests reported under the Group’s liabilities are essentially attributable to Fair Value REIT-AG and concern the capital of limited partners, who are mainly natural persons, in real estate funds in the legal form of a GmbH & Co. KG and amounted to EURk 71,931 as of the balance sheet date (previous year: EURk 62,822). Because minority shareholders have the right to terminate their investment, the interests of these shareholders in the capital of the subsidiaries are considered as potential compensation claims under IAS 32 and recorded as a liability in the consolidated balance sheet. Measurement is carried out at fair value upon initial recognition, which corresponds to the interest of the minority shareholder in the net assets of the respective company. The reported liability, therefore, corresponds to the notional interest of the minority shareholder in the net assets of the respective subsidiary shown in the partial Group balance sheet of Fair Value REIT at their carrying amounts.

This increase is primarily a result of compensation payments to minority shareholders in accordance with Section 304 AktG in the context of the profit and loss transfer agreements concluded in the fiscal year. Due to this increase, there was a corresponding decline in the interests of non-controlling shareholders in equity. The rest of the increase resulted from valuation gains. For further information, please see the information about the statement of income in section D.10.

5.3 Financial liabilities

Financial liabilities are measured at their fair value on the date of assumption less directly attributable transaction costs and discounts. The fair value at the time of the incurring the financial liabilities corresponds to the present value of the future payment obligations on the basis of a maturity and risk-congruent market rate. Subsequent measurement is carried out at amortised cost using the effective interest method. The effective interest rate is determined at the time of the initial recognition of the financial liabilities. Changes to the conditions relating to the amount or timing of interest and repayments result in a recalculation of the carrying amount of the financial liabilities at their present value and on the basis of the originally determined effective interest rate. Any differences to the previously recognised carrying amounts of the financial liabilities are recognised through profit or loss.

Financial liabilities as of the balance sheet date (31 December 2017) consisted of the following:

FINANCIAL LIABILITIES EURk	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2017/2022 corporate bond	392,532	0	392,532
2013/2018 convertible bond	10,493	0	10,493
2015/2018 mandatory convertible bond (liability component)	167	0	167
Other financial liabilities	249,627	42,095	291,722
Total	**652,819**	**42,095**	**694,914**

Financial liabilities as of the balance sheet date (31 December 2016) consisted of the following:

FINANCIAL LIABILITIES EURk	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2014/2019 corporate bond	97,650	0	97,650
2013/2018 convertible bond	10,398	0	10,398
2015/2018 mandatory convertible bond (liability component)	549	0	549
Other financial liabilities	502,858	51,188	554,046
Total	**611,455**	**51,188**	**662,643**

The following table shows the nominal value of financial liabilities as of the balance sheet date (31 December 2017):

FINANCIAL LIABILITIES EURk	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2017/2022 corporate bond	400,000	0	400,000
2013/2018 convertible bond	10,613	0	10,613
2015/2018 mandatory convertible bond (liability component)	15,000	0	15,000
Other financial liabilities	247,499	42,101	289,600
Total	**673,112**	**42,101**	**715,213**

The following table shows the nominal value of financial liabilities as of the balance sheet date (31 December 2016):

FINANCIAL LIABILITIES EURk	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2014/2019 corporate bond	100,000	0	100,000
2013/2018 convertible bond	10,638	0	10,638
2015/2018 mandatory convertible bond (liability component)	15,000	0	15,000
Other financial liabilities	495,668	52,470	548,137
Total	**621,306**	**52,470**	**673,775**

Other financial liabilities mainly comprise financial liabilities to credit institutions at a weighted average nominal rate of 3.19 % (previous year: 3.84 %).

A significant portion of other financial liabilities is a promissory note loan, which beared nominal interest of 5.00 % until 31 December 2016 and was due on 9 September 2019. As of 1 January 2017, a prolongation was agreed until 2022 with a simultaneous reduction in the nominal interest rate to 4.00 %.

As of the balance sheet date, financial liabilities of EURk 286,629 (previous year: EURk 551,202) were collateralised by assets. As in the previous year, none of DEMIRE's assets are encumbered by a mortgage as collateral for third-party liabilities.

Generally, all loan agreements for the properties financed stipulate information requirements that DEMIRE's subsidiaries as debtors must fulfil with respect to the banks or investors as creditors. Depending on the type and scope of the loan, the information requirements range from providing key financial ratios (e. g. financial statements) to reporting on the compliance with covenants.

In its consolidated financial statements as of 31 December 2016 DEMIRE AG reported on the breach of credit covenants in financing Logistikpark Leipzig. In the context of the Group's refinancing and the issue of the 2017/2022 corporate bond, this loan was repaid early as of 27 July 2017.

The monitoring, compliance and reporting of the covenants specified in the loan agreements for the properties financed is carried out by DEMIRE's management, treasury and asset management areas. Depending on the specific credit agreement, the appropriate reporting on the covenants as well as the basis for the underlying business ratios are to be submitted to the creditors quarterly, semi-annually or annually. If DEMIRE fails to comply with the covenants, the creditors are entitled to demand additional collateral from the debtor. The loans are then in default. If the default persisted for a longer period of time and could not permanently be remedied, the creditors have a special right of termination.

2017 / 2022 corporate bond

As of the 31 December 2017 balance sheet date, the 2017/2022 unsecured corporate bond in a total nominal amount of EURk 400,000 was issued.

DEMIRE AG placed an unsecured corporate bond with an issue volume of EURk 400,000 in the 2017 fiscal year. The corporate bond has a maturity of five years and is due on 15 July 2022. The bond was issued with a coupon of 2.875 % p. a., which is paid to investors in arrears semi-annually. The inclusion of the corporate bond with a total nominal value of EURk 270,000 for trading on the Luxembourg Stock Exchange (Euro MTF Market) under ISIN XS1647824173 (sold under Regulation S) and XS1647824686 (sold under Rule 144A) took place on 12 July 2017. An additional tranche of EURk 130,000 was issued on 18 September 2017. The corporate bond was awarded a BB+ and a Ba2 rating, respectively, from the Standard & Poor's and Moody's rating agencies.

In the event new financial liabilities are assumed, DEMIRE AG is obliged to comply with financial covenants in accordance with the terms of the 2017/2022 corporate bond, which in the case of non-compliance could lead to extraordinary termination by the bondholders and thus to repayment obligations on the part of the Company and which also stipulate distribution restrictions. The financial covenants concern various financial key figures, specifically the net loan-to-value (net LTV), which must not exceed 65 % from the time of the bond's placement until and including 30 June 2018, 60 % as of 1 July 2018 to 31 December 2019 and 55 % as of 1 January 2020. As a further key figure, the fixed charge coverage ratio (FCCR) cannot fall below 1.45 until 30 June 2018, 1.60 as of 1 July 2018 until 31 December 2018 and 1.75 as of 1 January 2019. Furthermore, the net secured loan-to-value (net secured LTV) may not exceed 40 %. The duty to monitor and calculate the financial covenants arises exclusively in the course of further borrowing. The monitoring, compliance and reporting of the financial covenants were carried out by the management, treasury and asset management of DEMIRE. No financial covenant had been breached as of the 31 December 2017 balance sheet date.

Convertible bonds (2013/2018 CB)

By resolution of the Annual General Meeting on 23 October 2013, the Executive Board was authorised, with the consent of the Supervisory Board, to issue bearer and/or registered convertible bonds and/or bonds with warrants once or several times until 30 September 2018 with a total nominal value of EURk 50,000 with or without a maturity limitation and to grant option and conversion rights to the holders or creditors of bonds for new, no-par value bearer shares of the Company with a notional interest in the share capital of up to EURk 25,000 according to the more detailed provisions of the terms of the bond.

In December 2013, DEMIRE AG issued convertible bonds in a total nominal amount of EURk 11,300 maturing on 30 December 2018. The convertible bonds are divided into 11,300,000 fractional bonds, each with a nominal value of EUR 1.00.

The details of the convertible bonds are as follows:

- They are divided into a maximum of 11,300,000 bearer fractional bonds, each with a nominal value of EUR 1.00 and carrying equal rights.
- During the bond's term, holders have the irrevocable right during the conversion periods to convert each convertible bond with a nominal value of EUR 1.00 initially into one no-par value share of DEMIRE AG with a notional interest in the share capital of EUR 1.00 each. By resolution of the creditors' meeting of 30 September 2014, the terms and conditions of the convertible bonds have been amended so that cash compensation is no longer possible.
- In case of the effective exercise of the conversion right, the conversion price amounts to EUR 1.00 per ordinary bearer share, each with a notional interest in the share capital of EUR 1.00. The conversion price may be subject to adjustments due to adjustment provisions contained in the bonds' terms and conditions. This corresponds to a conversion ratio of 1:1. The terms and conditions do not provide for cash settlement.
- The issue price per convertible bonds is EUR 1.00 and corresponds to the nominal value and initial conversion price.
- The convertible bonds yield 6.00 % interest per annum. The interest is payable on 30 March, 30 June, 30 October and 30 December of each year during the term of the convertible bonds.

Following the exercise of 23,800 conversion rights from the 2013/2018 convertible bond, the Company's share capital was increased during the reporting year by 23,800 no-par value bearer shares with a notional interest of EUR 1.00.

As a result of the change in the terms and conditions of the 2013/2018 convertible bond on 30 September 2014, the previous debt instrument was derecognised, and a new debt instrument was recognised. The debt instrument was replaced because the change in the terms and conditions was considered a material change in the contract conditions as defined by IAS 39.40. The previous debt instrument was carried at fair value until 30 September 2014, and the new debt instrument was carried at amortised cost from 30 September 2014. According to IAS 32.28, the new debt instrument must be divided into an equity and liability component.

According to IAS 32.31 et seq., the division into an equity and liability component must be carried out under the residual value method. A term-equivalent credit spread on the risk-free interest rate was used to measure the debt component at the time of initial recognition on 30 September 2014. The resulting value for the debt component amounted to EURk 10,418. The difference between the amount of the “new” convertible bond on 30 September 2014 (EURk 10,909) and the value of the debt component was recognised as an equity component totalling EURk 490.

Mandatory convertible bond (MCB 2015/2018)

In May 2015, a mandatory convertible bond with a volume of EURk 15,000 was issued with the exclusion of shareholders’ subscription rights against contribution in kind. In the context of the transaction, an investor in the 2014/2019 corporate bond (Open Market of the Frankfurt Stock Exchange; ISIN DE000A12T135/WKN: A12T13; volume EURk 100,000) subscribed to the mandatory convertible bond issued with a term of three years (maturing in 2018) by contributing fractional bonds from the 2014/2019 corporate bond. The bonds carry an interest coupon of 2.75 % per annum starting from the date of issue and may be converted from the date of 1 September 2015 into shares at an initial conversion price of EUR 5.00 per share, subject to adjustments. The mandatory convertible bond is equipped with a conversion obligation of the respective creditor upon the bond’s maturity.

The convertible bonds placed by DEMIRE AG on 22 May 2015 maturing on 22 May 2018 with a total nominal value of up to EURk 15,000 are divided into 150 bonds with a nominal value of EURk 100 each.

The details of the convertible bonds are as follows:

- They are divided into a maximum of 150 bearer fractional bonds, each with a nominal value of EURk 100 and carrying equal rights.
- Bondholders have the right to convert each bond in whole, but not in part, during the bond’s term, into no-par value shares (no-par value shares) with a notional interest in the Company’s share capital on the issue date of EUR 1.00.
- In case of the effective exercise of the conversion right, the conversion price amounts to EUR 5.00 per no-par value share, subject to adjustments due to adjustment provisions included in the terms and conditions of the bonds. The conversion ratio is calculated by dividing the bond’s principal amount by the conversion price applicable on the exercise date.
- The bonds bear 2.75 % interest per annum with interest payable quarterly in arrears on the dates of 22 March, 22 June, 22 September and 22 December in each year during the term of the convertible bonds.

The bonds may be callable under certain conditions by the convertible bondholders, in which case a prepayment penalty in the amount of 15.00 % on the principal amount plus accrued interest until the date of actual redemption would be due for redemption. Grounds for calling the bonds include, among others, failure to meet key (payment) obligations under the bonds; failure to meet payment obligations under other financial liabilities (cross default); bankruptcy and initiation of insolvency proceedings by the Company or its significant subsidiaries and dropping below an equity ratio of 20 % from 31 December 2016. In the case of a change in control and a merger of the issuer, the bonds may be callable and may be redeemed early with a prepayment penalty equal to 15 % of the principal amount plus accrued and unpaid interest. The issuer may redeem the bonds early in the event that the aggregate principal amount of the outstanding bonds falls below 25 % of the bonds’ originally issued aggregate principal amount. No conversions took place during the reporting period.

In DEMIRE's IFRS consolidated financial statements, the equity component of the 2015/2018 mandatory convertible bond was recognised directly in equity as an equity instrument amounting to EURk 13,899 due to the bond's terms and conditions. Additionally, deferred tax assets of EURk 48 were recognised directly in equity. The effective interest rate for the debt component of EURk 167 is 7.48%.

The changes in financial liabilities are a result of the following effects:

EURk	FINANCIAL LIABILITIES
31/12/2016	**662,643**
Proceeds from the assumption of financial liabilities	403,535
Payments for the redemption of financial liabilities	–370,881
Valuation effects from applying the interest method	152
Remaining amortisation of redeemed financial liabilities	–5,689
Deferred interest	4,926
Other valuation effects	228
31/12/2017	**694,914**

Remaining amortisation resulted from two opposite effects. The remaining amortisation of previously deferred transaction costs of EURk 1,237 as part of the executed refinancing measures had a negative effect.

On the other hand, a positive effect resulted from the reversal of hidden losses of EURk 6,926 due to the redemption of A+B Notes that were recognised upon the first-time consolidation of Germavest Real Estate S.à r.l.

5.4 Other non-current liabilities

Other non-current liabilities of EURk 39 (previous year: EURk 865) are due to former minority shareholders of subsidiaries. The change versus the prior year is a result of the reclassification of a portion of the liabilities to former minority shareholders into current liabilities.

6. CURRENT LIABILITIES

6.1 Provisions

Provisions have been accrued in the reporting period for obligations to third parties that are likely to result in a future outflow of resources. The value of the provisions is reviewed at each balance sheet date.

DEMIRE assumes that the provisions will be fully utilised in the following 2018 fiscal year since these are only of a short-term nature.

Provisions developed as follows during the reporting period:

EURk	31/12/2016	UTILISATION	REVERSAL	ADDITIONS	31/12/2017
Staff costs	931	–890	–9	851	883
Provisions for building maintenance	800	–495	–305	133	133
Other provisions	8	–6	–2	0	0
Total	**1,739**	**–1,341**	**–316**	**984**	**1,016**

Provisions related to staff costs primarily consist of obligations resulting from the performance-based, variable remuneration of the Executive Board as well as obligations for variable remuneration of the staff.

6.2 Trade payables and other liabilities

Liabilities are recognised at amortised cost after their initial recognition.

As of the balance sheet date, trade payables and other liabilities were as follows:

EURk	31/12/2017	31/12/2016
Trade payables	8,623	10,730
Accounting and audit costs	1,132	1,360
Liabilities from value-added taxes	933	1,069
Liabilities to former minority shareholders	669	1,171
Deposits received	591	567
Purchase price liabilities	362	725
Creditors with net debit balances	293	312
Personnel-related expenses	156	329
Outstanding invoices	95	12
Supervisory Board compensation	0	317
Others	1,809	786
Total	**14,663**	**17,378**

Trade payables of EURk 8,623 (previous year: EURk 10,730) are fully due to third parties as of 31 December 2017 and 2016 and are payable in full at short notice.

Liabilities for accounting and audit costs comprise the costs incurred for the preparation, audit and publication of the annual and consolidated financial statements.

Liabilities to former minority shareholders concern settlement obligations due to the termination of the partnerships.

6.3 Tax liabilities

Current income tax liabilities of EURk 2,559 (previous year: EURk 4,892) mainly consist of trade taxes of EURk 778 (previous year: EURk 1,639) and corporate taxes of EURk 1,764 (previous year: of EURk 3,073).

7. LEASES

7.1 Operating leases – The Group as lessor

Minimum lease payments consist of the net rents payable until the agreed end of the contract or the earliest possible termination date available to the lessee (tenant), regardless of whether a termination or non-utilisation of an extension option should actually be expected. Rent agreements are usually concluded over fixed minimum terms of up to ten years. In some cases, tenants are entitled to extension options. In these cases, contractual rent escalation clauses effectively reduce the market risk of a long-term commitment. In the case of unlimited tenancies, a remaining term of the rental period of five years was assumed after the fifth year. Fixed future claims for minimum lease payments from long-term operating leases of rented commercial real estate amounted to:

EURk	31/12/2017	31/12/2016
Due within one year	68,436	67,987
Due between 1 and 5 years	177,866	187,637
Due after more than five years	92,658	128,405
Total future rental income	**338,960**	**384,028**

7.2 Operating leases – The Group as lessee

The following future obligations from operating leases existed as of the balance sheet date:

RENTAL AND LEASE OBLIGATIONS FOR VEHICLES EURk	31/12/2017	31/12/2016
Due within one year	84	44
Due between 1 and 5 years	60	126
Total	**144**	**170**

RENTAL AND LEASE OBLIGATIONS FOR OFFICE SPACE EURk	31/12/2017	31/12/2016
Due within one year	146	142
Due between 1 and 5 years	415	545
Total	**561**	**687**

OTHER LEASE OBLIGATIONS EURk	31/12/2017	31/12/2016
Due within one year	10	10
Due between 1 and 5 years	21	31
Total	**31**	**41**

Obligations arising from rental and lease agreements essentially result from the lease of office space within the scope of indefinite operating lease agreements without a purchase option.

The following amounts were recognised as expenses from leases during the reporting period.

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Vehicles	253	61
Office space	132	96
Total	**385**	**157**

8. CONTINGENT LIABILITIES

The following contingent liabilities existed as of the reporting date for matters for which DEMIRE AG and its subsidiaries have pledged guarantees in favour of various contract partners.

The contingent liabilities as of 31 December 2017 consist of mortgages under Section 1191 BGB in the amount of EURk 290,337 (previous year: EURk 449,127). The maximum liability for these properties is limited to the carrying amount of EURk 290,337 (previous year: EURk 449,127) recognised on the balance sheet date. In the year under review, the related mortgages in the amount of EURk 173,820 were removed from the title register.

In addition to the credit agreement with SÜDWESTBANK AG, Stuttgart, dated April 8, 2016, an agreement governing an additional funding requirement was concluded on that same date. The additional funding requirement relates to the pledging agreement contained in the credit agreement. Under this credit agreement, a total of 3,400,000 shares of Fair Value REIT-AG held in custody accounts of the subsidiaries FVR Beteiligungsgesellschaft Sechste mbH & Co. KG (formerly: FVR Beteiligungsgesellschaft Sechste GmbH), FVR Beteiligungsgesellschaft Siebente mbH & Co. KG (formerly: FVR Beteiligungsgesellschaft Siebente GmbH) and FVR Beteiligungsgesellschaft Achte mbH & Co. KG (formerly: FVR Beteiligungsgesellschaft Achte GmbH) are pledged as guarantees. If the market price of the pledged shares falls below a total value of EURk 15,000, corresponding to EUR 4.41 per share, DEMIRE AG undertakes to provide additional guarantees to the lender providing up to EURk 15,000 of total coverage. DEMIRE AG does not expect the pledged guarantees to be utilised because Fair Value REIT-AG's share price has been trading significantly above EUR 6.31 per share since 2015 (31 December 2017: EUR 8.30).

After terminating the loan agreement with Signal Credit Opportunities (Lux) Investco II S.à.r.l., Luxembourg, which was concluded on 30 December 2015, all collateral pledged in favour of the lender have been released to DEMIRE AG in the fourth quarter of 2017.

The following contingent liabilities existed as of the reporting date for the pledging of collateral for third-party liabilities, of which EURk 940 (31 December 2016: EURk 20,049) relates to liabilities from affiliated companies.

DEMIRE AG entered into a letter of guarantee in the amount of EURk 940 related to a loan granted to TGA Immobilien Erwerb 1 GmbH by Volksbank Mittweida on 13 May 2015. The underlying obligations under the credit agreement were met given the solid level of net assets, financial position and results of operations of TGA Immobilien Erwerb 1 GmbH. Therefore, as of the balance sheet date, the probability of utilising this guarantee was considered as low. The obligations assumed are not recognised as a liability because the underlying financial liabilities will likely be met by the affiliated company and utilisation of the guarantee is not expected. The risk assessment is based on the corporate planning of TGA Immobilien Erwerb 1 GmbH.

The overdraft facility of EURk 10,000 provided by Internationales Bankhaus Bodensee AG, Friedrichshafen, drawn down on 14 November 2016 was terminated in 2017. In this context, DEMIRE AG had assumed guarantees for liabilities of its subsidiary Hanse-Center Objektgesellschaft mbH amounting to EURk 19,109 as of 31 December 2016. These guarantees have become obsolete as did the letter of comfort issued by DEMIRE AG.

No further contingent liabilities existed.

9. OTHER FINANCIAL OBLIGATIONS

The following other financial obligations existed as of the balance sheet date:

OBLIGATIONS FROM OUTSIDE MANAGED PROPERTIES EURk	31/12/2017	31/12/2017
Due within one year	0	66
Due between 1 and 5 years	0	0
Total	**0**	**66**

The real estate purchase agreements concluded in the 2015 fiscal year that were still not in effect as of the balance sheet date, do not result in any financial obligations as of 31 December 2016.

Contractual obligations exist for the modification and expansion of the property in Eschborn. These are fixed in terms of their scope. The resulting costs were not yet firmly established as of the balance sheet date. There are no other contractual obligations to acquire, construct or develop any investment properties, or for any repairs, maintenance or improvements.

The purchase order commitment from commissioned maintenance amounted to EURk 665 (previous year: EURk 1,314).

As of the balance sheet date, there are no obligations for future lease payments under long-term leasehold agreements.

F. GROUP SEGMENT REPORTING

The segmentation of the data in the consolidated financial statements is based on the internal alignment according to strategic business segments pursuant to IFRS 8. The segment information provided represents the information to be reported to DEMIRE AG's Executive Board.

The Group is divided into the two business segments “Core Portfolio” and “Fair Value REIT”. The focus is the sustainable management of the respective properties. These properties are held for the purpose of generating rental income and/or for value appreciation.

The “Core Portfolio” segment contains a significant logistics property and other commercial property in Germany. These properties are accounted for within several subsidiaries that each qualify as a business segment. Due to their similar business characteristics (type of service, type and group of customers and sales methods), these subsidiaries are combined to form the reportable segment “Core Portfolio”.

The “Fair Value REIT” segment comprises office space as well as retail and wholesale properties located in German regional centres. These properties are accounted for within a number of subsidiaries, who each qualify as a business segment. Due to their similar business characteristics (type of service, type and group of customers and sales methods), these subsidiaries are combined to form the segment reportable “Fair Value REIT”.

1 JANUARY 2017 – 31 DECEMBER 2017 EURk	CORE PORTFOLIO	FAIR VALUE REIT	RECONCILIATION / OTHERS	GROUP
External revenues	73,750	42,580	400	116,730
Total revenues	**73,750**	**42,580**	**400**	**116,730**
Profit / loss from fair value adjustments in investment properties	38,794	9,766	0	48,560
Other income	3,420	486	1,146	5,052
Profits originating from a purchase below market value	0	0	0	0
Profits from investments accounted for using the equity method	73	0	0	73
Unrealised fair value adjustments in equity investments	0	0	0	0
Segment revenues	**116,037**	**52,832**	**1,546**	**170,415**
Net assets from sold real estate companies	0	0	0	0
Expenses on real estate sales	–13,268	–13,837	–340	–27,445
Other expenses	–30,547	–15,055	–12,697	–58,229
Losses from investments accounted for using the equity method	0	0	0	0
Segment expenses	**–43,815**	**–28,892**	**–13,037**	**–85,745**
EBIT	**72,222**	**23,940**	**–11,491**	**84,671**
Financial income	116	406	418	940
Financial expenses	–46,569	–11,403	–10	–57,982
Income taxes	5,923	–2,285	–11,834	–8,197
Net profit / loss for the period	**31,691**	**10,658**	**–22,917**	**19,432**
Significant non-cash items	**–51,049**	**–6,675**	**23,698**	**–34,026**
Impairment losses in net profit / loss for the period	**2,571**	**192**	**0**	**2,763**

ADDITIONAL INFORMATION

SEGMENT ASSETS	**770,861**	**326,262**	**49,993**	**1,147,116**
thereof investments accounted for using the equity method	84	0	116	200
thereof current financial receivables and other financial assets	315	0	4,869	5,184
thereof tax refund claims	705	3	1,880	2,588
thereof non-current assets, held for sale	12,262	0	0	12,262

SEGMENT LIABILITIES	**607,705**	**201,619**	**18,691**	**828,015**
thereof non-current financial liabilities	554,962	110,805	0	665,767
thereof current financial liabilities	19,419	9,797	–69	29,147
thereof tax liabilities	2,556	0	3	2,559

The Corporate Functions / Others segment mainly contains DEMIRE Deutsche Mittelstand Real Estate AG’s activities in areas, such as risk management, finance and controlling, financing, legal, IT and compliance.

In the fiscal year, more than 10% of total revenue in the amount of EURk 22,066 (previous year: EURk 22,320) were generated with one customer in the “Core Portfolio” segment.

In the “Core Portfolio” segment, non-cash items mainly comprise fair value adjustments in investment properties in the amount of EURk 38,794 (previous year: EURk 36,661), income taxes of EURk –6,347 (previous year: EURk –7,623) and the profit/loss from investments accounted for using the equity method in the amount of EURk 73 (previous year: EURk –359).

Transactions between segments are carried out on the basis of comparable external conditions.

1 JANUARY 2016 – 31 DECEMBER 2016 EURk	CORE PORTFOLIO	FAIR VALUE REIT	RECONCILIATION / OTHERS	GROUP
External revenues	66,226	47,857	7,471	121,554
Total revenues	**66,226**	**47,857**	**7,471**	**121,554**
Profit / loss from fair value adjustments in investment properties	36,661	1,753	0	38,414
Other income	4,129	597	824	5,550
Profits originating from a purchase below market value	0	0	0	0
Profits from investments accounted for using the equity method	0	0	0	0
Unrealised fair value adjustments in equity investments	0	0	0	0
Segment revenues	**107,015**	**50,207**	**8,296**	**165,518**
Net assets from sold real estate companies	0	0	–3,510	–3,510
Expenses on real estate sales	–1,675	–19,328	0	–21,003
Other expenses	–35,844	–14,735	–6,898	–57,477
Losses from investments accounted for using the equity method	–3	0	–356	–359
Segment expenses	**–37,522**	**–34,063**	**–10,764**	**–82,349**
EBIT	**69,493**	**16,144**	**–2,469**	**83,169**
Financial income	228	0	925	1,153
Financial expenses	–19,199	–8,188	–16,973	–44,360
Income taxes	–8,929	–3,721	338	–12,313
Net profit / loss for the period	**41,593**	**4,235**	**–18,179**	**27,649**
Significant non-cash items	**–23,245**	**5,217**	**–4,617**	**–22,646**
Impairment losses in net profit / loss for the period	**955**	**12**	**1,091**	**2,058**

ADDITIONAL INFORMATION

SEGMENT ASSETS	**741,379**	**329,596**	**23,031**	**1,094,005**
thereof investments accounted for using the equity method	9	0	117	126
thereof current financial receivables and other financial assets	2,025	0	8,268	10,293
thereof tax refund claims	80	5	726	811
thereof non-current assets, held for sale	20,691	3,600	0	24,291

SEGMENT LIABILITIES	**421,775**	**210,740**	**152,855**	**785,370**
thereof non-current financial liabilities	362,696	122,796	135,996	621,488
thereof current financial liabilities	19,387	9,275	13,358	42,020
thereof tax liabilities	4,710	0	182	4,892

G. OTHER DISCLOSURES

1. FINANCIAL INSTRUMENTS

Generally, reference is made to the risk report in DEMIRE AG's group management report.

Financial risk management

The credit risk arising for DEMIRE as part of its operating activities as well as risk arising from financing activities are continuously monitored and actively managed by the Executive Board. As a result of these measures, the consolidated financial statements were prepared under the assumption of a going concern.

The Group's financial assets mainly consist of investments and loans to companies accounted for using the equity method, other loans, trade accounts receivable and other receivables, financial receivables, other financial assets and bank deposits. The majority of trade accounts receivable consists of rent receivables. Potential defaults in this context are taken into consideration.

DEMIRE's financial liabilities comprise mainly bonds, bank loans, other loans, overdrafts and trade payables. The main purpose of these financial liabilities is to finance the DEMIRE's operations.

DEMIRE is exposed to various financial risks as a result of its business activities: foreign currency risk, interest rate risk, credit risk and liquidity risk. The overarching risk management system concentrates on the continual identification and active management of typical business risks. This system accepts risk within a certain range if they offer the opportunity for commensurate returns. The goal is to limit the exposure to peak risks so that DEMIRE's continuance is not jeopardised.

The Executive Board identifies, evaluates and hedges financial risk in close collaboration with the risk manager and in coordination with the DEMIRE AG Supervisory Board

Loan agreements exist in the Group that contain certain financial covenants stipulated by the creditors. Non-compliance with these financial covenants could lead to extraordinary terminations of these agreements by the creditors. The financial covenants concern financial ratios of the respective real estate portfolio, particularly the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and the loan-to-value (LTV) debt ratio. The calculations are based on the specifications set by the creditors in the loan agreement. The monitoring, compliance and reporting of the financial covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and portfolio management areas. Depending on the type of financing, the financial covenants are reported to the creditors on a quarterly, semi-annual or annual basis, or the creditors are provided with the underlying economic ratios. Should DEMIRE fail to comply with the financial covenants, the creditors would be entitled to demand additional guarantees from DEMIRE. In that case, the loans would be in default. If the default persisted for a longer period of time and could not permanently be resolved, the creditors have a special right of termination.

All financing obligations, including the financial covenants, were complied with during the reporting period (see Note E. 5.3).

Foreign currency risk

There is no foreign currency risk for the existing portfolio of commercial real estate in Germany because all transactions are conducted in euros.

Interest rate risk

To finance its German commercial real estate, the DEMIRE Group uses liabilities with fixed interest loans to a degree customary for the industry as well as tradeable instruments that contain options for conversion into shares of the Company or Fair Value REIT-AG.

Interest rate risk relating to cash flows exists with respect to liquid funds placed in deposit accounts as well as variable interest rates. The Company does not anticipate significant negative effects from interest rate changes over the long term because the liquid funds on the balance sheet date are only available until investments are made and will be subsequently tied up in projects according to plan.

The activities of DEMIRE group companies are essentially exposed to financial risk arising from changes in interest rates. For this reason, DEMIRE also uses derivative financial instruments to manage existing interest rate risk. Interest rate swaps are used which minimise interest rate risk as interest rates rise.

As of the balance sheet date, interest rate hedges existed in the form of purchased interest rate derivatives with a nominal volume of EURk 0 (previous year: EURk 32,650). As of 31 December 2017, these had a market value of EURk 0 (previous year: EURk –874).

DEMIRE uses liabilities, partly with variable interest rates, to finance its properties. DEMIRE is thus exposed to a risk of interest rate changes as a rise in interest rates increase the financing costs. Numerous loans with variable interest rates were redeemed in the 2017 fiscal year following the issue of the 2017/2022 corporate bond.

The following table assumes a change in the interest rate of +100 basis points or –100 basis points. If all other parameters are unchanged, an increase or decrease in the interest expenses of the Company would lead to the following interest expenses:

MEASUREMENT OF INTEREST RATE SENSITIVITY EURk	31/12/2017	31/12/2016
Interest expense/nominal interest expenses from variable interest loans	888	4,725
Increase in interest expenses from a fictitious rise of 100 bps in variable interest rates	421	1,046
Reduction in interest expenses from a fictitious decline of 100 bps in variable interest rates	–421	–1,046

Since transaction prices for real estate increase when interest rates are low, the level of interest rates also has an impact on the purchase prices of newly acquired real estate. In addition, interest rates play an important role in the valuation of investment properties.

The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board of DEMIRE AG.

Credit risk

The reported financial instruments represent the maximum credit risk and default risk. Counterparty risk is uniformly assessed and monitored within the framework of Group-wide risk management. The aim is to minimise the risk of defaults. Counterparty risk is not insured. There are generally no significant concentrations of credit risk at DEMIRE. For an analysis of the impaired receivables, please refer to Note E.2.2.

Liquidity risk

In the initial phase of DEMIRE AG, the liquidity risk was mainly controlled by maintaining a liquidity reserve in the form of bank deposits available at all times and, to a limited extent, by means of callable credit lines. In the current situation, the liquidity situation's dependence on inflows from disposals and the planned prolongation of loans due is significantly higher. There are generally no significant concentrations of liquidity risk.

Further disclosures on risk management and financial risk are included in the risk report contained in the group management report.

Capital management and control

The primary objective of the Group's capital management is to ensure that DEMIRE's debt eligibility and its financial substance are maintained in the future. The capital structure is managed according to economic and regulatory requirements. Capital management is carried out by DEMIRE through dividends and/or financing. DEMIRE strives for a capital structure that is appropriate for the business risk and in doing so is also subject to the minimum capital requirements of the German Stock Corporation Act, the compliance of which is monitored by the DEMIRE AG Executive Board. The requirements were met both in the reporting year and in the previous year.

DEMIRE monitors its capital using the equity ratio (IFRS and the EPRA NAV), which is also an important indicator for investors, analysts and banks. For a detailed explanation, please refer to the group management report.

Other financial instrument disclosures

Financial assets and financial liabilities are classified and accounted for at the date of acquisition according to the categories of IAS 39.

Financial assets are classified by DEMIRE as either

- financial assets that are measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial investments, or
- derivative financial instruments that meet the requirements for effective hedging.

Financial liabilities are classified by DEMIRE as either

- other financial liabilities, which are measured at amortised cost,
- financial liabilities measured at fair value, or
- derivative financial liabilities which meet the requirements for effective hedging transactions.

The Company mainly holds financial instruments from the categories loans and receivables and financial liabilities, which are carried at amortised cost. Financial assets and financial liabilities are recognised in the consolidated balance sheet for the first time when a Group company becomes a contracting party for a financial instrument. The first-time recognition of a financial instrument takes place at fair value, including any transaction costs.

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the time of initial recognition, loans and receivables are measured at fair value, including any transaction costs. In subsequent periods, they are measured at amortised cost using the effective interest method and less any impairment losses. Non-current, non-interest-bearing or low-interest receivables are carried at present value. DEMIRE classifies loans to investments accounted for using the equity method, trade receivables and other receivables (with the exception of receivables from income taxes and value-added taxes) as well as financial receivables in the category of loans and receivables.

The classification of financial instruments required by IFRS 7 is in line with the respective items in the consolidated balance sheet. The tables below present the carrying amounts, valuations and fair values of the financial assets and liabilities for each individual category of financial instruments and relate these values to the measurement categories of IAS 39 as of the balance sheet date of the reporting year and that of the prior year. The measurement categories used by DEMIRE in accordance with IAS 39 are the available-for-sale financial assets (Afs), loans and receivables (LaR), Amortised Cost (AmC) and Held for Trading (HfT).

Other financial liabilities (other liabilities) are non-derivative financial liabilities that are subsequently measured at amortised cost. Differences between the amount received and the expected repayment amount are spread over the term through profit or loss. DEMIRE allocates financial liabilities, trade payable and other liabilities to this category.

31 DECEMBER 2017 EURk	MEASUREMENT CATEGORY	CARRYING AMOUNT	IAS 39 MEASUREMENT		FAIR VALUE
			FAIR VALUE THROUGH PROFIT / LOSS	AMORTISED COST	
Interests in investments accounted for using equity method	n/a	200	0	200	200
Other financial assets	LaR	1,990	0	1,990	1,990
Trade accounts receivable and other receivables	LaR	18,577	0	18,577	18,577
Financial receivables and other financial assets	LaR	5,184	0	5,184	5,184
Cash and cash equivalents	LaR	73,874	0	73,874	73,874
Convertible bond	AmC	10,660	0	10,660	60,148
Bonds	AmC	392,532	0	392,532	409,374
Financial liabilities (Fair Value REIT)	AmC	120,641	0	120,641	122,377
Other non-current financial liabilities	AmC	163,985	0	163,985	163,985
Trade payables and other liabilities	AmC	14,702	0	14,702	14,702
Current financial liabilities	AmC	7,136	0	7,136	7,136
Settlement payments to minority shareholders	AFV	7,778	7,778	0	7,778
Amount per measurement category					
	LaR	99,625	0	99,625	99,625
	AmC	709,656	0	709,656	777,772
	AFV	7,778	7,778	0	7,778

Afs: Available-for-sale financial assets
LaR: Loans and receivables
AmC: Amortised cost
HfT: Held for trading
AFV: At Fair Value through profit or loss
n/a: not applicable

31 DECEMBER 2016 EURk	MEASUREMENT CATEGORY	CARRYING AMOUNT	IAS 39 MEASUREMENT FAIR VALUE THROUGH PROFIT / LOSS	AMORTISED COST	FAIR VALUE
Interests in investments accounted for using equity method	n / a	126	0	126	126
Other financial assets	LaR	11,328	0	11,328	11,328
Loans to investments accounted for using the equity method	LaR	0	0	0	0
Other loans	LaR	0	0	0	0
Trade accounts receivable and other receivables	LaR	23,614	0	23,614	23,614
Financial receivables and other financial assets	LaR / HfT	10,293	2,653	7,640	10,293
Cash and cash equivalents	LaR	31,289	0	31,289	31,289
Convertible bond	AmC	10,947	0	10,947	52,233
Bonds	AmC	97,650	0	97,650	103,000
A / B Notes (Germavest)	AmC	99,308	0	99,308	103,124
Financial liabilities (Fair Value REIT)	AmC	123,289	0	123,289	143,620
Other non-current financial liabilities	AmC	290,294	0	290,294	289,801
Interest rate swaps	HfT	874	874	0	874
Trade payables and other liabilities	AmC	17,378	0	17,378	17,378
Current financial liabilities	AmC	42,020	0	42,020	42,020
Amount per measurement category					
	LaR	76,524	2,653	73,871	76,524
	AmC	557,597	0	458,289	504,432
	HfT	874	874	0	874

Afs: Available-for-sale financial assets
LaR: Loans and receivables
AmC: Amortised cost
HfT: Held for trading
n / a: not applicable

Due to the short-term maturity of cash and cash equivalents, trade accounts receivable and trade payables, as well as other current receivables and liabilities, it is assumed that the respective fair value corresponds to the carrying amount.

The following table presents the measurement hierarchy, measurement methods and key input factors for the determination of the fair values of the various measurement categories of financial assets and liabilities.

TYPE	HIERARCHY	MEASUREMENT PROCEDURE AND MATERIAL INPUT FACTORS
Investment properties	Level 3	Expected future free cash flows of a project by applying a market-based, property-specific discount rate
Interests in investments accounted for using the equity method	Level 2	Discounted cash flows from the continued use of an asset on the basis of yield curves observable on the market at the reporting date
Loans to investments accounted for using the equity method (fixed-rate)	Level 2	Discounted cash flows on the basis of yield curves observable on the market at the reporting date
Financial receivables and other financial assets	Level 3	Discounted cash flows on the basis of input factors not observable on the market at the reporting date
Non-current financial liabilities	Level 3	Discounted cash flows on the basis of input factors not observable on the market at the reporting date
Derivatives	Level 2	Interest rate curves, credit spreads, indices
Quoted convertible bonds	Level 1	Quoted bid prices on active markets
Quoted corporate bonds	Level 1	Quoted bid prices on active markets

For all current financial instruments, IFRS 7.29 assumes that the carrying amount corresponds to the fair value.

The maximum default risk is reflected in the amortised carrying amounts of the receivables and other financial assets recognised in the balance sheet.

The following table shows the future cash outflows for interest and principal payment of financial liabilities:

With respect to the 2013/2018 convertible bond and the 2015/2018 mandatory convertible bond, it is assumed that no conversion will take place until maturity.

2. RELATED PARTY DISCLOSURES

Related companies and persons

Companies and persons are considered to be related if they have the ability to control DEMIRE and its subsidiaries or exercise significant influence over their financial and operating policies. The existing control relationships were taken into account to determine the degree of significant influence that related companies and persons have on the Company's financial and operating policies.

The group of related companies includes the fully consolidated subsidiaries and the joint ventures and associated companies accounted for using the equity method.

Moreover, due to their significant influence, the following key personnel of the parent company are considered to be related persons as defined by IAS 24:

- members of DEMIRE's Executive Board (see Note G.4.a.) and their close relatives, and
- members of DEMIRE's Supervisory Board (see Note G.4.b.) and their close relatives.

EURk	2018	2019	2020	2021	2022	AFTER 31 DEC. 2022
Debentures	22,828*	11,500	11,500	11,500	411,500	0
Bank liabilities	8,273	8,230	17,162	7,408	141,686	11,142
Trade payables and other liabilities	14,663	0	0	0	0	0
Total	**45,765**	**19,730**	**28,662**	**18,908**	**553,186**	**11,142**

*Under the assumption that the 2013/2018 convertible bond is converted, it would result in a payment of EURk 12,190 in 2018.

Legal transactions with related companies and persons

In the fiscal year under review, transactions with related parties were exclusively carried out at customary market conditions.

The transactions, revenues and rendering of services between the DEMIRE AG and its subsidiaries were settled in the same manner as those between unrelated parties and eliminated in the context of consolidation. Therefore, they are not explained in the notes.

In addition, PRAEDIA GmbH provided services at standard market conditions in the amount of EURk 95 (previous year: EURk 114) to a company owned by an Executive Board member.

The following balances exist with respect to associated companies:

EURk	31/12/1017	31/12/2016
Financial receivables and other financial assets	294	0

For more information on financial receivables and other financial assets, please refer to the explanations in Note E.2.3.

There is no collateral for receivables due from associated companies and joint ventures.

Volume of business transactions with associated companies:

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Financial receivables and other financial assets	294	116

Volume of business transactions with joint ventures:

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Loans to investments accounted for using the equity method	0	553
Financial receivables and other financial assets	0	480

Transactions underlying financial receivables and other financial assets resulted from the repayment of loans granted. The disposal of loans to investments accounted for using the equity method resulted from the transfer of these loans in the course of disposing of investments accounted for using the equity method (Note B).

3. AUDITOR'S FEE

The auditor's fee for Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt/Main charged in the fiscal year related to the subgroups DEMIRE and Fair Value REIT consisted of the following (amounts include value-added taxes):

EURk	01/01/2017 –31/12/2017	01/01/2016 –31/12/2016
Auditing services	381	282
Other assurance services	1,103	219
Tax consultation services	0	0
Other services	106	0
	1,590	**501**

4. EXECUTIVE BOARD, SUPERVISORY BOARD AND EMPLOYEES

a. Executive Board

In accordance with the DEMIRE AG Articles of Association, the Executive Board is responsible for managing business activities.

In the past fiscal year, the Executive Board consisted of the following members:

- Mr Ralf Kind, CEO/CFO (since 1 March 2017 CFO and since 16 November 2017 CEO);
- Hon Prof Andreas Steyer, CEO (until 30 June 2017);
- Mr Markus Drews, CEO/COO (until 30 June COO, CEO as of 1 July 2017 until 15 November 2017).

In the 2017 fiscal year, DEMIRE AG recognised variable remuneration in the amount of EURk 879 (previous year: EURk 531), fixed remuneration of EURk 1,563 (previous year: EURk 914) and share-based payments of EURk 350 (previous year: EURk 475) for the members of the Executive Board.

Please refer to the explanations in the remuneration report of the combined group management report and management report for DEMIRE Deutsche Mittelstand Real Estate AG.

The members of the Executive Board were not granted any loans or advances, and no contingencies were assumed for their benefit.

b. Supervisory Board

The members of the DEMIRE AG Supervisory Board, their professions and Supervisory Board remuneration received during the past fiscal year are listed in the table below.

NAME	POSITION	PROFESSION	ZEITRAUM	2017	2016
Prof Dr Hermann Anton Wagner	Chairman	Auditor and tax consultant	Since 17 April 2013	90	135
Frank Hölzle (degree in economics)	Deputy Chairman	Managing Director	Since 14 February 2017	50	0
Dr Thomas Wetzel	General member	Attorney at Law	Since 14 February 2017	25	0
Dr Peter Maser	Deputy Chairman	Attorney at Law	From 12 January 2015 until 13 February 2017	10	90
Günther Walcher	General member	Entrepreneur	From 23 October 2013 until 23 January 2017	5	45
Total				**180**	**270**

Supervisory Board members were also reimbursed for travel expenses in the amount of EURk 5 (previous year: EURk 8).

There were no pension obligations or long-term remuneration components owed to active or former Supervisory Board members as of 31 December 2017.

The members of the Executive Board were not granted any loans or advances, and no contingencies were assumed for their benefit.

c. Employees

The number of employees as of the balance sheet date is listed in the following table.

EURk	31/12/2017	31/12/2016
Executive Board members	1	2
Permanent employees	96	77
Trainees	**0**	1
Total	**97**	**80**

The average number of employees in the 2017 fiscal year was 83 (previous year: 69). Of the 96 permanent employees, 6, or an average of 3 employees work for PANACEA Property GmbH, which is not consolidated for reasons of materiality. PANACEA Property GmbH is of minor importance for the interim consolidated financial statements under IFRS and was therefore not included in the IFRS consolidated financial statements as of 31 December 2017 for reasons of materiality.

d. Share-based payments

In the 2015 fiscal year, share-based payments were issued in the form of subscription rights (stock options) to the Executive Board of DEMIRE AG as well as to a selected group of persons within the DEMIRE Group. The stock option programme is basically an option plan, which is settled with equity instruments (equity-settled share option plan). The option plan only provides for the possibility of settling the stock option programme in shares of DEMIRE AG. Accounting for the share-based payments issued is in accordance with IFRS 2.

Expenses arising from the issuance of the stock options are measured at the fair value of the stock options at the grant date. The fair value was determined using generally accepted option pricing models. Expenses arising from the issuance of stock options are recognised at the same time as a corresponding increase in equity (capital reserves) over the period in which the performance conditions are met. This so-called “vesting period” ends on the date on which the person in question of the beneficiary group is irrevocably entitled to receive the benefit.

The cumulative expenses from the granting of the equity instruments reported at each balance sheet date reflect the portion of the vesting period that has already elapsed as well as the number of equity instruments that are actually exercisable on the basis of the best estimate at the end of the vesting period. The amount recognised in the consolidated statement of income reflects the development of the cumulative expenses recorded at the beginning and at the end of the reporting period.

The dilutive effect of the outstanding stock options is taken into account as an additional dilution in the calculation of earnings per share, provided that the stock options and the underlying conditions result in a notional dilution for the existing shareholders.

With the consent of the Supervisory Board, the Executive Board is authorised until 31 December 2015 (“issue period”) as detailed in the following provisions under the 2015 stock option plan to issue up to 1,000,000 stock options with subscription rights for shares of DEMIRE AG with a vesting period of four years and an exercise period of another five years (“the exercise period”) provided that each stock option entitles its holder to subscribe for one share of the Company. With regard to the issue of stock options to members of the Executive Board of the Company, this authorisation is limited only to the Supervisory Board.

The beneficiaries and the number of stock options offered for subscription to those entitled are to be determined by the DEMIRE AG Executive Board with the consent of the Supervisory Board. To the extent members of the DEMIRE AG Executive Board are to receive stock options, the determination and the issue of these options will be governed by the Supervisory Board.

The following authorisation to issue stock options existed
- a total of up to 800,000 stock options (80%) to members of the Executive Board, and
- a total of up to 200,000 stock options (20%) to selected employees of DEMIRE AG or directors or employees of Group companies.

The subscription rights arising from the stock options can be exercised for the first time upon the expiration of the statutory vesting period of four years according to Section 193 (2) no. 4 AktG. The vesting period starts after the issue of the stock options (day of receipt of the beneficiary's statement of subscription by DEMIRE AG or by the credit institution commissioned for the settlement).

The relevant exercise price for one share of DEMIRE AG upon the exercise of the stock options corresponds to at least 100% of the basis price. The basis price is the share price of DEMIRE AG at the time of the resolution of the Executive Board on the issue of stock option rights and, in the case of the issue of stock options to members of the Executive Board, at the time of the resolution of the Supervisory Board. The relevant share price is the average closing price of DEMIRE AG's shares in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) on the last ten stock exchange trading days before the resolution is made on the issue of stock options.

The prerequisite for the exercise of the subscription rights is that the share's closing price in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) must be at least 10% higher than the basis price on the day preceding the exercise of the subscription rights.

The accounting of share-based payments is governed by IFRS 2. The "2015 stock option plan" is to be classified as "equity-settled share-based payments". In this case, total staff costs arising from the stock options are to be distributed over the four-year vesting period starting from the grant date. In the case of DEMIRE AG, the grant date is the day the approval is given by the Executive Board and/or Supervisory Board.

The value of compensation based on real stock options according to the Black-Scholes Model is determined by the fair value of the options at the grant date pursuant to IFRS 2.10. In the case of DEMIRE AG, the grant date is the day the options were issued (7 April 2015 and 9 December 2015).

The following vesting conditions are relevant for the accounting of the stock-based compensation programme:
- The four-year vesting period represents a "service condition" since only a specified period of service in the Company must be completed.
- The exercise condition of a closing share price exceeding the basis price by at least 10% on the trading day preceding the exercise is classified as a performance condition since meeting the condition is based on a performance target. The performance conditions are to be divided into market conditions and non-market conditions. In the case of DEMIRE AG, the exercise condition is to be classified a market performance condition as it is explicitly related to the Company's share price. Such a market performance condition is reflected in the valuation of the stock option exclusively by means of a probability calculation performed at the grant date.

During the prior year reporting period, a total of 1,000,000 stock options were granted, of which 800,000 stock options were granted in the first tranche to members of the Executive Board and 160,000 to selected DEMIRE AG and group company employees. The fair value of each option from the first tranche was EUR 2.74. In the fourth quarter, a total of 60,000 stock options were newly issued in a second tranche, net of stock options that were returned by employees who had left the Company (20,000 stock options). The fair value of each option from the second tranche was EUR 1.99.

The accounting treatment of the stock option programme was amended as a result of the resignation of two members of the Executive Board during the reporting year. One of the departing Executive Board members retained his entitlements under the stock option programme. Since his departure, the corresponding expenses are recognised under other operating expenses. In the case of the other departing Executive Board member, who was entitled to 400,000 stock options, the entitlements were compensated for by a one-time payment. The expenses previously recognised within equity were cancelled according to IFRS 2.19 due to the failure to meet a so-called service condition.

The calculation of the stock option's fair value as of the date of issue of the first and second tranches was based on the following parameters:

CALCULATION PARAMETERS	1ST TRANCHE	2ND TRANCHE
Dividend yield (%)	0.00	0.00
Expected volatility (%) [1]	60.40	46.25
Risk-free interest rate (%)	0.50	0.80
Term of the option (in years)	9.00	9.00
Weighted average share price (EUR)	4.258	3.76
Option price (EUR)	2.74	1.99

[1] 180-day historical volatility

Staff costs recognised in the reporting period from the "2015 Stock Option Plan" amounted to EURk 409 (previous year: EURk 434) and were recognised directly in equity under general and administrative expenses. Additionally, a total of EURk 123 was recognised directly in equity under other operating expenses.

In the reporting year, share-based payments in the form of virtual stock options were granted to one Executive Board member. Value appreciation rights will be allocated to 150,000 shares per year in three tranches: the first tranche was allocated with retrospective effect as of 1 January 2017, the second as of 1 January 2018 and the third tranche will be allocated as of 1 January 2019. Each value appreciation right can be exercised during a three-year period after the end of a four-year vesting period following the allocation. Of this amount, 50,000 value appreciation rights per tranche are allocated depending on individual performance.

The accounting of share-based payments is governed by IFRS 2. Cash-settled, share-based payment transactions (virtual shares) are accounted for as provision, increasing expenses. Share-based payments are measured at fair value based on an option price model.

As of 31 December 2017, the fair value amounted to EURk 73. Staff costs are reported under general and administrative expenses.

The key parameters for the calculation are:

- The base price, which is the arithmetic mean of the volume-weighted average price over the 20 trading days in XETRA trading following the publication of the quarterly financial statements for the third quarter in the immediately preceding calendar year, was EUR 3.51 on the day of the initial allocation and EUR 3.91 as of the measurement date.
- The grant price on 1 January 2017 was EUR 3.569 and the price on 29 January 2018 was EUR 3.79.
- A percentage of 2.52 % was used for the four-year volatility and 3.12 % for the five-year volatility.
- Interest rates of 0.50 % (3 years), 0.34 % (4 years), 0.18 % (5 years) and 0.02 % (6 years) were applied.

Each stock appreciation right entitles the holder to a payout equal to the positive difference between the share price at the time of exercise and the basis price, but not more than three times the basis price less the basis price.

Stock appreciation rights can only be exercised if the exercise hurdle has been achieved. The exercise hurdle is reached when the share price of DEMIRE AG has risen by more than 25% compared to the basis price on 10 consecutive trading days during the vesting period of 4 years.

5. SUBSEQUENT EVENTS

Subsequent events that occurred after the end of the fiscal year that are of particular significance to DEMIRE's net assets, financial position and net profit/loss for the period are as follows:

On 26 February 2018, with the consent of the Supervisory Board, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG ("Company") resolved to increase the Company's share capital from authorised capital (the "capital increase") by EUR 5,425,774.00 from EUR 54,270,744.00 to EUR 59,696,518.00 by issuing 5,425,774 new, no-par value bearer shares with a notional interest in the share capital of EUR 1.00 each and full dividend entitlement as of 1 January 2017 (the "new shares") against cash contribution and by excluding shareholders subscription rights.

The new shares were issued at a price of EUR 4.35 per new share. AEPF III 15 S. à r.l. ("AEPF"), Luxembourg, a holding company controlled by funds, which in turn are advised by an affiliate of Apollo Global Management, LLC (NYSE: APO) were permitted to subscribe to all of the new shares. AEPF has entered into a subscription agreement with the Company, in which AEPF undertakes to subscribe for all new shares at an issue price of EUR 4.35. The capital increase was entered in the commercial register on 5 April 2018.

AEPF has entered into a cooperation agreement ("acting in concert") connected to the capital increase with the Company's main shareholder, Wecken und Cie. ("Wecken") and a subsidiary of Wecken and members of the Wecken family (together with Wecken, the "Wecken Group"), who at the time of the announcement collectively held a stake of approx. 29.91% of the Company's share capital and exchangeable bonds that permit the purchase an additional 10.23% in the Company´s current share capital following the exercise of the exchange rights. As a result of its acquired control over the Company, AEPF has announced to publish a mandatory tender offer to the shareholders of the Company to acquire all shares of the Company at a price of EUR 4.35 per share. The offer document was published on 16 April 2018 and is available at www.aepf-mandatory-offer.de/en/.

The Company was also informed by AEPF of their intention to announce a decision to launch a voluntary takeover offer to acquire all shares in Fair Value REIT-AG ("FVR"). AEPF plans to launch the offer in a way that it enables it to revoke the listing of FVR shares on the regulated market of the Frankfurter Stock Exchange (so-called delisting offer). The offer will be made at the legally prescribed minimum price. The Company is supportive of such an offer. Subsidiaries of the Company holding shares in FVR have entered into a non-tender agreement with AEPF in which they undertake not to accept, in full or in part, the offer with respect to the shares of FVR they hold.

Due to the attribution of voting rights as defined by Section 34 WpHG, Mr Klaus Wecken with 42.42% and Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd. with 32.19% each reported on 26 February 2018 that they have exceeded the 30% threshold. As of 27 February 2018, Mr Klaus Wecken controlled 46.06% and ODDO BHK Asset Management SAS 3.84% of the voting rights due to the attribution of voting rights as defined by Section 34 WpHG. As of 28 February 2018, Mr Klaus Wecken, Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd., each controlled 59.12% of the voting rights and exceeded the 50% threshold due to the attribution of voting rights as defined by Section 34 WpHG.

On 29 March 2018, Ms Sigrid Wecken notified the Company that her voting rights had fallen below the threshold of 5% and amounted to 4.99%.

In the context of the published offer document at www.aepf-mandatory-offer.de/en/, the bidder AEPF III 15 S. à r.l. has given notification that it and the members of the Wecken Group together at the time of publication of the Offer

Document held 37,928,711 DEMIRE shares. This number corresponds to approximately 63.51% of the current voting rights and share capital of DEMIRE AG.

On 26 July 2017, DEMIRE issued an unsecured corporate bond at an interest rate of 2.875% p.a. and with a nominal amount of EUR 270 million, which was increased by additional EUR 130 million to an overall amount of EUR 400 million on 2 October 2017 ("Bond 2017/2022"). Pursuant to the bond terms, DEMIRE is obliged to offer to the bondholders early redemption of the bond at a redemption price of 101% of the nominal amount plus any interest accrued and unpaid on the redemption date within 30 days after acquiring knowledge of the change of control ("Redemption Offer"). In the event of a change of control, the maximum total repayment amount under the Redemption Offer would thus be EUR 404 million plus any interest accrued and unpaid.

Based on relevant information a change of control pursuant to the bond terms has occurred. DEMIRE is therefore obliged to make a Redemption Offer pursuant to the bond terms. DEMIRE intends to comply with this obligation.

The Executive Board take the view that the financing of the repurchase price on the market will be possible and highly probable if and to the extent that bondholders demand early redemption.

Further notifications regarding direct or indirect shareholdings exceeding 3%, 5% and 10% of the voting rights were not available to the Company at the time of publishing this report.

Prior to the publication of the annual financial statements, a total of 30.610 conversion rights were exercised, and 30.610 new no-par value bearer shares were created.

6. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The statement required under Section 161 AktG with regard to the German Corporate Governance Code (GCGC) is made available DEMIRE AG to shareholders once per calendar year. The Declaration of Conformity with the German Corporate Governance Code was submitted on 12 April 2018 and made permanently available to shareholders on the *DEMIRE AG website* under the heading "Company".

On 31 January 2018, the Executive Board and Supervisory Board of Fair Value REIT-AG submitted the current Declaration of Conformity in accordance with Section 161 AktG and made it permanently available to shareholders on the *Fair Value REIT-AG website*.

Frankfurt/Main, 25 April 2018

DEMIRE Deutsche Mittelstand Real Estate AG

Dipl.-Betriebsw. (FH) Ralf Kind
Executive Board Member (CEO/CFO)

www.demire.ag
www.fvreit.de/investor-relations/corporate-governance/entsprechens-erklaerung/entsprechenserklaerung.html)

APPENDIX 1: SCHEDULE OF SHAREHOLDINGS PURSUANT TO SECTION 313 (2) HGB

COMPANY	INTEREST IN CAPITAL (%)
GERMANY	
DEMIRE Deutsche Mittelstand Real Estate AG , Frankfurt a. M.	
Glockenhofcenter Objektgesellschaft mbH, Berlin	94.90
Hanse-Center Objektgesellschaft mbH, Berlin	94.90
Logistikpark Leipzig GmbH , Berlin	94.00
Demire Immobilien Management GmbH, Berlin	100.00
PANACEA Property GmbH, Berlin[1]	51.00
PRAEDIA GmbH, Berlin	51.00
Fair Value REIT-AG, Munich	77.70
IC Fonds & Co. Büropark Teltow KG, Munich[2]	60.73
IC Fonds & Co. Gewerbeportfolio Deutschland 13. KG, Munich[2]	44.58
IC Fonds & Co. SchmidtBank-Passage KG, Munich[2]	41.92
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich[2]	39.72
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich[2]	48.35
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich[2]	45.24
GP Value Management GmbH, Munich	77.70
BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV Immobilien-Fonds Erlangen GbR, Munich[2]	32.65
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich[2]	35.88
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich[2]	37.51
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt a. M.	100.00

COMPANY	INTEREST IN CAPITAL (%)
GERMANY	
FVR Beteiligungsgesellschaft Vierte mbH & Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Siebente mbH Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Achte mbH & Co. KG, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate GmbH, Frankfurt a. M.	100.00
DEMIRE Real Estate München 1 GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management EINS GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management ZWEI GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management DREI GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management VIER GmbH, Frankfurt a. M.	100.00
Schwerin Margaretenhof 18 GmbH, Frankfurt a. M.	94.90
DEMIRE Commercial Real Estate ZWEI GmbH, Frankfurt a. M.	100.00
DEMIRE Objektgesellschaft Worms GmbH, Frankfurt a. M.	94.00
TGA Immobilien Erwerb 1 GmbH, Berlin	94.00
DEMIRE CONDOR Properties Management GmbH, Frankfurt a. M.	100.00
DEMIRE Holding EINS GmbH, Frankfurt a. M.	100.00
Condor Real Estate Management EINS GmbH, Frankfurt a. M.	100.00
Condor Real Estate Management ZWEI GmbH, Frankfurt a. M.	100.00
Condor Real Estate Management DREI GmbH, Frankfurt a. M.	100.00
CONDOR Objektgesellschaft Eschborn GmbH, Frankfurt a. M.	94.00
CONDOR Objektgesellschaft Bad Kreuznach GmbH, Frankfurt a. M.	94.00
Condor Real Estate Management FÜNF GmbH, Frankfurt a. M.	100.00
CONDOR Objektgesellschaft Düsseldorf GmbH, Frankfurt a. M.	94.00
CONDOR Objektgesellschaft Rendsburg GmbH, Frankfurt a. M.	94.00
CONDOR Objektgesellschaft Bad Oeynhausen GmbH, Frankfurt a. M.	94.00
CONDOR Objektgesellschaft Lichtenfels GmbH, Frankfurt a. M.	94.00

COMPANY	INTEREST IN CAPITAL (%)
GERMANY	
DEMIRE Einkauf GmbH, Frankfurt a. M.	51.00
DEMIRE Assekuranzmakler GmbH % Co. KG, Düsseldorf [3]	47.50
G+Q Effizienz GmbH, Berlin [3]	49.00
Demire Parkhaus Betriebsgesellschaft mbH, Berlin	100.00
Kurfürster Immobilien GmbH, Leipzig	94.90
Ritterhaus Immobilienverwaltung GmbH, Düsseldorf	100.00
CONDOR Objektgesellschaft YELLOW GmbH, Frankfurt a. M.	94.00
Condor Yellow BV GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate DREI GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate VIER GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate FÜNF GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate SECHS GmbH, Frankfurt a. M.	100.00
DEMIRE Objektgesellschaft Germavest GmbH, Frankfurt a. M.	94.90
DEMIRE Objektgesellschaft Armstripe GmbH, Frankfurt a. M.	94.00
DEMIRE Objektgesellschaft Briarius GmbH, Frankfurt a. M.	94.00

COMPANY	INTEREST IN CAPITAL (%)
LUXEMBOURG	
Blue Ringed S. à. r. l., Luxembourg	94.00
Reubescens S. à. r. l., Luxembourg	94.00
DENMARK	
GO Leonberg ApS, Copenhagen	94.00
GO Bremen ApS, Copenhagen	94.00
GO Ludwigsburg ApS, Copenhagen	94.00
SWITZERLAND	
Sihlegg Investments Holding GmbH, Wollerau	94.00
CYPRUS	
Denston Investments Ltd., Nikosia	94.00
NETHERLANDS	
MAGNAT Investment I B. V., Hardinxveld Giessendamm	100.00
BULGARIA	
R-Quadrat Bulgaria EOOD, Sofia	100.00
ROMANIA	
SC Victory International Consulting s. r. l., Bucharest	100.00
GEORGIA	
Irao Magnat Digomi LLC, Tbilisi	75.00
Irao Magnat 28 / 2 LLC, Tbilisi [2]	50.00
AUSTRIA	
MAGNAT AM GmbH, Vienna	100.00

[1] Not fully consolidated due to its immaterial importance for the Group
[2] Fully consolidated because factual control is exercised through quorum majority at the shareholder meeting
[3] Consolidated using the equity method

APPENDIX 2: VALUATION PARAMETERS ACCORDING TO IFRS AS OF 31 DECEMBER 2017

	31/12/2017
Average market rent (in EUR per m², per year)[1]	85.21
Range of market rents (in EUR per m²)	33.55 – 204.02
Rentable space as of balance sheet date (in m²)	913,802
Vacant space as of balance sheet date (in m²)	125,285
Value-based vacancy rate according to EPRA (in %)	9.40
Average vacancy rate based on rentable space (in %)	14.30
Range of vacancy rates based on rentable space (in %)	0.00 – 100
Weighted average lease term – WALT (in years)	4.73

The basis for rental income planning is the rental payments contractually agreed with the tenants as well as prevailing customary local market rents for unleased space on the valuation date. The contractually agreed monthly rents per square metre on the valuation date for the various types of use are shown in the table below:

CONTRACTUAL RENTS EUR		31/12/2017
Office	Min	3.32
	Max	13.08
	Average	7.95
Retail	Min	3.20
	Max	19.26
	Average	10.32
Others	Min	2.89
	Max	5.91
	Average	3.08
	Min	2.82
	Max	19.26
Total	Average	7.56

APPENDIX 3: VALUATION PARAMETERS ACCORDING TO IFRS AS OF 31 DECEMBER 2016

The determination of the present values is dependent on the following essential, non-observable input factors (Level 3):

VALUATION PARAMETERS DEMIRE SUBGROUP BY ASSET CLASS	OFFICE	RETAIL	LOGISTICS	OTHERS
	31/12/2016	31/12/2016	31/12/2016	31/12/2016
Ratio of maintenance costs to gross profit (in %)	7.24	6.45	11.18	13.72
Average maintenance costs (in EUR per m²)	6.99	8.69	3.53	4.25
Range of maintenance costs (in EUR per m²)	4.00 – 10.00	5.00 – 9.00	3.53 – 3.53	2.50 – 5.00
Average property yield (in %)[1]	5.82	5.51	7.50	9.32
Range of property yields (in %)[2]	4.63 – 9.75	5.26 – 8.00	7.50 – 7.50	6.75 – 10.25
Average residual useful life (in years)	37	37	25	25
Range of residual useful lives (in years)	25 – 45	35 – 40	25 – 25	25 – 45
Ratio of management costs to gross profit (in %)	2.01	2.12	1.16	6.38
Range of ratio of management costs to gross profit (in %)	1.00 – 4.00	1.50 – 4.00	1.16 – 1.16	3.00 – 3.00
Average market rent (in EUR per m², per year)[3]	96.67	134.87	31.58	30.98
Range of average market rents (in EUR per m², per year)	42.75 – 149.90	49.03 – 195.57	31.58 – 31.58	12.20 – 56.30
Rentable space as of balance sheet date (in m²)	457,229	43,065	217,968	90,138
Vacant space as of balance sheet date (in m²)	32,798	6,209	73,824	38,415
Value-based vacancy rate according to EPRA (in %)	6.41	15.49	45.66	19.35
Average vacancy rate based on rentable space (in %)	7.17	14.42	33.87	42.62
Range of average vacancy rate based on rentable space (in %)	0.00 – 54.50	0.00 – 43.80	33.87 – 33.87	0.00 – 100.00
Weighted average lease term – WALT (in years)	5.49	7.62	2.00	2.00

[1] The calculation of property-specific property yields is based on the average market property yield and takes into account the respective macro and micro conditions, competing properties, tenant creditworthiness, vacancy risk and the remaining terms of the lease contracts.

[2] Property yields vary based on the quality, location and structure of the property.

[3] Average market rent was calculated based on rentable space as of 31 December 2016

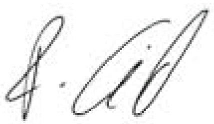
APPENDIX 4: FIXED ASSETS

EURk	GOODWILL		OTHER INTANGIBLE ASSETS		OPERATING AND OFFICE EQUIPMENT		TECHNICAL EQUIPMENT		ADVANCE PAYMENTS	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Acquisition cost as of the beginning of the fiscal year	7,246	7,246	290	227	549	228	1,370	0	30	11,191
Accumulated depreciation / amortisation and impairment as of the beginning of the fiscal year	463	463	68	50	196	134	0	0	0	0
Carrying amounts as of the beginning of the fiscal year	6,783	6,783	222	177	353	94	1,370	0	30	11,191
Additions	0	0	8	64	299	321	0	1,370	0	35
Additions through business combinations	0	0	0	0	0	17	0	0	0	0
Reclassifications	0	0	0	0	3	0	0	0	30	0
Disposals	0	0	0	1	0	17	0	0	0	11,196
Depreciation / amortisation	0	0	28	18	150	62	0	0	0	0
Acquisition cost as of the end of the fiscal year	7,246	7,246	298	290	851	549	1,370	1,370	0	30
Accumulated depreciation / amortisation and impairment as of the end of the fiscal year	463	463	96	68	346	196	0	0	0	0
Carrying amounts as of the end of the fiscal year	6,783	6,783	202	222	505	353	1,370	1,370	0	30

Responsibility Statement

As the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, we hereby confirm to the best of our knowledge, and in accordance with the applicable reporting principles, that the consolidated financial statements give a true and fair view of the net assets, financial position, and results of oprations of the Group, and furthermore that the Group management report includes a fair review of the development of the business including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt am Main, 25 April 2018



Dipl.-Betriebsw. (FH) Ralf Kind
Member of the Executive Board (CEO/CFO)

Auditor’s report

To DEMIRE Deutsche Mittelstand Real Estate AG

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of Amadeus FiRe AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Amadeus FiRe AG for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance contained in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January to 31 December 2017, and
- the accompanying combined management report as a whole provides an appropriate view of the Group’s position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the statement on corporate governance contained in the combined management report.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the combined management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

INVESTMENT PROPERTY

Reasons why the matter was determined to be a key audit matter

In the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, real estate of EUR 1,021.8m is presented under the balance sheet item "Investment property." The investment property is measured in accordance with IAS 40 in conjunction with IFRS 13 at fair value using a discounted cash flow (DCF) method. In fiscal year 2017, income from measurement in accordance with IAS 40 in conjunction with IFRS 13 of EUR 48.6m was recorded in the consolidated income statement. Measurement of investment property involves uncertainties and the exercise of judgment in determining the fair value pursuant to IFRS 13. The market values of the properties and buildings are determined by external independent experts. The key inputs are the assumed rental income including the expected development of rental income, vacancy periods, maintenance expenses and discount rates.

Due to the materiality of the investment property and the fact that the measurement of investment property and compliance with the accounting framework are complex, the measurement of investment property was a key audit matter.

Auditor's response

During our audit, we considered the internal control system installed relating to the correct recording of the data used by the external appraisers for determining the fair values. We also critically assessed the competency, skills and objectivity of the external appraisers. Together with our internal specialists for real estate valuation, we assessed conformity of the valuation method applied with IAS 40 in conjunction with IFRS 13 and reperformed the calculations for a sample of the values determined. We reconciled the valuation inputs with the underlying contracts and, in the case of assumptions and estimates, assessed their appropriateness on the basis of market and industry data. We also considered the completeness and appropriateness of the disclosures in the notes to the consolidated financial statements required by IAS 40 and IFRS 13. Moreover, we assessed the derecognition of investment property on the basis of the respective underlying contract.

The disclosures made by the Company on investment property are contained in the notes to the financial statements under "Investment property" and in the section on assets and liabilities in the combined management report.

Reference to related disclosures

Our audit procedures did not lead to any reservations relating to the recognition and measurement of investment property.

FINANCIAL INSTRUMENTS CLASSIFIED AS FINANCIAL LIABILITIES

Reasons why the matter was determined to be a key audit matter

The Company issued a bond with a nominal volume of EUR 400 million in the past fiscal year and used the proceeds to refinance various financial liabilities. Transactions were entered into in this connection that are recognized using the effective interest method and deferred transaction costs of the repaid financial liabilities were recognized in the income statement. The valuation of the Group’s financial instruments involves judgment and estimation uncertainties. Due to the materiality of financial liabilities at amortized cost and the fact that both the measurement of *financial liabilities* and compliance with the accounting framework are complex, the presentation and measurement of financial liabilities was a key audit matter.

Auditor’s response

We reviewed the presentation and measurement of the financial liabilities on the basis of the underlying contract of the respective financial liability. In this connection, we assessed the underlying parameters such as interest rates and expected repayment on the basis of the underlying contracts. In terms of the effective interest method used to measure the financial liabilities taking any transaction costs into account, we performed a recalculation and analyzed the appropriateness of the transaction costs and the extent to which they can be recognized in the financial statements. We also checked the clerical accuracy of the Company’s valuation model and assessed the appropriateness of the valuation inputs in light of the provisions of IAS 39.

Our audit procedures did not lead to any reservations relating to the recognition and measurement of the financial instruments classified as financial liabilities.

Reference to related disclosures:

The Company’s disclosures on the financial liabilities are contained in the notes to the consolidated financial statements under “Financial liabilities”.

Other information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance contained in the combined management report. The other information also comprises the foreword by the management board, DEMIRE on the capital market, EPRA key figures, the report of the supervisory board and the corporate governance report.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 29 June 2017. We were engaged by the supervisory board on 5 November 2017. We have been the group auditor of DEMIRE Deutsche Mittelstand Real Estate AG without interruption since fiscal year 2013/2014.

We declare that the opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the combined management report:

- Issuance of comfort letters in connection with capital market transactions
- Translation services

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Thomas Schmitt.

Imprint

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RESPONSIBLE PUBLISHER

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG

CONCEPT AND LAYOUT

FIRST RABBIT GmbH

STATUS

April 2018

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to our company website.

DEMIRE

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