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Annual Report

Financial Year
1 January – 31 December 2018

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

KEY GROUP FIGURES

KEY EARNINGS FIGURES in EUR thousands	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Rental income	73,709	73,716
Profit / loss from the rental of real estate	58,500	55,632
EBIT *	**127,065**	**84,597**
Financial result *	– 38,308	– 56,968
EBT	**88,757**	**27,629**
Net profit / loss for the period	**69,053**	**19,432**
Net profit / loss for the period attributable to parent company shareholders	**61,575**	**13,783**
Net profit / loss for the period per share (basic / diluted) in EUR	**0.85 / 0.85**	**0.25 / 0.22**
FFO I (after taxes, before minorities)	**23,359**	**11,738**
FFO I per share (basic / diluted) in EUR	**0.32 / 0.32**	**0.22 / 0.17**

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

KEY PORTFOLIO INDICATORS	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Properties (number)	84	86
Market value (in EUR millions)	1,130.4	1,034.1
Contractual rent (in EUR millions)	73.2	72.1
Rental yield (in %)	6.5	7.0
EPRA vacancy rate (in %) *	7.5	9.4
WALT (in years)	4.5	4.9

* Excl. real estate held for sale

KEY BALANCE SHEET FIGURES in EUR thousands	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Total assets	1,378,692	1,147,116
Investment properties	1,139,869	1,021,847
Non-current assets held for sale	12,262	12,262
Total real estate portfolio	**1,152,131**	**1,034,109**
Financial liabilities	636,572	694,915
Cash and cash equivalents	190,442	73,874
Net financial liabilities	**446,130**	**621,041**
Net loan-to-value (net LTV) in %	**38.7**	**60.1**
Equity according to Group balance sheet *	582,338	325,469
Equity ratio in % *	42.2	28.4
Net asset value (NAV) in the reporting period	537,913	285,417
EPRA NAV (basic / diluted)	595,225 / 595,745	323,572 / 335,620
EPRA NNNAV (diluted)	535,869	206,417
Number of shares in thousands (basic / diluted)	107,777 / 108,297	54,271 / 67,885
EPRA NAV (basic / diluted) in EUR	**5.52 / 5.50**	**5.96 / 4.94**
EPRA NNNAV per share (diluted) in EUR	**4.95**	**3.04**

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

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Foreword by the Executive Board

Ladies and Gentlemen,

An exciting and eventful year is behind us. Global growth and Germany's economic growth lost momentum in 2018 in the face of political uncertainties, including the US–China trade dispute and Britain's exit from the European Union. These events also took their toll on the stock market and, as a result, investors witnessed a downtrend as the year progressed. The real estate markets, however, behaved quite differently, springing to a new high again in 2018. The market for commercial real estate transactions posted a record volume of more than EUR 60 billion. At the same time, initial yields, unaffected by discussions of rising interest rates, fell to a new historic low. This environment fuelled an upswing in the real estate investment market for the ninth consecutive year and, according to experts, the market will remain at an exceptionally high level in 2019.

The development in the commercial real estate market throughout the 2018 financial year underscores our success in establishing DEMIRE as one of the leading holders of German commercial real estate. This development led us in November 2018 to raise our original forecast published at the beginning of the year. We increased our forecast for FFO I (after taxes and before minorities) from an initial range of EUR 16 million to EUR 18 million to EUR 23 million to EUR 24 million. Based on the strength of our letting performance, we also adjusted our forecast for 2018 rental income from a previous range of EUR 71 million to EUR 73 million to around EUR 74 million.

At the end of the year, we reached the adjusted forecast as planned. Our most important operational and financial key ratios in the 2018 financial year developed as follows:

- We achieved a high letting performance of around 82,600 m², of which approximately 36 % was attributable to new lettings and 64 % to follow-on leases – amounting to approximately 8.9 % of our total lettable space.
- The EPRA vacancy rate of the core portfolio declined as a result of new lettings. Taking into account properties already sold, the rate dropped by a further 190 basis points during the financial year to 7.5 %.
- Annualised rental income from our core portfolio on a like-for-like basis (adjusted for purchases and sales) increased 2.9 % in the 2018 financial year.
- We generated stable rental income compared to the same period of the previous year, achieving a total of EUR 73.7 million (2017 financial year: EUR 73.7 million) based on strong letting performance despite the sale of non-strategic real estate over the past 12 months.

- The net loan-to-value ratio improved significantly year-on-year by around 21.4 percentage points to 38.7 % as at 31 December 2018 (31 December 2017: 60.1 %) due to an increase in the value of existing real estate and higher cash and cash equivalents as at the reporting date, following the capital increases.
- Funds from operations I (FFO I, after taxes and before minorities) nearly doubled as at the reporting date at EUR 23.4 million (31 December 2017: EUR 11.7 million) compared to the previous year, and met our latest forecast. This strong performance was mainly due to a significantly improved financial result, lower maintenance costs and an increase in the profit from the rental of real estate.
- Basic EPRA NAV per share was EUR 5.52 at the end of 2018 (31 December 2017: EUR 5.96), and diluted EPRA NAV amounted to EUR 5.50 (31 December 2017: EUR 4.94).

In April 2018, we gained a new strategic anchor shareholder – Apollo Global Management, LLC – in the course of our 10 % capital increase. Since becoming a shareholder, Apollo, together with our other major shareholder, the Wecken Group, has been driving forward the implementation of our growth strategy. Through the further increase in their shareholdings, which included a takeover offer in April 2018, the early conversion of a majority of the outstanding 2013 / 2018 convertible bonds in June 2018 and the subscription to a cash capital increase in November 2018, our major shareholders have significantly strengthened DEMIRE's equity position during the 2018 financial year for further growth in 2019.

Backed by this positive operating performance, we paved the way at the end of October 2018 for continued cash flow growth in the 2019 financial year. Given the successful placement of the cash capital increase in the amount of roughly EUR 150 million, we are in a position to acquire further commercial real estate. At the beginning of November 2018, we announced the conclusion of a purchase agreement for the acquisition of a portfolio consisting of four office properties in attractive locations for an investment volume of around EUR 167 million. This portfolio currently generates net rental income, excluding utilities, of more than EUR 8 million annually, and the FFO contribution is more than EUR 3 million annually. Using our active management approach, our plan is to successively reduce vacancies and optimise the management of the acquired real estate and bring the portfolio's FFO contribution gradually up to around EUR 6 million annually by the year 2023. We expect to complete the transaction and the transfer of the properties in the first half of 2019.

In 2019, we want not only to continue on our growth path but also increase the speed of our transactions. Two strategic decisions, implemented already at the end of 2018 and early 2019, are of particular importance for DEMIRE's future in pursuing growth in a targeted and efficient manner.

- After outsourcing the property and facility management activities at the end of 2018, we are relying on a significantly more flexible and scalable real estate management model for German commercial real estate for our future growth. As an external and internationally renowned service provider, we have assigned a major portion of the property management for the DEMIRE portfolio to STRABAG Property and Facility Services GmbH. The roughly 20 % of the portfolio that remains is our indirect ownership through our subsidiary Fair Value REIT-AG, which is overseen by IC Property Management GmbH.
- At the Extraordinary General Meeting on 11 February 2019, DEMIRE's shareholders demonstrated their continued faith in the Company and in the Executive Board by approving the meeting's agenda items of creating new authorised and conditional capital with a large majority. In creating this capital, we have significantly boosted our flexibility to acquire further real estate at opportune times.

Our common goal is to build a leading listed commercial real estate platform in Germany with a portfolio in excess of EUR 2 billion. At the same time, with an active approach to real estate management, we want to gradually strengthen our real estate portfolio by continuing to reduce vacancies, making targeted building improvements, exploiting the value appreciation potential and disposing of non-strategic real estate.

Based on the tools we have available, we believe we are well positioned to tackle the next steps in our growth in the 2019 financial year and beyond. Our business model offers a high level of value appreciation potential in the German commercial real estate market, which we intend to use as much as possible in the months and years ahead from a position of strength. We are confident that we will soon find other attractive properties to purchase and add to our portfolio. These properties will not only help us achieve steadily increasing cash flows but also economies of scale from our active "manage-to-core" approach, as well as better and more efficient management of our real estate portfolio.

Dear shareholders, we look forward to the exciting challenges at DEMIRE AG. You have placed your trust in DEMIRE in the past and have followed our path to this point, and we hope you will continue to support us in the next phase of our growth. We would like to extend our appreciation to our DEMIRE employees, whose strong commitment makes DEMIRE's profitability stronger by the day. We are particularly grateful for their dedication in the 2018 financial year.

Together, we would like to continue our positive corporate development in 2019. We therefore invite all shareholders, business partners, employees and friends of DEMIRE to join us on this journey.

Frankfurt am Main, 18 March 2019

Ingo Hartlief FRICS
Chief Executive Officer (CEO)

Tim Brückner
Chief Financial Officer (CFO)

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG: Ingo Hartlief FRICS, CEO (right) and Tim Brückner, CFO (left)

1.1

Real estate investments

in EUR billions
as at 31 December 2018

TO OUR SHAREHOLDERS

First in Secondary Locations

DEMIRE Deutsche Mittelstand Real Estate AG owns commercial real estate in medium-sized cities and in up-and-coming peripheral locations in densely populated areas throughout Germany. The Company has particular strength in these secondary locations – First in Secondary Locations – and focuses on offering attractive properties to both international and regional tenants.

Local real estate expertise and network

DEMIRE is characterised by experienced management and a team with a proven track record in realising value-adding acquisitions. Access to all market segments and high transaction speed combined with competitive financing enable investments in high-yield real estate such as office, retail and logistics, especially along the risk classes Core Plus, Value-Added and Redevelopment.

Balanced financial structure

Ongoing optimisation of our financial structure ensures us the best possible flexibility in implementing our growth targets. We focus on diversifying our sources of capital, ranging from banks and alternative financing partners to the capital market. In line with our long-term investment strategy, we are constantly adjusting our short- to medium-term financing requirements and thus generate additional positive effects within the return expectations of our investments.

Efficient and simplified Group structure

DEMIRE has set itself the goal of continuously optimising its corporate structure in order to achieve the best possible efficiency in the management of its real estate investments. By implementing internal and external measures to increase operational efficiency, additional income potential will be generated in the short to medium term, leading to an improvement in the operating margin in the future.

Active real estate management

We believe that economies of scale and portfolio optimisation are best achieved through an active real estate management approach. Our internal and external real estate managers are active nationwide and look after our tenants and real estate locally, while actively identifying and implementing further optimisation and value levers in the portfolio.

2018 key indicators

1,130.4
Value of portfolio in EUR millions

84
Properties

68 %
Office property

6 %
Logistics property

23 %
Retail property

3 %
Other

Based on market value as at 31 December 2018

7.5
EPRA vacancy rate

6.5
Rental yield in %

73.7
Rental income in EUR millions

Active sustainable real estate management results in increase in rental income despite sale of non-strategic real estate; 2018 full-year forecast of around EUR 74 million achieved

88.8
EUR millions
Year-on-year rise in EBT

3.0
percent p. a.
Average interest costs unchanged year-on-year

4
Purchases
across Germany

- Aschheim – page 027
- Cologne – page 028
- Essen – page 029
- Bad Vilbel – page 030

23.4
EUR millions
Forecast for FFO I of approx. EUR 23 to 24 million in full-year 2018 achieved

38.7
percent
21.4 percentage-point reduction in net loan-to-value (net LTV)

Attractive investment opportunities

SECONDARY LOCATIONS – HIGHER RETURNS AND LESS RISK THAN IN "A" CITIES

DEMIRE holds commercial real estate in mid-sized cities and up-and-coming peripheral locations of metropolitan areas throughout Germany. In contrast to other countries such as France and Great Britain, the real estate market in Germany has a polycentric structure. DEMIRE has real estate investments in 15 out of the 16 federal states and focuses its investment on so-called "Secondary Locations". The "Secondary Locations" in Germany offer more attractive and more stable investment parameters than the real estate markets of the Top 7 locations (Berlin, Hamburg, Cologne, Dusseldorf, Frankfurt, Stuttgart, Munich).

SMALL CITIES WITH ATTRACTIVE MARKET OUTLOOKS

In Germany, there are 78 cities with more than 100,000 inhabitants, 13 of which have more than half a million people. Many of the secondary locations offer significantly higher return opportunities and higher income stability in comparison to the Top 7 locations. Key characteristics of secondary locations include less speculative construction activities, long-term and high tenant loyalty, lower vacancy rates on average and lower volatility of rents.

The demand for commercial real estate in the secondary locations is characteristically stable, with the increase in office workstations and regional tenants with long-term business horizons having a positive effect.

A CLOSER LOOK AT SECONDARY LOCATIONS – A VALUE-ADDING EDGE IN KNOW-HOW

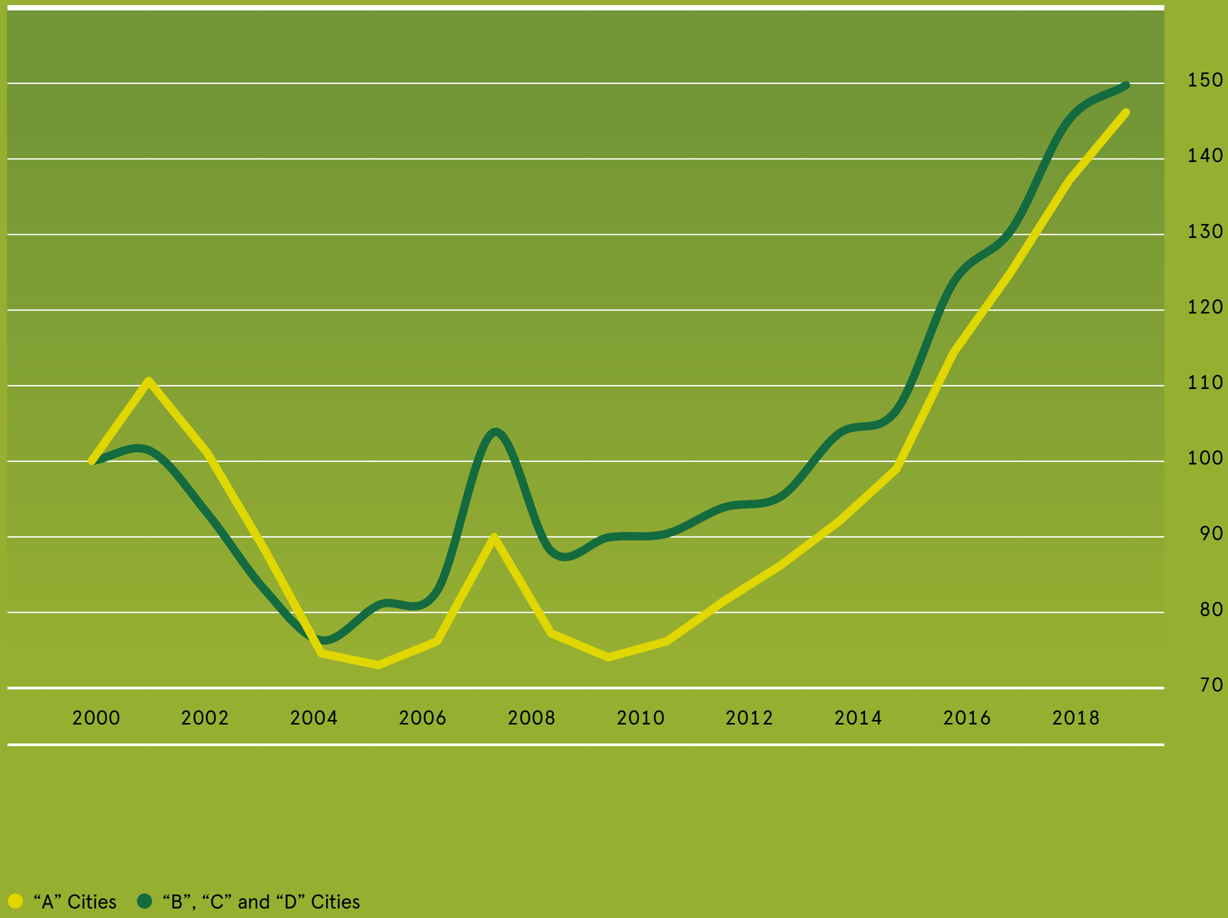
In contrast to the German Top 7 locations, fundamental real estate market data for secondary locations is only sporadically available, which makes these properties much less researched – a consequence of their high level of granularity. DEMIRE's goal is to increase the transparency and knowledge of these markets and to use this information to analyse existing and future investment locations for its planned growth. DEMIRE, together with bulwiengesa, one of the largest independent analysis companies in the real estate industry, regularly publishes market analyses focusing on the investment opportunities in office real estate in secondary locations in Germany.

OFFICE REAL ESTATE INDEX FOR SECONDARY LOCATIONS

Of the 65 locations comprised in DEMIRE's portfolio, only 27 are covered in the current survey. In the most recent survey, DEMIRE published the SOX office property index for secondary locations for the first time. This index takes not only real estate market data into consideration but also other macroeconomic input factors and, therefore, serves as an indicator of the current market sentiment.

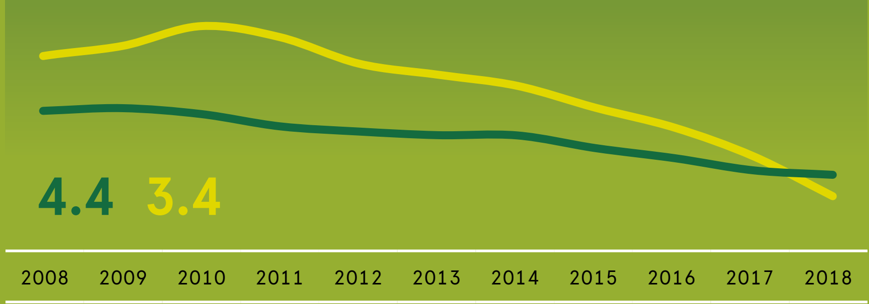
SOX: A regional real estate market index that analyses and compares national key indicators (financial market – DAX, DIMAX, ESI) and regional framework conditions (economy, labour market, real estate economic variables, investment) as well as local classifications (“A” markets and secondary locations).

Secondary Office Index: Indicator for the regional real estate environment

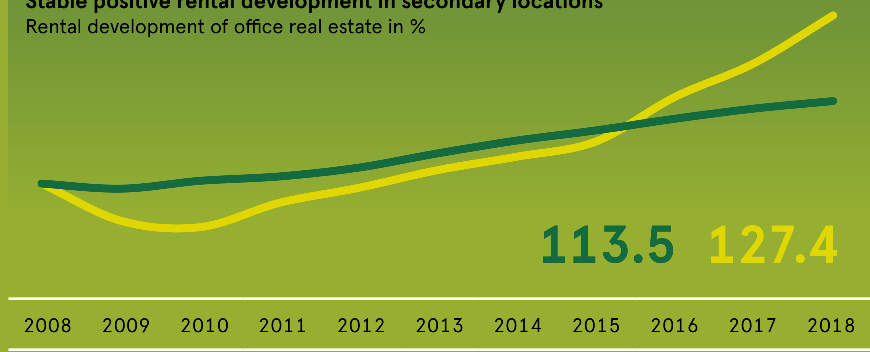


SECONDARY LOCATIONS ARE COMPELLING BASED ON THEIR STRONG ECONOMICALLY FUNDAMENTAL DATA

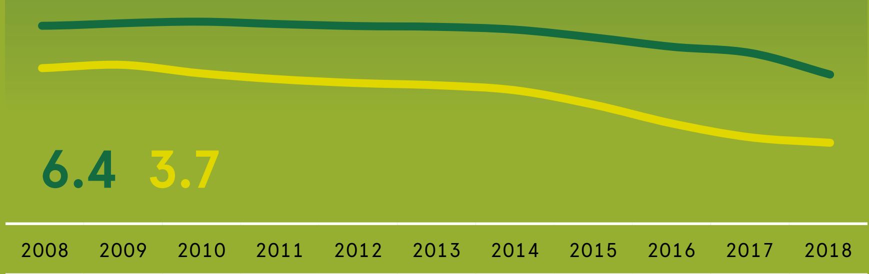
Strong demand for space leads to declining vacancy rates
Development of the vacancy rate for office real estate in %



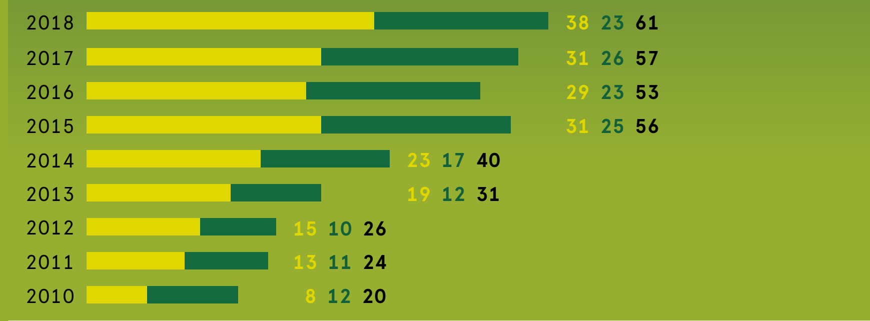
Stable positive rental development in secondary locations
Rental development of office real estate in %



Secondary locations offer higher returns with lower volatility
Development of gross initial yields for office real estate in %



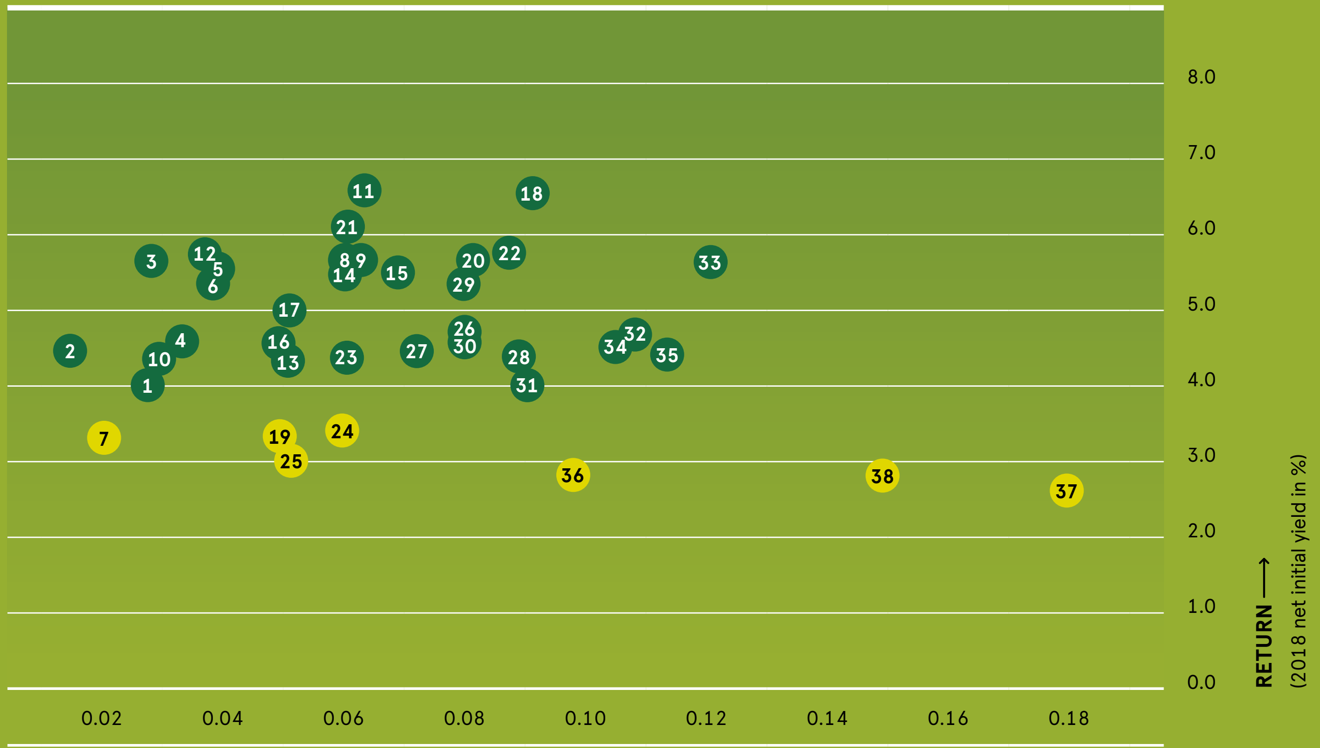
Secondary locations in office property markets offer high liquidity
Transaction volumes in EUR billion



● Ø Secondary locations ● Ø Top 7 locations

Many secondary locations offer higher returns with lower rent volatility compared to the Top 7 cities.

Risk / return profile



RENT VOLATILITY ⟶

(Coefficient of variation = relative standard deviation of the average rent)
The relative standard deviation is based on the period from 2009 to 2018.

● Secondary locations ● Top 7 locations

Secondary locations

NO.	CITY	RSD[1]	NIY[2]
5	Bayreuth[3]	0.04	5.7
1	Bonn[3]	0.03	4.0
16	Bremen[3]	0.05	4.6
11	Chemnitz[3]	0.06	6.6
10	Darmstadt[3]	0.03	4.3
2	Dortmund[3]	0.02	4.5
28	Dresden[3]	0.09	4.4
4	Essen	0.03	4.4
8	Flensburg[3]	0.06	5.7
31	Freiburg (i. B.)[3]	0.09	4.0
9	Göttingen	0.06	5.7
26	Ingolstadt	0.08	4.7
20	Jena	0.08	5.7
23	Karlsruhe	0.06	4.2
29	Kassel[3]	0.08	5.3
33	Kempten[3]	0.12	5.7
3	Koblenz[3]	0.03	5.7
35	Leipzig[3]	0.11	4.3
14	Leverkusen[3]	0.06	5.6
22	Lüneburg	0.09	5.8
13	Mannheim	0.05	4.3
27	Münster[3]	0.07	4.3
30	Osnabrück[3]	0.08	4.7
32	Potsdam[3]	0.11	4.6
34	Regensburg[3]	0.10	4.5
12	Reutlingen	0.04	5.8
6	Rostock[3]	0.04	5.4
21	Schwerin[3]	0.06	6.1
18	Stralsund[3]	0.09	6.7
17	Ulm[3]	0.05	5.0
15	Wuppertal[3]	0.07	5.5

1 Relative standard deviation of average rent
2 Net initial yield for office property in prime locations
3 Held in DEMIRE portfolio

Top 7 cities

NO.	CITY	RSD[1]	NIY[2]
37	Berlin[3]	0.18	2.8
7	Dusseldorf[3]	0.02	3.2
25	Frankfurt	0.05	3.0
36	Hamburg[3]	0.10	2.9
24	Cologne[3]	0.06	3.4
38	Munich[3]	0.15	2.9
19	Stuttgart	0.05	3.3

Higher net initial yields in secondary locations

DEMIRE – Goals for the next phase of growth

Strategy and objectives

DEBT REDUCTION

- Sustainable reduction in net LTV to 50 %
- Attain investment grade rating

MARKET LEADERSHIP IN SECONDARY LOCATIONS

- Expand portfolio to EUR 2 billion
- Increase free-float market capitalisation

DIVIDEND POLICY

- Payment of attractive and continuous dividends following phase of growth and debt reduction

Medium-term measures

FINANCING STRUCTURE

- Refinancing of liabilities on improved terms
- Financing of future acquisitions by assuming less debt (LTV)
- Continual optimisation of the financial structure / financing mix

PORTFOLIO PLANS

- Value-adding acquisitions
- Active asset management
- Further reduction in vacancies
- Improvement in profit margin from rental business
- Diverging development of holdings

GROUP STRUCTURE

- Simplification of Group structure and real estate platform
- Cost optimisation, elimination of tax inefficiencies, reduction in minorities

Attractive FFO and NAV growth

Increase in performance

Market value of the portfolio (in EUR millions)

2018	**1,130**
2017	1,034
2016	1,006

+ 12.4 %

EPRA net asset value (diluted, in EUR millions)

2018	**595**
2017	336
2016	313

+ 90.0 %

FFO I (in EUR millions)

2018	**23.4**
2017	11.7
2016	8.1

+ 189.0 %

EPRA vacancy rate (in percentage points)

2018	**7.5**
2017	9.4
2016	11.6

– 4.1 percentage points

Portfolio highlights

REAL ESTATE HOLDINGS AND CORPORATE LOCATIONS

DEMIRE holds commercial real estate in mid-sized cities and in up-and-coming peripheral areas of metropolitan areas throughout Germany. It focuses its investment on so-called “secondary locations”, which offer more attractive and more stable investment parameters than the Top 7 locations. DEMIRE has real estate investments in 15 of the 16 federal states.

Property type / Use

Office

Retail

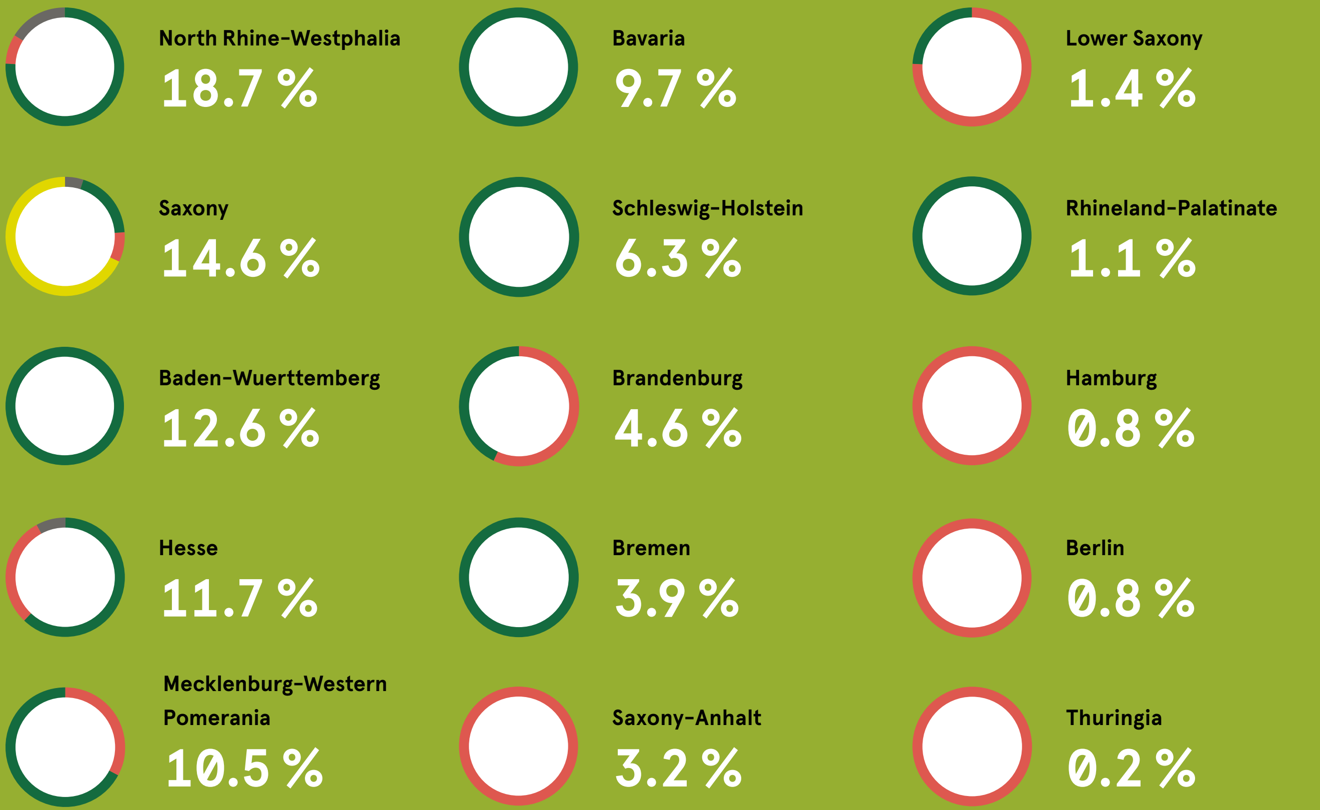
Logistics

Other

Corporate locations

As at: 31 December 2018

MARKET VALUE OF THE PORTFOLIO AND DISTRIBUTION OF RENTAL SPACE USE BY REGION (share in %)



The diagrams show the percentage distribution of the lettable space by use.

Investment highlights

OFFICE, RETAIL AND HOTEL PROPERTY

Gutenberggalerie Leipzig

Repositioning a mixed-use property in an up-and-coming market environment

Action plan

- Implementation of active real estate management to benefit from the high office demand at the Leipzig location
- Expansion in space through existing and new tenants
- Improvement in all key operating figures

Gutenbergplatz 1a – 1e

Market value (in EUR millions)

32.7

Lettable space (in m²)

23,300

Purchase

April 2015

Market value (in EUR millions)

2018	32.7
2017	27.5

+ 18.9 %

Contractual rent (in EUR millions)

2018	1.8
2017	1.7

+ 4.6 %

EPRA vacancy rate (in %)

2018	5.0
2017	10.0

– 5 percentage points

LOGISTICS PROPERTY

Logistikpark Leipzig

Value appreciation through a reduction in vacancy

Action plan

- Repositioning and transforming from a single-tenant location to a multi-tenant location
- Optimal tenant support by real estate team on site
- Successive reduction in vacancies and increase in contractual rents

Am alten Flughafen 1

Market value (in EUR millions)

65.5

Lettable space (in m², incl. other external spaces)

178,000

Purchase

Mai 2015

Market value (in EUR millions)

2018 65.5
2017 61.7

+ 6.2 %

Contractual rent (in EUR millions)

2018 4.4
2017 3.7

+ 17.7 %

EPRA vacancy rate (in %)

2018 13.0
2017 33.0

– 20 percentage points

RETAIL PROPERTY

Münster

Sustainable property management and strong tenant loyalty

Hammer Straße 455 – 459

Action plan

- Early conclusion of a long-term lease for another 10 years with existing tenant
- Future sustainable cash flows lead to a significant increase in market value

Market value (in EUR millions)

10.2

Lettable space (in m²)

7,400

Purchase

June 2007*

Market value (in EUR millions)

2018	10.2
2017	7.3

+ 39.5 %

Contractual rent (in EUR millions)

2018	0.7
2017	0.7

0.0 %

EPRA vacancy rate (in %)

2018	0.0
2017	0.0

0.0 percentage points

* Acquired via Fair Value REIT-AG

OFFICE BUILDING

Dresden

Value appreciation through active property management

Action plan

- Successive letting of vacant space until full occupancy
- Conclusion of long-term leases with creditworthy tenants Deutsche Bahn AG and Federal Agency for Real Estate Tasks (Bundesanstalt für Immobilienaufgaben)
- An increase in the WALT to over 5 years

Nossener Brücke 8 – 12

Market value (in EUR millions)

12.0

Lettable space (in m²)

8,800

Purchase

June 2007*

Market value (in EUR millions)

2018	**12.0**
2017	8.75

+ 37.1 %

Contractual rent (in EUR millions)

2018	**0.9**
2017	0.8

+ 16.0 %

EPRA vacancy rate (in %)

2018	**0.0**
2017	3.0

– 3 percentage points

* Acquired via Fair Value REIT-AG

OFFICE PROPERTY

Wismar

Repositioning with a new use concept

- Inner-city location
- Total lettable space of around 5,100 m²
- Constructed in the year 2000

Hinter dem Rathaus 13 – 15

Initial position

- Inner-city office property with poor demand
- Vacancy rate of 33 %
- Market value as at 31 December 2017 at EUR 7.5 million

Action plan

- Conversion of 2,700 m² of office space into a care facility
- Renegotiation of a 15-year lease with a professional nursing home operator
- Structural repositioning of the property for approx. EUR 2 million

Result

- Rent increase from EUR 5.50 / m² to EUR 10.50 / m² for the converted areas
- Complete reduction in vacancy and full occupancy as of March 2019
- Increase in WALT from 2.9 years to over 10 years
- Initial increase in value of 22 % from EUR 7.5 million to EUR 9.2 million as at 31 December 2018

Purchases

OFFICE PROPERTY

Aschheim

The office property in Aschheim-Dornach in the commercial area of Humboldtpark is located directly at Munich's north-eastern city limits. It has lettable space of 12,200 m² with a well-diversified tenant mix. The business park is easily accessible with public and private transportation. The Aschheim-Dornach location has established itself as a new service location due to its favourable infrastructure and advantageous trade tax. The city's population has increased by 23 % over the last 6 years. The broad spectrum of local companies ranges from versatile high-tech companies to financial service providers, fashion retailers and recycling companies.

Max-Planck-Straße 3

Purchase price (in EUR millions)

26.3

Lettable space (in m²)

12,200

EPRA vacancy rate (in %)

11.3

Contractual rent (in EUR millions)

1.3

WALT (in years)

2.8

Anchor tenant

Future Electronics

OFFICE PROPERTY

Cologne

The Top 7 city of Cologne is the fourth largest city in Germany with around one million inhabitants. The Cologne metropolitan area is the third largest German industrial region, situated in the centre of a strong European sales market. Within a radius of 250 kilometres, local companies can reach approximately 45 million potential customers. The office property in Cologne is a two-storey office complex, built in 2006, with lettable space of around 5,200 m². The main tenants are the City of Cologne, which operates the city's sole vehicle registration office at this location, and EHA Autoschilder GmbH, Germany's oldest sign maker with more than 80 branches nationwide. This property has convenient access to central hubs of public transportation.

Max-Glomsda-Straße 4

Purchase price (in EUR millions)
18.7

Lettable space (in m²)
5,200

EPRA vacancy rate (in %)
2.9

Contractual rent (in EUR millions)
1.1

WALT (in years)
4.1

Anchor tenant
City of Cologne

OFFICE PROPERTY

Essen

The largest object purchased last year is the multi-tenant office property “Office Park Bredeney” with lettable space of 45,600 m². It is located in Essen, which is one of the most economically successful areas in Germany and the home of a large number of corporations, a flourishing, internationally oriented SME sector, a strong high-tech industry, six universities and around 25 research institutes. It also hosts leading international trade fairs. This location features excellent infrastructure and convenient public transport connections and is situated near the motorway with direct connections to Dusseldorf Airport, Essen’s city centre and the main train station.

Theodor-Althoff-Straße 39 – 47

Purchase price (in EUR millions)

88.3

Lettable space (in m²)

45,600

EPRA vacancy rate (in %)

11.9

Contractual rent (in EUR millions)

5.1

WALT (in years)

3.0

Anchor tenant

Thyssen Krupp

OFFICE PROPERTY

Bad Vilbel

Property with value appreciation potential. The spa town of Bad Vilbel, with approximately 35,000 inhabitants, has an excellent location and infrastructure in the middle of the Rhine-Main metropolitan area. This former single-tenant property has five building sections featuring total lettable space of around 26,000 m². The building also has superior IT infrastructure and parking facilities. With a current EPRA vacancy rate of around 67 %, the property offers high value appreciation potential by converting it into a multi-tenant property.

Konrad-Adenauer Allee 1 - 11

Purchase price (in EUR millions)

33.4

Lettable space (in m²)

26,000

EPRA vacancy rate (in %)

66.1

Contractual rent (in EUR millions)

1.1

WALT (in years)

4.6

Anchor tenant

Bad Homburg Inkasso (collection agency)

Portfolio overview

TOP 20 Tenants (as at 31 December 2018)[1]

NO.	TENANT	TYPE OF USE	CONTRACTUAL RENT P.A.[2]	
			in EUR millions	in % of total
1	GMG (Dt. Telekom)	Office	22.3	30.4
2	BImA Bundesanstalt für Immobilienaufgaben	Office	2.0	2.7
3	Sparkasse Südholstein AöR	Office	1.8	2.4
4	HPI Germany Hotelbesitz GmbH	Hotel	1.5	2.0
5	RIMC Kassel + RIMC Dresden	Hotel	1.5	2.0
6	comdirect bank AG	Office	1.2	1.7
7	Barmer	Office	1.2	1.7
8	AXA Konzern AG	Office	1.2	1.6
9	Momox GmbH	Logistics	1.2	1.6
10	toom Baumarkt GmbH	Retail	1.0	1.4
11	IBM Deutschland GmbH	Office	1.0	1.3
12	Kaufland Warenhandel	Retail	1.0	1.3
13	real GmbH	Retail	0.9	1.3
14	City of Leverkusen	Office	0.9	1.3
15	APCOA Autoparking GmbH	Other	0.9	1.2
16	Bundesagentur für Arbeit	Office	0.8	1.2
17	REWE Markt GmbH	Retail	0.8	1.0
18	Hanwha Q CELLS GmbH	Logistics	0.7	0.9
19	Jobcenter Schwerin	Office	0.6	0.9
20	WISAG Facility Service	Office	0.6	0.8
Subtotal			**43.0**	**58.8**
Other			30.2	41.2
Total			**73.2**	**100.0**

1 By annualised contractual rent excl. service charges
2 Annualised contractual rent excl. service charges

Broad base of creditworthy tenants with long-term rental contracts

BARMER

Deutsche Post DHL Group

ZAPF

PENTA HOTELS

COMMERZBANK

Sparkasse Südholstein

METRO GROUP

Bundesanstalt für Immobilienaufgaben

Overview of core real estate portfolio

	PROPERTY	MARKET VALUE	TOTAL LETTABLE SPACE					CONTRACTUAL RENT	EPRA VACANCY RATE*
				THEREOF OFFICE	THEREOF RETAIL	THEREOF LOGISTICS	THEREOF OTHER		
As at: 31 December 2018	Number	in EUR millions	in m²	in m²	in m²	in m²	in m²	in EUR millions	in %
Baden-Wuerttemberg	4	142.8	85,148	85,148	0,000	0,000	0,000	8.5	11.6
Bavaria	7	109.6	95,232	95,232	0,000	0,000	0,000	7.0	9.5
Berlin	1	8.8	7,125	0,000	7,125	0,000	0,000	0.4	0.6
Brandenburg	4	51.5	51,207	22,038	29,169	0,000	0,000	4.6	6.3
Bremen	10	44.1	34,560	34,560	0,000	0,000	0,000	2.5	3.5
Hamburg	1	9.3	3,989	0,000	3,989	0,000	0,000	0.5	0.7
Hesse	6	131.9	70,343	43,297	21,508	0,000	5,538	7.3	10.0
Mecklenburg-Western Pomerania	6	118.7	58,042	38,736	19,306	0,000	0,000	7.7	10.5
Lower Saxony	4	15.7	21,753	5,288	16,466	0,000	0,000	1.3	1.8
North Rhine-Westphalia	14	211.9	127,735	96,579	10,576	0,000	20,580	13.5	18.5
Rheinland-Palatinate	3	12.1	12,528	12,528	0,000	0,000	0,000	0.8	1.1
Saxony	11	165.2	264,945	51,402	20,845	178,283	14,416	10.8	14.7
Saxony-Anhalt	3	36.4	25,316	0,000	25,316	0,000	0,000	2.8	3.8
Schleswig-Holstein	9	70.7	63,032	63,032	0,000	0,000	0,000	5.1	7.0
Thuringia	1	1.8	5,505	0,000	5,505	0,000	0,000	0.2	0.2
Germany	**84**	**1,130.4**	**926,461**	**547,841**	**159,804**	**178,283**	**40,534**	**73.2**	**100.0**
TOP 20 Properties	**20**	**747.0**	**586,367**	**305,970**	**102,114**	**178,283**	**0,000**	**47.6**	**7.2**

* Excl. real estate held for sale

TOP 20 Properties (as at 31 December 2018)[1]

NO.	ADDRESS	CITY	TYPE OF USE	MARKET VALUE	SHARE IN %[2]	LETTABLE SPACE	VALUE / M²	RENTAL YIELD	CONTRACTUAL RENT P.A.[3]	CONTRACTUAL RENT[3]	EPRA VACANCY RATE	WALT[4]
				in EUR millions	in %	in m² thousands	in EUR	in %	in EUR millions	EUR / m²	in %	in years
1	Bonner Talweg 100 / Reuterstr.	Bonn	Office	89.7	7.9	38,353	2,339	6.3	5.6	12.3	0.0	6.2
2	Zeitblomstr. / Olgastr. / Bahnhofplatz	Ulm	Office	80.3	7.1	47,527	1,690	5.4	4.3	7.8	0.8	5.9
3	Kröpeliner Str. 26 – 28	Rostock	Retail	70.6	6.2	19,306	3,657	6.2	4.4	19.8	3.0	3.8
4	Am alten Flughafen 1	Leipzig	Logistics	65.5	5.8	178,283	367	6.7	4.4	2.3	12.9	1.6
5	Kölnische Str. 6 / Mauerstr. 11 / Spohrstr. 2, 4	Kassel	Retail	61.1	5.4	21,508	2,841	5.7	3.5	14.7	5.8	7.4
6	Berliner Allee 1	Freiburg	Office	41.3	3.7	22,674	1,821	6.6	2.7	10.1	0.0	2.2
7	Bajuwarenstr. 4	Regensburg	Office	36.7	3.2	29,219	1,256	7.0	2.6	7.4	0.0	2.2
8	Wiesenstr. 70	Dusseldorf	Office	34.4	3.0	24,307	1,415	5.8	2.0	8.9	23.0	4.1
9	Gutenbergplatz 1 a – e	Leipzig	Office	32.7	2.9	23,260	1,406	5.4	1.8	6.6	5.0	3.4
10	Frankfurter Str. 29 – 35	Eschborn	Office	31.0	2.7	18,889	1,641	6.5	2.0	8.9	0.0	6.0
11	Nordpassage 1	Eisenhüttenstadt	Retail	28.5	2.5	29,169	977	8.1	2.3	9.6	23.9	5.9
12	Lerchenbergstr. 112 – 113 / Annendorfer Str. 15 – 16	Lutherstadt Wittenberg	Retail	23.7	2.1	14,710	1,611	7.1	1.7	10.2	4.5	5.2
13	Ohmstr. 1	Unterschleißheim	Office	23.2	2.1	15,663	1,481	4.5	1.0	8.0	31.5	2.7
14	Eckernförder Landstr. 65	Flensburg	Office	21.4	1.9	23,800	899	8.0	1.7	6.0	0.0	2.2
15	Hochwaldstraße 20	Zittau	Retail	21.3	1.9	17,421	1,223	6.2	1.3	6.4	4.3	10.5
16	Colonia-Allee 11	Cologne	Office	17.6	1.6	9,108	1,932	5.6	1.0	9.0	0.0	1.0
17	Pascalkehre 15 – 15a	Quickborn	Office	17.3	1.5	10,570	1,637	7.1	1.2	9.7	0.5	3.4
18	Güterfelder Damm 87 – 91	Stahnsdorf	Office	17.3	1.5	17,110	1,011	11.2	1.9	9.4	0.0	2.2
19	Kuhberg 11 – 19 / Kieler Str. 1 – 15	Neumünster	Office	16.9	1.5	11,808	1,431	6.3	1.1	7.6	1.5	6.9
20	Robert-Bosch-Str. 11	Langen	Office	16.5	1.5	13,681	1,206	6.1	1.0	9.4	31.5	3.1
Subtotal				**747.0**	**66.1**	**586,367**	**1,274**	**6.4**	**47.6**	**7.4**	**7.2**	**4.4**
Other				383.4	33.9	340,094	1,127	6.7	25.6	7.0	8.0	4.6
Total				**1,130.4**	**100.0**	**926,461**	**1,220**	**6.5**	**73.2**	**7.2**	**7.5**	**4.5**

1 By market value
2 Rounding differences
3 Annualised contractual rent excl. service charges
4 Weighted average lease term (WALT)

1

1 Kröpeliner Str. 26 – 28, Rostock
2 Hochwaldstraße 20, Zittau **3** Frankfurter Str. 29 – 35, Eschborn **4** Zeitblomstr. / Olgastr. / Bahnhofplatz, Ulm **5** Kölnische Str. 6 / Mauerstr. 11 / Spohrstr. 2, 4, Kassel
6 Robert-Bosch-Str. 11, Langen
7 Pascalkehre 15 – 15a, Quickborn
8 Bonner Talweg 100 / Reuterstr., Bonn


3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9 Wiesenstr. 70, Dusseldorf **10** Lerchenbergstr. 112 – 113 / Annendorfer Str. 15 – 16, Lutherstadt Wittenberg **11** Pascalkehre 15 – 15a, Quickborn
12 Nordpassage 1, Eisenhüttenstadt
13 Ohmstr. 1, Unterschleißheim
14 Kuhberg 11 – 19 / Kieler Str. 1 – 15, Neumünster **15** Bajuwarenstr. 4, Regensburg
16 Auf dem Steinbüchel 20, Meckenheim

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 roughly 107.78 million no-par value bearer shares, which have been admitted for trading on the Frankfurt Stock Exchange and Xetra. DEMIRE's market capitalisation on 28 December 2018, the last trading day in 2018, was approximately EUR 465 million.

DEMIRE KEY SHARE DATA

SHARE	31/12/2018	31/12/2017
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol/Ticker	DMRE	DMRE
Stock exchange	Frankfurt Stock Exchange (FSE); Xetra Open markets in Stuttgart, Berlin, Dusseldorf	Frankfurt Stock Exchange (FSE); Xetra Open markets in Stuttgart, Berlin, Dusseldorf
Market segment	Prime Standard	Prime Standard
Designated sponsors	BaaderBank, Pareto Securities AS	BaaderBank, equinet Bank AG
Share capital	EUR 107,777,324	EUR 54,270,744
Number of shares	107,777,324	54,270,744
Closing price 31/12 (Xetra)	EUR 4.31	EUR 3.86
Ø daily trading volume 01/01–31/12	41,493	60,890
Market capitalisation	EUR 465 million	EUR 209.5 million
Free float < 3 %	11.43 %	41.38 %

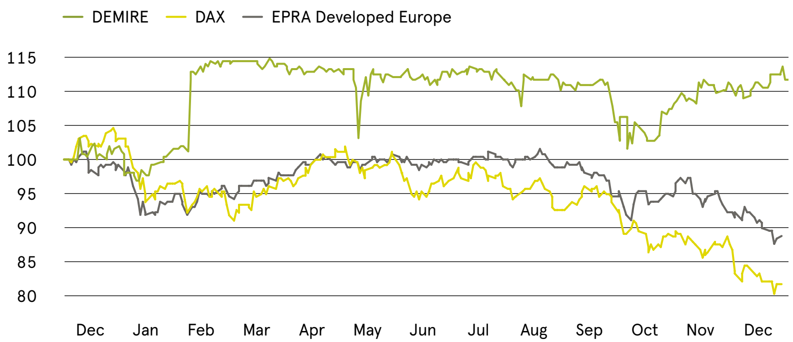
DEVELOPMENT OF THE STOCK MARKET AND DEMIRE SHARES

After a positive year on the capital markets in 2017, the 2018 trading year was marked by political uncertainty. Three topics mainly dominated the international and national stock markets: among these were the continuing discussions about Britain's exit from the European Union, the trade dispute between the US and China and related punitive tariffs, as well as the uneasy political situation in Italy due to the formation of a new government and the budget dispute with the European Commission at the end of 2018. Uncertainties led investors to take a more risk-averse approach, causing a downward trend on the stock market in 2018 that turned into the biggest loss-making year for investors since the 2008 international financial crisis.

Over the course of 2018, concerns repeatedly arose about a global economic slowdown, which would presumably have an effect on Germany, as an export nation. The first indicators already came to the fore in February 2018. The new US labour market data showed a greater increase in hourly wages than expected and were therefore seen as a signal of higher inflation expectations. This caused investors to speculate that the US Federal Reserve could raise interest rates more quickly and slow down US economic growth. The US Federal Reserve had raised key interest rates in four steps by the end of the 2018 financial year. Key interest rates now range between 2.25 and 2.50 %; at the beginning of 2018, they ranged between 1.25 and 1.50 %. The last interest rate hike shortly before the end of the year caused the sharpest reaction and triggered an outright sell-off on the global stock markets. A further effect of higher interest rates is that they make government and corporate bonds relatively more attractive compared to equities. In the course of 2018, the President of the European Central Bank (ECB), Mario Draghi, announced an end to years of loose monetary policy in Europe. Although Draghi has so far left the benchmark interest rate at zero, in 2019 the ECB does not want to put any more money into bonds and intends to just reinvest the funds from expiring bonds.

Since marking an early high of 13,559.60 points on 23 January 2018, the German benchmark index DAX trended downward, ending the year at 10,558.96 points – or 18 % below its level at the end of 2017. Even in international comparison, the DAX finished worse. The US benchmark index Dow Jones ended the year 2018 in a year-on-year decline of around 6 %.

SIGNIFICANT OUTPERFORMANCE OF DEMIRE SHARES IN 2018 COMPARED TO THE INDICES
in %



DEMIRE shares posted a significant jump in price in the first quarter of 2018. After recording a low of EUR 3.74 per share on 31 January 2018, the shares rose significantly in February 2018, primarily due to the addition of a new shareholder, Apollo Global Management, LLC, via its fund AEPF III 15 S.à r.l. within the scope of a 10 % capital increase. The offer price for each new share was EUR 4.35. At the beginning of the second quarter, DEMIRE's shares reached its high for the 2018 financial year at EUR 4.44 per share on 9 April 2018. Over the year as a whole, DEMIRE shares significantly outperformed the DAX and the EPRA Developed Europe Index. At the end of the 2018 financial year, the shares were quoted at EUR 4.31, representing a price increase of around 11.6 % versus the year-end price for 2017.

DEMIRE 2.0 STRATEGY

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 to a total of more than 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 improvements in the cost base. A better financing mix, also as a result of continually monitoring potential refinancing options in the debt and equity markets, is anticipated to improve average interest costs over the medium term and is expected to bring down the net loan-to-value (net LTV) ratio to around 50 %. To ensure adequate communication and access to the capital markets, DEMIRE relies on a proactive and transparent dialogue with 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.

STRATEGY TAKES OFF AFTER SUCCESSFUL BOND PLACEMENT IN 2017 TOTALLING EUR 400 MILLION

Since July 2017, DEMIRE has been able to implement a number of measures under its DEMIRE 2.0 strategy. With the successful placement of a rated, unsecured EUR 400 million corporate bond with institutional investors and asset managers on the international capital markets in the 2017 financial year, DEMIRE was able 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.

The net proceeds of the corporate bond issue were used for the early refinancing of all major liabilities due until 2019. Therefore, the Company's average financing costs were reduced from 4.4 % as of the beginning of the 2017 financial year to 3.0 % as of today.

MILESTONES IN THE 2018 FINANCIAL YEAR

The successful implementation of the DEMIRE 2.0 strategy continued during the 2018 financial year. This was largely possible as a result of the refinancing measures implemented in 2017, which improved cash flows and funds from operations (FFO I, after taxes, before minority interests) in 2018.

In November 2018, DEMIRE successfully carried out a capital increase with gross issue proceeds of around EUR 150 million for the planned expansion in the portfolio. Shortly after announcing the capital increase, DEMIRE reported the acquisition of its first portfolio. The acquired real estate portfolio consists of four office properties with a total investment volume of around EUR 167 million. The properties are currently generating a net rental income, excluding utilities, of over EUR 8 million p. a. with a planned FFO contribution of more than EUR 3 million p. a., which is expected to rise to EUR 6 million p. a. in 2023 based on our planned letting performance for the properties. The closing of the sale and transfer of the real estate to DEMIRE is expected to take place in the first half of 2019. Further details on the purchases in 2018 can be found on pages 027 ff.

In November 2018, there was a significant change in the organisational structure of the DEMIRE Group. By outsourcing services for property and facility management which had been previously performed in-house, DEMIRE has chosen to apply a much more flexible and scalable real estate management model in the German commercial real estate market than before for its planned growth, which is also more in line with its listed competitors. In November 2018, the renowned service provider STRABAG assumed the property management from DEMIRE for around 80 % of the real estate portfolio, which currently has a total market value of more than EUR 1 billion. The remaining 20 % of the real estate portfolio represents the indirect ownership of the DEMIRE Group through its investment company Fair Value REIT-AG and is already managed externally by IC Property Management GmbH. In addition, facility management was also fully outsourced through the complete sale of shares in PRAEDIA GmbH. After outsourcing the property and facility management in the first quarter of 2019, DEMIRE anticipates annual savings of up to EUR 1 million p. a.

DEVELOPMENT OF DEMIRE BONDS

The European bond markets were also more volatile in the 2018 financial year compared to the previous year. Similar to what was seen in the stock market, political developments led to an increase in risk premiums, especially in Italian government and corporate bonds, which were influenced by the outcome of the Italian elections and the formation of an anti-European populist government. Other European countries were affected as well, although not to the same extent. The bond markets had increased significantly early in the financial year. As a result of investors' expectations of higher US interest rates and inflation after a surprising rise in hourly wages in the US, the yield on the ten-year German government bond initially rose very quickly from 0.4 % to almost 0.8 %. Yields then fluctuated around 0.5 % for an extended period, only to slip sharply to 0.25 % at the end of 2018.

DEMIRE's 2017 / 2022 corporate bond (ISIN: XS1647824173) declined from its previous high of 103.26 % on 25 January 2018 to a level of 97.64 % at the end of the 2018 financial year. The volatility of the overall market was the main reason for this decline. The announcement of a takeover offer by the new major shareholder, Apollo Global Management, LLC, triggered a change of control on 16 April 2018. Under the terms of its bond, DEMIRE is required to offer its bondholders early redemption of the bond at a repurchase price equal to 101 % of the principal amount plus interest accrued and unpaid until the repurchase date ("repurchase offer") within 30 days of obtaining knowledge of the change of control. DEMIRE therefore published a repurchase offer, among other things, on its website on 16 May 2018. Bondholders were able to claim repayment until 11.00 a.m. on 14 June 2018. The repurchase offer was accepted for a total volume of EUR 33,375,000.00. Over the course of this period, the price of the 2017 / 2022 corporate bond has approached the repurchase price.

On May 22, 2018, in accordance with the terms of the 2015 / 2018 mandatory convertible bond, bonds were converted into a total of three million bearer shares. By 31 December 2018, the 2013 / 2018 convertible bond was repaid in full in accordance with the bond's terms and conditions, provided that the bondholders had not exercised the conversion option until the last possible date.

RATINGS FROM S & P AND MOODY'S

In the context of the placement of the 2017 / 2022 corporate bond, 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.

In June 2018, S & P and Moody's conducted their annual review of the ratings. In conclusion, they made no adjustment to their prior rating for the corporate bond or the corporate rating for DEMIRE.

DEMIRE promotes the transparency and unbiased assessment of its business activities with the rating assessments. 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 – AS AT 31 / 12 / 2018

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

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
Issue volume	EUR 400,000,000
Issue price	100 %
Denomination	EUR 100,000
Coupon	2.875 %
Interest payment	On 15 January and 15 July, beginning on 15 January 2018
Maturity date	15 July 2022
Early repayment	NC2 at 101.438 % for the first time on 15 July 2019; at 100.719 % on 15 July 2020; at 100 % on 15 July 2021 and thereafter
Closing price 31 / 12 / 2018	97.639 %

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

ANNUAL GENERAL MEETING

On 27 June 2018, the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG approved the resolution proposals of the management with significant majorities. Due to the entry of the new major shareholder Apollo Global Management, LLC, and the related 10 % capital increase entered in the commercial register in April 2018, as well as the exercise of convertible bonds in the first half of 2018, which resulted in significantly higher share capital, a resolution was passed to adjust the level of authorised and conditional capital. In the elections to the Supervisory Board, Prof. Dr Alexander Goepfert was elected as a new member of the Supervisory Board. He also assumed the chairmanship of the Board from Prof. Dr Hermann Wagner, who left the Supervisory Board of DEMIRE at the end of the Annual General Meeting.

SHAREHOLDER STRUCTURE

DEMIRE's shareholder structure changed significantly in the 2018 financial year, partly as a result of two capital increases in April and November 2018. Following the issue of subscription shares through the exercise of conversion rights in the 2018 financial year and two capital increases from authorised capital, DEMIRE's share capital increased by a total of 53,506,580 shares to a new total of 107,777,324 shares as at 31 December 2018.

NEW STRATEGIC INVESTOR – TWO CAPITAL INCREASES 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. In the course of this capital increase, DEMIRE gained a new strategic investor, Apollo Global Management, LLC, a global alternative investment manager with roughly USD 270 billion assets under management, who subscribed to the capital increase at an issue price of EUR 4.35 – a premium of 11.3 % to the share's last closing price before the announcement. 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 the other anchor shareholder, Wecken, Apollo supports the DEMIRE 2.0 strategy providing the Company not only with financial expertise 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. Both anchor shareholders also support the Company's goal of earning an investment grade rating.

Apollo Global Management, LLC, further increased its shareholding in the second quarter of 2018 within the scope of a mandatory offer to existing DEMIRE shareholders published on 16 April to acquire additional shares at an offer price of EUR 4.35. In June 2018, the funds managed by Apollo and the Wecken Group also converted convertible bonds into DEMIRE shares with a total volume of EUR 10.3 million.

At the end of October 2018, the Executive Board of DEMIRE, with the approval of the Supervisory Board, resolved to increase the Company's share capital from authorised capital by around 47 %, or by EUR 34,512,703.00 from EUR 73,085,728.00 to a total of EUR 107,598,431.00. The offer price for roughly 34.5 million "new shares" was EUR 4.35 per new share. The acceptance rate of existing shareholders was 54.83 %. In addition, Apollo was committed through its AEPF III 15 S.à r.l. fund to acquire the new shares that were not subscribed to by the existing shareholders of the Company. As a result, its stake in the Company's share capital increased to around 64 % upon completion of the capital increase. The gross proceeds from the capital increase amounted to approximately EUR 150.1 million.

DEMIRE intends to use the gross proceeds from the capital increases – net of transaction costs – for the partial financing of the purchase price and the potential acquisition of various properties and real estate portfolios predominantly in Germany with an estimated total purchase price (incl. acquisition costs) in excess of EUR 300 million. At the same time, DEMIRE is systematically continuing with the measures introduced to further optimise the Group's profitability and structure with the support of the two strategic shareholders.

SHAREHOLDER STRUCTURE AS AT 31 / 12 / 2018
in %

- **64.07** Apollo (AEPF III 15 S.à r.l.) [1,2]
- **24.50** Wecken Group [2]
- **11.43** Free float (Share of ownership < 3 %)

1 Incl. subsidiaries; 2 Acting in concert
Source: WpHG announcements and own calculations

IR ACTIVITIES

In the 2018 financial year, DEMIRE made a renewed effort to further strengthen its communications with the capital market and its investors.

DEMIRE makes it a point to communicate with investors on the capital market in an active and transparent manner. With the support of our existing shareholders and our further growth, we plan to move ahead with further increases in our market capitalisation and ensure that DEMIRE has more visibility on the capital market.

The Investor Relations department, together with the Executive Board, is responsible for taking a professional approach to investors and analysts and to the communication with fixed-income specialists. To accomplish this, all reporting requirements for equity investors, bond investors and rating agencies are centralised.

In the 2018 financial year, DEMIRE 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

DEMIRE regularly informs its stakeholders and, in addition to publishing its results on its website, also holds conference calls for interested investors, analysts and the media, and reports in detail on the most recent results.

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.

To receive relevant Company news in the future, you can register on *DEMIRE's website.* Print versions of various documents may also be requested.

ANALYST COVERAGE

DEMIRE is currently covered by three financial analysts.

BANK / BROKER	ANALYST	CURRENT RATING	CURRENT PRICE TARGET in EUR
Baader Bank	Andre Remke	Buy	5.20
Pareto Securities	Katharina Mayer	Hold	4.40
SRC Research	Stefan Scharff	Buy	5.40

As of March 2019

www.demire.ag/en/investor-relations

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Report of the Supervisory Board

Ladies and Gentlemen,
In the 2018 financial 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 informed the Supervisory Board on the basis of written and verbal reports. These reports included a detailed discussion of 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 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 and communicate it to the capital market. 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 informed by the Executive Board by way of written and verbal reports – also outside of scheduled Supervisory Board meetings – of particular business transactions that, in the opinion of the Executive Board, were of key significance in assessing the position and the development of the Company and the Group and relevant for their management. Matters requiring approval were promptly submitted by the Executive Board for resolution. The Chairman of the Supervisory Board was in personal 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.

Consultancy and other services provided by members of the Supervisory Board to the Company existed with Prof. Dr Alexander Goepfert, Chairman of the Supervisory Board of the Company. Prof. Dr Goepfert was active until 31 December 2018 as a partner of the law firm Noerr LLP. The law firm Noerr LLP became legal advisers in 2018 to DEMIRE Deutsche Mittelstand Real Estate AG. Further conflicts of interest of members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information to the Annual General Meeting did not arise in the year under review.

COMPOSITION OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD IN THE 2018 FINANCIAL YEAR

- Prof. Dr Hermann Anton Wagner (from 17 April 2013 until 27 June 2018, Chairman from 23 October 2013 until 27 June 2018)
- Frank Hölzle (since 14 February 2017, Vice Chairman)
- Dr Thomas Wetzel (since 14 February 2017)
- Prof. Dr Alexander Goepfert (since 27 June 2018, Chairman)

CHANGES IN THE SUPERVISORY BOARD

At the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG on 27 June 2018, Prof. Dr Alexander Goepfert was newly elected to the Supervisory Board. At the constituent meeting, he also assumed the chair of the Supervisory Board from Prof. Dr Hermann Wagner, who left the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG at the end of the Annual General Meeting.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board consisted of three members in the 2018 financial year. 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:
Chairman Prof. Dr Alexander Goepfert (centre),
Vice Chairman Diplom-Volkswirt Frank Hölzle (left) and Dr Thomas Wetzel (right)*

WORK OF THE PLENUM IN THE REPORTING YEAR

The Supervisory Board met eight times in the 2018 financial year: 19 March, 10 April, 5 June, 27 June, 9 July, 7 August, 13 December and 20 December 2018. In addition, in a number of conference calls, the Board discussed current topics specifically in connection with the 10 % capital increase in April 2018, in the course of which AEPF III 15 S.à r.l. became the Company's new major shareholder, the related mandatory offer in April 2018, and the cash capital increase in November 2018 with gross issue proceeds of around EUR 150 million. All of the members of the Supervisory Board participated in all of the meetings and conference calls during their respective periods of office, except for Prof. Dr Wagner, who was excused from the meeting on 5 June 2018.

1ST QUARTER 2018

In a conference call on 26 February 2018, and at its meeting on 19 March 2018, the Supervisory Board dealt in detail with the business development and optimisation projects in the 2018 financial year.

On 26 February 2018, the Supervisory Board approved the increase in the Company's share capital of EUR 5,425,774.00 from authorised capital by issuing 5,425,774 new no-par value bearer shares. AEPF III 15 S.à r.l., a holding company owned by Apollo European Principal Finance Fund III, subsidiaries of Apollo Global Management, LLC ("Apollo"), had signed a subscription agreement to fully subscribe to the new shares. The subscription to the new shares by AEPF III 15 S.à r.l. was subject to the approval of the German Federal Cartel Office. The implementation of the capital increase was entered into the commercial register on 5 April 2018. On 19 March 2018, the Executive Board presented the preliminary business plan to the Supervisory Board for the 2018 financial year.

2ND QUARTER 2018

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

On 10 April 2018, 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 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 Federal Gazette as amended on 7 February 2017, as well as the deviations from these recommendations. On 12 April 2018, the Declaration of Conformity was published on *DEMIRE'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 25 April 2018, thereby adopting the annual financial statements of the Company.

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The auditor participated in this conference call and reported on the key findings of the audit and confirmed that they would attach an unqualified audit opinion to the audit of the separate financial statements and the consolidated financial statements of the 2017 financial year including the combined management report for the Company and the Group.

Based on its shareholding in DEMIRE Deutsche Mittelstand Real Estate AG and a shareholder voting agreement with Wecken & Cie. (“acting in concert”), AEPF III 15 S.à r.l. has made an offer to the Company’s other shareholders on 16 April 2018 to acquire all of the no-par bearer shares, including the ancillary rights existing at the time of the offer’s settlement, for cash consideration of EUR 4.35 per share (Mandatory Offer). The offer document, whose publication was authorised by the German Federal Financial Supervisory Authority (BaFin) on 13 April 2018, was submitted to the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG by the bidder on 16 April 2018 and, subsequently, to the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG and the employees. The Executive and Supervisory Boards of DEMIRE Deutsche Mittelstand Real Estate AG have carefully examined the offer and deliberated in separate meetings, passing a resolution on 25 April 2018 on a joint statement in accordance with Section 27 (1) WpÜG.

The Executive and Supervisory Boards were of the opinion that the consideration offered by the bidder in the amount of EUR 4.35 per DEMIRE share corresponded to the fair value of the DEMIRE share and is therefore financially appropriate and that the offer is in the interests of DEMIRE Deutsche Mittelstand Real Estate AG. The Executive and Supervisory Boards therefore supported the offer and recommended that DEMIRE shareholders accept the offer. In order to prevent any potential conflicts of interest, the Vice Chairman of the Supervisory Board, Mr Frank Hölzle, CEO and member of the Board of Directors of Care4 AG, a company controlled by Klaus Wecken, did not take part in the discussion on the Supervisory Board’s statement but did take part in passing the resolution by abstaining from voting to ensure a quorum of the Supervisory Board. The joint statement by the Executive and Supervisory Boards of DEMIRE Deutsche Mittelstand Real Estate AG was published on 26 April 2018.

The measures to publish a repurchase offer for investors in the 2017/2022 corporate bond as a result of the change of control and the assumption of bridge financing of up to EUR 400 million, including the associated total costs (bank fees, legal fees, etc.), have been approved by the Supervisory Board in a conference call on 4 May 2018. These were also the topics of the conference calls on 14 May 2018 and 14 June 2018, in addition to approving the convening documents for the Annual General Meeting on 27 June 2018. In a conference call held on 28 May 2018, 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 2018.

On 14 June 2018, the Supervisory Board approved the necessary bridge financing in the amount of approximately EUR 34 million after the repurchase offer for EUR 33,375,000.00 had been accepted.

At the Annual General Meeting on 27 June 2018, the Supervisory Board proposed the election of the PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the auditor and Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG for the 2018 financial year as well as the auditor for any audit reviews of condensed financial statements and interim reports as well as for interim financial reports in the financial years 2018 and 2019 until the next Annual General Meeting. Before submitting this proposal, the Supervisory Board conducted a selection procedure in accordance with the Auditors Ordinance and obtained the declaration of the auditing firm as to its independence provided for by the German Corporate Governance Code. At the constituent meeting of the same day, the newly elected Supervisory Board member, Prof. Dr Alexander Goepfert, was also elected Chairman of the Supervisory Board.

3RD QUARTER 2018

At its meeting on 9 July 2018, the Supervisory Board approved the purchase of a further 238,064 shares in Fair Value REIT-AG from AEPF III 15 S.à r.l. through FVR Beteiligungsgesellschaft Achte GmbH & Co. KG, Frankfurt am Main. The Supervisory Board also approved a corresponding increase in the stake in Fair Value REIT-AG and adopted the updated business plan for the 2018 financial year. Potential property acquisitions were also presented to the Supervisory Board.

At a meeting on 7 August 2018, the Executive Board presented the results of the first half of 2018 and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the publication of the half-year report on 16 August 2018.

In two conference calls in mid-August, the Executive Board presented a selection of new potential external property management service providers as an alternative to the previous intragroup solution, as well as the associated liquidation of the subsidiary Demire Immobilien Management GmbH. The Supervisory Board approved the contract with STRABAG Property and Facility Services GmbH on 20 August 2018.

4TH QUARTER 2018

In the conference call on 25 October 2018, the Executive Board's resolution on a capital increase by issuing 34,512,703 new shares was approved. Previously, the capital increase and the purchase opportunities for the use of the resulting liquid funds amounting to approximately EUR 150 million were discussed in detail, and the financial impact on the current financial year and subsequent years was examined. In the conference call on 30 October 2018, the purchase of a real estate portfolio for EUR 167 million consisting of four properties in attractive "B" locations was approved by the Supervisory Board.

In the conference call on 30 October 2018, the Supervisory Board approved the sale of the 51 % interest in PRAEDIA GmbH, thereby approving the outsourcing of the facility management in addition to the outsourcing of the property management.

In the conference call on 7 November 2018, the Executive Board presented the results of the 2018 nine-month period and discussed the development of the key earnings figures with the Supervisory Board, specifically the forecast for rental income and funds from operations (FFO) for 2018. The Supervisory Board approved the ad hoc publication to increase the forecast on the same day as well as the publication of the quarterly statement on 15 November 2018.

At the meeting on 13 December 2018, the Supervisory Board was presented with a detailed analysis of selected real estate properties, as well as further financing possibilities and an initial preliminary business plan for 2019.

At the meeting on 20 December 2018, Mr Ingo Hartlief was appointed as a member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, as well as the Chairman of the Executive Board with immediate effect until the end of 31 December 2021. The Supervisory Board also discussed the possibility of an Extraordinary General Meeting in February 2019 and subsequently approved this meeting by way of written circulation.

WORK OF THE PLENUM AFTER THE END OF THE REPORTING YEAR

At the meeting on 3 January 2019, the Supervisory Board dismissed Mr Ralf Kind as a member of the Executive Board with immediate effect, terminated the contract of employment with Mr Ralf Kind for good cause and entrusted Mr Ingo Hartlief with the tasks of Mr Kind on an interim basis.

In the conference call on 17 January 2019, the Supervisory Board appointed Mr Tim Brückner as a further member of the Company's Executive Board with responsibility for the finance area effective 1 February 2019 until the end of 31 December 2021.

On 6 March 2019, together with the Executive Board, the Supervisory Board approved the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG pursuant to Section 161 AktG 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 Federal Gazette in the version of 7 February 2017, as well as the Corporate Governance Report and the Corporate Governance Statement in accordance with Sections 315d and 289f of the German Commercial Code. The Declaration of Conformity was subsequently published on *DEMIRE's website.*

At the meeting on 6 March 2019, the Supervisory Board dealt comprehensively with the separate and consolidated financial statements for the 2018 financial year, including the combined management report for the Company and the Group. The auditors PricewaterhouseCoopers GmbH attended this meeting and reported on the main findings of their audit to date. The auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, was elected by the Annual General Meeting on 27 June 2018 and appointed by the Supervisory Board as the auditor and Group auditor as well as the auditor for a possible audit review of the condensed financial statements and interim reports, as well as interim financial reports in the financial years 2018 and 2019 until the next Annual General Meeting.

At the same meeting, the Executive Board presented possible measures for optimising the real estate portfolio, the property management and the organisation.

The Supervisory Board approved the annual and consolidated financial statements as well as the combined management report by resolution on 18 March 2019, thereby adopting the Company's annual financial statements.

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MATTERS OF THE EXECUTIVE BOARD

Mr Ralf Kind was the only member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG until 20 December 2018. On 20 December 2018, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG appointed Mr Ingo Hartlief as a new member of the Executive Board and Chief Executive Officer of the Company with immediate effect until the end of 2021. The purpose of expanding the Executive Board was to prepare for the growing demands of the Company's planned portfolio growth.

On 3 January 2019, the Supervisory Board dismissed Mr Ralf Kind as a member of the Executive Board with immediate effect, and the contract of employment was terminated for good cause. As announced in a related statement, on 17 January 2019, the Supervisory Board appointed Mr Tim Brückner effective 1 February 2019 as a further member of the Company's Executive Board with responsibility for the finance area.

DEPENDENCY REPORT ACCORDING TO SECTION 312 (1) AKTG

In the 2018 financial year, DEMIRE Deutsche Mittelstand Real Estate AG was a dependent company of BRH Holdings GP Ltd. through Apollo Global Management, LLC, as defined by § [Article] 312 AktG. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG has therefore prepared an Executive Board report on the relations with affiliates ("Dependency Report") in accordance with § [Article] 312 (1) AktG, which contains the following concluding statement:

"In accordance with the circumstances known to us at the time when the legal transactions were entered into, our Company received appropriate consideration for each legal transaction listed in the report on relationships with affiliated companies. In the year under review, no reportable measures were taken or omitted by our company within the meaning § [Article] 312 of the German Stock Corporation Act (AktG)."

The Supervisory Board received and reviewed the Dependency Report in good time. The auditor was present at this meeting. The auditor reported on the key findings of his audit and was available for additional information. On 18 March 2019, the auditor furnished the Dependency Report with the following unqualified audit opinion:

"As engaged by the Company, we audited the report of the management board according to § [Article] 312 AktG [Aktiengesetz: German Stock Corporation Act] on relations with affiliated companies according to § 313 AktG for the reporting period from 5 April to 31 December 2018. As the final result from our audit has not led to any reservations, we issue according to § 313 Abs. [paragraph] 3 Satz [sentence] 1 AktG the following auditors report:

Following our mandatory audit and evaluation, we confirm that
1. the disclosures made in the report are correct;
2. for the transactions presented in the report, the efforts of the Company were not inadequately high."

The Supervisory Board shares the opinion of the auditor. Based on the final result of the Supervisory Board's review, the Supervisory Board raises no objections to the statement on relations with affiliated companies by the Executive Board at the end of the report.

STRENGTHENING THE GROUP'S FUTURE GROWTH THROUGH SUCCESSFUL CAPITAL INCREASES AND ACQUISITIONS
As part of a 10 % increase in the share capital in February 2018, the Company gained a new, experienced strategic investor, Apollo Global Management, LLC, who together with the other anchor shareholder, Wecken & Cie., is fully in favour of the DEMIRE 2.0 strategy and actively supports the planned growth of DEMIRE Deutsche Mittelstand Real Estate AG.

Despite the repurchase offer as a result of the change of control, over 90 % of the unsecured 2017 / 2022 corporate bondholders waived their early repayment, leaving their capital with the Company while clearly indicating their confidence in the solid performance of DEMIRE Deutsche Mittelstand Real Estate AG.

With the completion of the capital increase from authorised capital against cash contribution announced on 25 October 2018, the Company generated gross proceeds of around EUR 150 million in November and laid a major cornerstone for financing its further growth. The number of shares in the Company increased by 34,512,703 from 73,085,728 to 107,598,431 as a result of the public offering of new shares against subscription rights. The execution of the capital increase was registered on 12 November 2018 in the commercial register of the District Court of Frankfurt am Main. The gross proceeds from the capital increase, net of fees and expenses associated with the capital increase, will be used to fund further portfolio growth, including the acquisition of four office properties valued at EUR 167 million already secured by a contract.

These are examples of how the Executive Board is consistently implementing the measures planned to enhance the existing commercial real estate portfolio and further expand it to more than EUR 2 billion. The forecast of the funds from operations (FFO) for the 2018 financial year was raised already in November 2018 from a range of EUR 16 to EUR 18 million to EUR 23 to EUR 24 million, and the forecast for rental income from EUR 71 to 73 million to around EUR 74 million.

This latest forecast was confirmed by the Group's financial figures as at 31 December 2018, with rental income of EUR 73.7 million and funds from operations amounting to EUR 23.4 million before minority interests and after taxes.

A WORD OF THANKS FROM THE SUPERVISORY BOARD
The Supervisory Board would like to thank the Group's employees for their great commitment – particularly in the context of the closing of transactions, capital increases, outsourcing and acquisition projects – and for their constructive collaboration during the 2018 financial year.

This report was discussed in detail and adopted by the Supervisory Board during its conference call on 18 March 2019.

Frankfurt am Main, March 2019

Prof. Dr Alexander Goepfert
Chairman of the Supervisory Board

Corporate Governance Report pursuant to Item 3.10 GCGC and 2018 Corporate Governance Statement pursuant to Sections 315d and 289f HGB

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 Company's management principles and development transparent is intended 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 and faithfully 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 (together with its subsidiaries and associates "the DEMIRE Group") 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.

After making initial improvements in the financing structure and taking measures to streamline the Group's structure in the previous year, a 10 % capital increase was carried out in April 2018, resulting in gross proceeds of EUR 23.6 million. A further capital increase, bringing gross proceeds of EUR 150.1 million, was executed in November 2018 and laid the financial foundation for the Group's continued growth. DEMIRE Deutsche Mittelstand Real Estate AG was also able to acquire a new major shareholder. The management of the Core Portfolio is the responsibility of the Group's internal asset and portfolio management, which also manages and controls the external property and facility management. The segment Corporate Functions to assume risk management, finance and controlling, investor relations, legal, IT and compliance as well as administrative tasks.

The Executive Board manages the individual real estate investments based on defined cash-flow-oriented individual budgets, as well as the Group based on an overall plan derived from the individual budgets of the portfolio and property companies and other Group subsidiaries. The development of the individual budgets versus their budget targets is a component of 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 and faithfully 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 has adopted Rules of Procedure with the approval of the Supervisory Board. The Executive Board shall obtain the Supervisory Board's approval in cases specified by law. In addition, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and the Executive Board's Rules of Procedure list extraordinary transactions that also require Supervisory Board approval.

The Executive Board informs and reports to the Supervisory Board regularly, timely and comprehensively on all Company-relevant strategy, planning, 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 to conduct reporting.

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

Mr Ingo Hartlief and Mr Tim Brückner do not hold offices in any statutory supervisory boards or comparable supervisory bodies or in any comparable domestic or foreign supervisory bodies of commercial enterprises.

Mr Ralf Kind did not hold an office in any statutory supervisory boards or comparable supervisory bodies or in any comparable domestic or foreign supervisory bodies of commercial enterprises.

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

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 to be elected by the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG. The Supervisory Board does not include any former members of the Executive Board. It is composed in such a way that its members as a whole have the necessary knowledge, skills and professional experience to perform their duties properly. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board. The Supervisory Board has not formed any committees.

The following changes were made to the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG in the 2018 financial year: At the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG on 27 June 2018, Prof. Dr Alexander Goepfert was elected as a new Supervisory Board member. At the constituent meeting, he also assumed the chair of the Supervisory Board from Prof. Dr Hermann Wagner, who left the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG at the end of the 2018 Annual General Meeting.

The Supervisory Board reports on its activities during the 2018 financial year in its report to the Annual General Meeting on pages 46 to 53 of this Annual Report.

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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) (until 27 June 2018)	Aareal Bank AG, Wiesbaden	Ordinary Member of the Supervisory Board; Chairman of the Audit Committee
	btu consultingpartner Holding AG, Oberursel (Taunus)	Vice Chairman of the Supervisory Board
	PEH Wertpapier AG, Frankfurt am Main	Ordinary Member of the Supervisory Board
	SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt am Main	Vice Chairman of the Supervisory Board
Prof. Dr Alexander Goepfert (Chairman of the Supervisory Board) (since 27 June 2018)	aamundo Holding AG, Frankfurt am Main	Chairman of the Supervisory Board
	PROXIMUS Real Estate AG, Cologne	Ordinary Member of the Supervisory Board
	shareDnC GmbH, Cologne	Ordinary Member of the Advisory Board
	EBS Real Estate Management Institut, Wiesbaden	Chairman of the Board of Trustees
	iddiw Institut der Deutschen Immobilienwirtschaft e. V., Frankfurt am Main	Vice President
Frank Hölzle (Vice Chairman of the Supervisory Board) (since 14 February 2017)	Westgrund AG, Berlin	Ordinary Member of the Supervisory Board (until 12 October 2018)
	clickworker GmbH, Essen	Chairman of the Advisory Board
	Mindlab Solutions GmbH, Stuttgart	Chairman of the Advisory Board
	mobileObjects AG, Büren	Chairman of the Supervisory Board
	rankingCoach GmbH, Cologne	Chairman of the Advisory Board
	SIC Invent AG, Basel / Switzerland	Member of the Board of Directors
	reBuy reCommerce GmbH, Berlin	Member of the Advisory Board
	Fair Value REIT-AG, Munich	Chairman of the Supervisory Board
Dr Thomas Wetzel (since 14 February 2017)	Brandenberger + Ruosch AG, Dietlikon / Switzerland	President of the Board of Directors
	EBV Immobilien AG, Urdorf / Switzerland	President of the Board of Directors (until 19 June 2018)
	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
	Stiftung für Kunst, Kultur und Geschichte, Küsnacht / Switzerland	Vice President of the Foundation Council
	Fair Value REIT-AG, Munich	Vice Chairman of the Supervisory Board
	Wintower Immobilien AG, Winterthur / Switzerland	Member of the Board of Directors (since 12 September 2018)

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 the *Remuneration report* section 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 AG had 107,777,324 shares outstanding as at 31 December 2018.

The following are the shares and stock options owned by members of governing bodies at the end of the 2018 financial year: Mr Ralf Kind held 7,361 of the Company's shares, equivalent to an interest of 0.01 % in the Company's outstanding shares. Mr Frank Hölzle held 1,400 shares in the Company, equivalent to an interest of 0.002 % in the Company's outstanding shares.

Members of the Executive Board and Supervisory Board are legally obliged under Article 19 of Regulation (EU) No. 596 / 2014 of the European Parliament and of the Council on Market Abuse (Market Abuse Regulation) of 16 April 2014 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 them reaches or exceeds the sum of EUR 5,000 within a calendar year. DEMIRE Deutsche Mittelstand Real Estate AG was not notified of any such transactions in the past financial year.

Shares owned by major shareholders at the end of the 2018 financial year: according to information from the Company, Apollo (AEPF III 15 S.à. r.l.) held 64.07 % of the Company's outstanding shares, and Wecken & Cie. held 24.50 % of the Company's outstanding shares.

The remaining 11.43 % of the shares were in the hands of both institutional and private investors. None of these shareholders held an interest over or equal to 3 %. This information is based on 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 financial year. Since the realignment in 2014, DEMIRE Deutsche Mittelstand Real Estate AG's financial 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 grants one vote at the Annual General Meeting, and there are no special voting rights or limits on the number of voting rights per shareholder. Resolutions of the Annual General Meeting usually require a simple majority of the votes cast. To the extent that the law prescribes a majority of the capital represented for resolutions, the Articles of Association provide for a simple majority of the capital represented as long as a larger majority is not required by law.

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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. DEMIRE Deutsche Mittelstand Real Estate AG regularly informs shareholders and third parties during the financial year through its publication of the consolidated financial statements, the half-year financial report and the three-month and nine-month interim statements.

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 financial 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 Annual General Meeting elects the auditor for DEMIRE Deutsche Mittelstand Real Estate AG and the Group as well as for the audit review of interim financial reports and statements. The Supervisory Board awards the mandate for the audit following the election by the Annual General Meeting and concludes the fee agreement with the auditor. The auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, Germany, was elected as the auditor and Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG for the 2018 financial year, as well as the auditor for a possible audit review of condensed financial statements, interim statements and interim financial reports in the 2018 and 2019 financial years until the next Ordinary Annual General Meeting. Before submitting the election proposal, the Supervisory Board carried out a selection procedure in accordance with the Auditors Regulation (VO [EU] No. 537 / 2014 of the European Parliament and the Council of 16 April 2014) and obtained the declaration on independence of the auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, required under the German Corporate Governance Code. An audit committee on whose recommendation the proposed resolution could be based does not exist.

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 a note of this in the audit report and inform the Chairman of the Supervisory Board.

COMMUNICATION AND TRANSPARENCY

At DEMIRE Deutsche Mittelstand Real Estate AG, timely, consistent and comprehensive information is a top priority. Transparent corporate governance and good communication with shareholders and the public contribute to strengthening investor and public confidence. When disclosing information to the public, the Executive Board considers the principles of transparency, promptness, openness, clarity and the equal treatment of shareholders. Therefore, as part of its investor relations activities, DEMIRE Deutsche Mittelstand Real Estate AG provides comprehensive information on the Company's development. 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 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. The Articles of Association, all declarations of conformity and documentation for corporate governance are also available on the *DEMIRE's 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 Sections 315d and 289f HGB. The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG contained in this statement is also available to shareholders on *DEMIRE'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 *("the Code")*, announced by the Federal Ministry of Justice in the official section of the Federal Gazette, with the following exceptions:

www.demire.ag/en/home

- **Item 3.8:** The Code recommends that a D & O insurance policy for members of the Executive and Supervisory Boards provide for a deductible of at least 10 % of the loss up to one and a half times the level of fixed annual remuneration. For the Executive Board, a deductible for the D & O insurance has been agreed but is not agreed for the Supervisory Board. In the Company's view, agreeing to such a deductible for members of the Supervisory Board would not enhance the attractiveness of a Supervisory Board position at the Company and not increase the motivation or responsibility and would, therefore, adversely affect the chances of attracting suitable candidates for the work on the Company's Supervisory Board.
- **Item 4.1.3:** In accordance with the Code, the Executive Board must ensure compliance with the statutory provisions and the Company's internal guidelines and make certain that these provisions and guidelines are observed by the Group companies (compliance). The Executive Board has set up an appropriate compliance management system (Compliance Programme), which is being developed further on an ongoing basis. Information from employees and third parties can be given confidentially to the Compliance Officer. The contact details for the Compliance Officer are published on DEMIRE's website. An anonymous whistleblowing system for third parties is currently not available on the website.
- **Item 4.1.5:** The Code recommends that diversity is taken into account – with a particular focus on women – when hiring for executive positions. The Executive Board does take diversity into account when filling executive positions and gives consideration to female candidates, and plans to continue to do so in the future. At the same time, the Executive Board believes that the decisive criterion for filling executive positions should always be the personal and professional qualifications of the candidate. The Code also recommends that the Executive Board sets targets for the proportion of women in the two management levels below the Executive Board, however, due to the Company's flat hierarchies, a target for the second management level below the Executive Board was waived.
- **Item 4.2.1:** According to the Code, the Executive Board should consist of several persons, as well as a chairperson or spokesperson. Following the departure of Mr Drews at the end of 2017, Mr Kind acted as the sole Board member until the appointment of Mr Hartlief as at 20 December 2018. Following the dismissal of Mr Kind on 3 January 2019, the Executive Board once again consisted of only one Executive Board member, which changed as at 1 February 2019, with the appointment of Mr Brückner as the Company's CFO.
- **Items 5.3.1 – 5.3.3:** According to the Code, the Supervisory Board shall form committees with professional qualifications depending on the Company's specific circumstances and the number of its members. The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG does not form any committees as it consists of only three members. As a result, the Supervisory Board performs all of the duties that would normally be performed by an audit committee and, particularly, overseeing financial reporting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal auditing system, the audit and compliance. Notwithstanding Item 5.3.3 of the Code, a nomination committee was not formed and will not be formed in the future due to the number of members on the Supervisory Board.
- **Item 5.4.1:**
  - The Code recommends naming concrete goals for its composition and developing a skills profile for the entire body. The naming of concrete goals for the composition or change to the composition of the whole body, including a skills profile, are not considered necessary based on the current situation.

- The Code recommends that the members of the Supervisory Board should be subject to an age limit and a standard limit on the length of their membership on the Supervisory Board. For the members of the Supervisory Board, neither an age limit nor a standard limit for the length of membership on the Supervisory Board has been established. In the opinion of the Company, age is not an appropriate criterion to elect a member of the Supervisory Board. The Supervisory Board is of the opinion that it serves the Company's interests better in certain cases when it can rely on the long-standing expertise of individual members of the Supervisory Board. In the absence of a standard limit for the length of service, the factor is not a consideration in the election nominations of the Supervisory Board to the Annual General Meeting or in its publication on the status of implementation.
- The Code recommends that the Supervisory Board submits CVs of the candidates proposed for nomination as new members that include the candidates' relevant knowledge, skills and experience; this is to be supplemented by an overview of the candidates' main activities outside of a Supervisory Board mandate and updated annually for all Supervisory Board members on DEMIRE's website. Although the CVs and significant activities of the members of the Supervisory Board are not available under "Company / People" on the website, they are, however, available as documentation for the Annual General Meeting at which the corresponding members were elected to the Supervisory Board.
- **Item 5.6:** According to the Code, the Supervisory Board should perform a routine review of the efficiency of its activities. In light of the limited period of time it has cooperated in this role so far (since the end of June 2018), an efficiency review has not been carried out by a third party to date. The critical scrutiny of the activity in this Item is carried out by Supervisory Board members on an ongoing basis.
- **Item 7.1.2:** The Code recommends that the consolidated financial statements and the group management report be made publicly available within 90 days of the end of the financial year and that the mandatory interim financial information be made available within 45 days after the end of the reporting period. In 2018, the Company followed the statutory publication deadlines. According to the financial calendar published on DEMIRE's website for 2019, the consolidated financial statements and the group management report should be publicly accessible within 90 days of the end of the financial year, and the mandatory interim financial information within 45 days of the end of the reporting period.

This declaration was republished directly and made available to shareholders on *DEMIRE's website.* The Declaration of Conformity with the Code of Fair Value REIT-AG dated 12 February 2019, which is included in the consolidated financial statements, can be found on Fair Value REIT-AG's *website.*

www.demire.ag/en/home
www.fvreit.de/en/investor-relations/corporate-governance/declaration-of-conformity/declaration-of-conformity.html

INFORMATION ON CORPORATE PRACTICES

Good corporate governance plays an important role at DEMIRE Deutsche Mittelstand Real Estate AG 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. As a result, the Executive Board has set up a suitable risk management system, which is being continuously developed to keep in step with the DEMIRE Group's development and ensures compliance with the law and regulations.

Responsible and sustainable corporate governance is part of DEMIRE Deutsche Mittelstand Real Estate AG's corporate culture and everyday business. It is important to the governing bodies and employees that they meet their ethical and legal responsibilities as a company. Only in this way can DEMIRE Deutsche Mittelstand Real Estate AG 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 DEMIRE Deutsche Mittelstand Real Estate AG has continued to establish its Compliance Programme, for which the *DEMIRE Code of Conduct* was adopted at the beginning of 2017, and was mandatorily signed by all employees.

COMPLIANCE PROGRAMME

The aim of the Compliance Programme is to help employees comply with the relevant legislation and codes of conduct. DEMIRE Deutsche Mittelstand Real Estate AG has set up a corresponding compliance organisation to implement appropriate measures and to monitor compliance with the laws and the Code of Conduct. 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 Deutsche Mittelstand Real Estate AG 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's 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 company, DEMIRE Deutsche Mittelstand Real Estate 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 for the proportion of women on the Supervisory Board and Executive Board was set at zero at the end of June 2017 for the period from 1 July 2017 to 30 June 2022. At the end of June 2017, the proportion of women in first-tier management positions below the Executive Board was set at 25 % for the period from 1 July 2017 to 30 June 2022, which corresponded to the proportion of female executives at that date. Due to the Company's flat hierarchies, the determination of a target for the second management level below the Executive Board was waived.

Since 1 January 2016, the position of Compliance Officer with direct reporting to the Executive Board and since 1 May 2017 the position of Head of Commercial Management have both been held by women. However, as a result of organisational changes in the Company and the DEMIRE Group, the proportion of women on the first management level as at 31 December 2018 was 22.2 %.

Diversity continues to be an important element of DEMIRE's competitiveness in the future. We believe that diversity, such as gender, nationality and age, makes a significant contribution to the teamwork, creativity and, ultimately, the sustainable success of DEMIRE. Therefore, we support the creation of a work environment and culture in which individual differences are respected, valued and promoted, where every individual can develop and use their potential and strengths. We deliberately discourage any conscious or unconscious discrimination.

With regard to measures to promote diversity, please refer to page 093 of this Annual Report.

DISCLOSURE OF CONFLICTS OF INTEREST

The members of the Executive Board and the Supervisory Board are committed to the interests of the Company. Members neither pursue personal interests in their decisions nor in connection with their work, nor grant unjustified benefits to others. Secondary employment or businesses of the members of the corporate bodies with the Company must be disclosed to the Supervisory Board without delay and approved by the latter, if necessary. The Supervisory Board reports to the Annual General Meeting on any conflicts of interest and their treatment.

Each member of the Executive and Supervisory Boards discloses conflicts of interest in accordance with the German Corporate Governance Code.

Consultancy and other services provided by members of the Supervisory Board to the Company existed with Prof. Dr Alexander Goepfert, Chairman of the Supervisory Board of the Company. Prof. Dr Goepfert was active until 31 December 2018 as a partner of the law firm Noerr LLP. The law firm Noerr LLP became legal advisers in 2018 to DEMIRE Deutsche Mittelstand Real Estate AG. In the year under review, the Company recognised expenses of around EUR 150 thousand, which corresponded to less than 2.1% of the legal and consulting fees of the DEMIRE Group in 2018. The Supervisory Board dealt in detail with the mandates and voted in favour of each of the mandates, with Prof. Dr Goepfert abstaining from the vote. The resolution was passed in writing by the Supervisory Board and included a description of all individual mandates. Payments will only be made after the approval of the Supervisory Board. The Supervisory Board dealt with the appropriateness of the fee versus the legal services rendered by the law firm Noerr LLP in comparison to the fees of other law firms. The amounts in euro stated in this section are net amounts, and the respective VAT was paid. There are no other consultancy services or work contracts between members of the Supervisory Board and the Company either directly or indirectly.

D & O INSURANCE

Directors & Officers insurance (D & O) has been concluded for the members of the Executive Board, Supervisory Board 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, 18 March 2019

The Executive Board of DEMIRE
Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
Chief Executive Officer (CEO)

Tim Brückner
Chief Financial Officer (CFO)

On behalf of the Supervisory Board of DEMIRE
Deutsche Mittelstand Real Estate AG

Prof. Dr Alexander Goepfert
Chairman of the Supervisory Board

73.7

Rental income

in EUR millions

COMBINED MANAGEMENT REPORT

Group principles

The following presents the combined management report for DEMIRE Deutsche Mittelstand Real Estate AG ("the Company"), Frankfurt am Main, and the Group ("DEMIRE" or "DEMIRE Group") for the financial year from 1 January to 31 December 2018. 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 am 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 holds commercial real estate in medium-sized cities and up-and-coming peripheral areas of metropolitan centres throughout Germany. The Company's special strength is in these secondary locations. DEMIRE grew especially rapidly in the period 2013 to 2016, both through acquiring individual properties and interests in companies and currently has a portfolio consisting of roughly 0.9 million m² in lettable space and a market value of more than EUR 1.1 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.

The DEMIRE Group's own real estate management carries out the acquisition, asset management and letting of commercial real estate. Increases in value are to be achieved through an active real estate management approach. Part of this approach is the targeted sale of properties when they no longer correspond to the business model or their potential for value appreciation 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 were largely part of the Group prior to the takeover of Fair Value REIT-AG.

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 contains the effects of the legacy portfolio, which was sold off and deconsolidated and is no longer significant for 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 1.1 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.

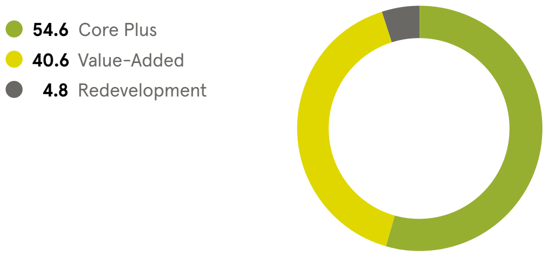
The Company's investment strategy is based on a balanced risk / opportunity profile, which is reflected in the fact that DEMIRE invests only in those properties that generate positive cash flow from the outset and have several financially sound tenants, especially when they permit the alternative use of property or the potential for value appreciation through active portfolio and asset management. Unlike other European markets and away from the Top 7 locations ("A" locations – Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart), the decentralised structure of the German real estate market offers investors who have a regional network and local market expertise a much more attractive risk / 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. Secondary locations have tenants who are mainly medium-sized companies that have a high degree of loyalty to a location as well as stability.

DEMIRE prefers to invest in prime locations in medium-sized cities and up-and-coming areas bordering on 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 SUBDIVIDED INTO THREE CATEGORIES:

- The Core Plus portfolio comprises real estate whose current risk / return profile is characterised by a vacancy rate of up to 5 % and an average remaining lease term of at least five years. These properties provide safe and sustainable cash flows from long-term rental income and tenants with high credit ratings.
- The Value-Add 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 up to 10 % of the total real estate in the DEMIRE portfolio, which from today's perspective should be repositioned on the market by means of 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 individual investments, 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 at: 31 / 12 / 2018)

Objectives

At its Annual General Meeting at the end of June 2017, DEMIRE defined its concrete targets for further growth 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 1.1 billion to a future total of more than 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 I, before minorities, after taxes) as its key performance indicator. To increase FFO I, the management is tasked with improving the cash flow of the real estate portfolio over time. On an operating level, the trend in occupancy rates, actual net rents per m^2 excluding service charges, ongoing maintenance and operating costs, allocable service charges, delinquent rents and net operating income (NOI) are all monitored and managed using periodic target/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 net profit/loss for the period and the cash flow. The active and ongoing management of the portfolio of financial liabilities combined with the continuous market observation, monitoring and assessment are carried out to achieve an ongoing improvement in the financial result.

Economic report

MACROECONOMIC AND SECTOR ENVIRONMENT

MACROECONOMIC ENVIRONMENT

Trade conflicts and a tighter US monetary policy: The global economy lost momentum in the course of 2018, but still grew – similar to the previous year – by 3.7 %. Gross domestic product (GDP) for the eurozone rose by only an estimated 1.8 %.

Germany's economic growth also lost considerable momentum. According to the Federal Statistical Office, real GDP was 1.5 % higher in 2018 than in the previous year. Growth impetus came from both consumption and investment, mainly from domestic sources. Construction investment increased by 3.0 %. Gross value added increased in almost all sectors of the economy. At 3.6 %, growth was also above average in the construction sector. Germany again registered a record of roughly 44.8 million employed people.

SECTOR ENVIRONMENT

The construction boom continued in 2018: Demand for housing continued unabated and financing conditions remained favourable. With incoming orders of EUR 72.3 billion, the construction industry had already reached the same level for full-year 2017 in just the first eleven months of 2018.

The Federation of the German Construction Industry (Hauptverband der Deutschen Bauindustrie – HDB), predicts sales growth for the entire industry (incl. small businesses) in 2018 of a nominal 6 % (real: 1.5 %). This industry growth was reflected positively in the development of the labour market with the average number of employees in the construction sector in 2018 amounting to 832,000 – a year-on-year rise of 20,000 or 2.5 %.

The transaction market for commercial real estate and residential portfolios

The commercial investment market can reflect on a sensational year in 2018: Record volume combined with yields at historically low levels. The moderate increase in interest rates left the real estate market unimpressed in 2018. Numerous investors – such as pension funds and insurance companies – increased their investment weightings in real estate, marking the ninth consecutive year of the upturn in the investment market. The commercial real estate segment set a new record in 2018, with transaction volumes up a good 6 % year-on-year reaching a level of EUR 60.3 billion. Also worth noting was the fact that it was the fourth year in a row that turnover exceeded more than EUR 50 billion. When the "Living" category is also included, the transaction volume reaches EUR 79 billion. The "Living" category comprises multi-family homes and residential portfolios with ten or more residential units, apartment houses, student halls, senior / nursing homes and clinics.

Within the commercial real estate sector, office properties continued to be the preferred asset class in the reporting year. Of the total transaction volume (incl. “Living”), office properties accounted for around 37 %, or EUR 29 billion. Residential real estate took second place with 27 %. At EUR 18.7 billion, the transaction volume of this segment exceeded the value of the previous year. Almost all of this increase, however, is attributable to higher prices. Retail real estate took third place in 2018 with a share of 13 %. Transaction volume for this segment continued to decline and – at EUR 10.5 billion – was 9 % lower than in the prior year. In contrast to this, investments in the logistics sector increased due to investors’ expectations of the sector’s potential for long-term value appreciation.

Domestic investors reinforced their strong position in the year under review, with German buyers accounting for 57 % of investors. Domestic buyers reached an investment volume of EUR 2.2 billion and ranked first in 2018.

The market for office properties

As the number of people employed increased in 2018, corporate demand for office space increased accordingly. As a result, the German office property market continued to show strong but less buoyant momentum due to supply shortages. According to an analysis by Deutsche Immobilien-Partner (DIP), office space turnover (incl. owner-occupied space) totalled 4.58 million m², which was below the previous year’s level (previous year: 5.08 million m²). The DIP analysis not only includes the Top 7 locations (Berlin, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Munich, Stuttgart), which accounted for around 84 % of total DIP office space turnover in 2018, but also important secondary locations (Bremen, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Magdeburg and Nuremberg).

Office completions rose by just under 8 % to 927,000 m² in the 2018 reporting year. The inventory of office space fell in the selected office markets in the course of the year by about 900,000 m² to about 4.6 million m² (as at year-end 2018). As a result, the vacancy rate fell to 4.1 % (2017: 4.9 %).

The seven largest German office markets (“Top 7”) suffered a 10 % decline in office space turnover in the year under review. The most popular seven German office markets once again achieved above-average turnover of 3.8 million m² in 2018 but did not surpass the previous year’s record (2017: approx. 4.3 million m²). The office market was, however, robust in terms of lettings. While prime rents in many areas grew much more slowly than in the previous year, the increase in average rents was significantly stronger. The same applies to the other eight medium-sized DIP office centres, which recorded office space turnover of around 729,000 m² in 2018 (2017: around 809,000 m²). There was a wide spread in the market for medium-sized locations. Magdeburg stood out with an increase in turnover of 24 %. The office markets in Essen and Bremen also grew. In contrast to those markets, the space turnover in Hanover declined 22 %, with the turnover in Dresden and Karlsruhe declining 19 % each.

The slightly lower level of new construction limited the availability of newly built space in inner-city locations, among others. The so-called completed space volume in the year under review was almost 850,000 m². Despite being slightly above the previous year's level, this level was below the average of the previous five years (of around 900,000 m²). This led to an increase in weighted prime rents across all markets, which had settled at the end of 2018 at around EUR 30.10 per m² (year-end 2017: EUR 28.50 per m²). While prime rents in Essen, Karlsruhe and Stuttgart remained stable, they rose in the other DIP cities. Berlin was in the lead with a rise of 13 % in prime rents, whereas Bremen and Hamburg were the laggards with a plus of 2 % each.

The market for retail properties

The retail sector continues to struggle with structural changes. As a result, the German investment market for retail properties declined by EUR 2.5 billion to EUR 10.6 billion. Although the market managed to stay slightly above the long-term average, this level still represented a drop of 24 % compared to the previous year. The market environment in 2018 was mixed. Specialty stores and specialty centres are still the most popular asset class and, with an investment volume of EUR 4.4 billion, accounted for 42 % of the total. These types of retail properties are particularly popular when they also include grocery stores.

Retail properties in central inner-city locations increased their share of the total volume to 39 % or EUR 4.1 billion. This is in contrast to the proportion invested in shopping centres, which fell sharply to 14 % or EUR 1.4 billion (previous year: 20 % or EUR 2.7 billion). The reason for this decline is growing online retailing. Overall, market activity in the year under review shifted once again towards the major cities (Top 7 locations), whose transaction volume accounted for just under one-third of the overall market.

Although the sentiment in the brick-and-mortar retail sector continues to be tense due to online competition, retail lettings in 2018 still reached a total of around 480,000 m² spread among 1,079 individual transactions. As a result, turnover was 7 % higher than in the previous year. One reason for this favourable development was the demand for retail space in the ten largest metropolitan areas ("Big 10") from international retailers in 2018. International retailers now rent around 30 % of the large spaces offered in those areas. The Big 10 locations accounted for 42 % of the total letting volume in 2018 compared to only 28 % in the previous year.

Prime rents fell slightly across Germany with the ten most popular locations seeing a marginal decline in prime rents of 0.2 % in the reporting year. Prime rents for the 185 German retail markets as a whole fell by 3.3 % year-on-year.

The market for warehouse and logistics properties

The year 2018 marked a new record year for the warehouse and logistics property market in Germany. The turnover volume amounted to approximately 7.2 million m² (owner-occupied and lettings) and exceeded the previous record year of 2016 (6.7 million m²) by 8 %.

The five largest metropolitan areas (“Big 5”) in 2018 consisted of Berlin, Dusseldorf, Frankfurt, Hamburg and Munich with turnover of around 2.1 million m². This level represented a year-on-year increase of 5 %.

Outside of the Big 5 metropolitan areas, turnover broke through the “sound barrier” of 5 million m² for the first time. This figure exceeded the previous year’s turnover by 14 % (previous year: 4.5 million m²).

The largest percentage of turnover (around 40 %) in all regions came from companies in the transport, commerce and warehouse sectors. While second place among the Big 5 were retailers, at secondary locations it was the industrial companies.

Development of the commercial real estate markets – implications for DEMIRE

In the 2018 reporting year, the environment was favourable for the DEMIRE Group – both in terms of the overall economy and the main pillars of the real estate market. Because DEMIRE’s strategic focus is on German secondary locations, the Company benefits from the dynamic market development in these locations.

BUSINESS DEVELOPMENT

GENERAL STATEMENT ON BUSINESS PERFORMANCE AND POSITION OF THE GROUP

In the 2018 financial year, DEMIRE was able to achieve further milestones in the implementation of its DEMIRE 2.0 strategy. The DEMIRE 2.0 strategy represents the Company's plan for the next growth phase and for optimising and increasing the efficiency of its real estate platform in Germany's secondary locations. At the centre of this strategy is a focus on Germany's "Secondary Locations" – a key differentiator from DEMIRE's competitors. DEMIRE plans to sustainably establish its market position by doubling the size of its current portfolio from around EUR 1.1 billion to EUR 2 billion. DEMIRE invests in a heterogeneous portfolio with a balanced, diversified risk / opportunity profile through categorising its real estate portfolio into the Core Plus, Value-Added and Redevelopment investment categories. An active "manage-to-core" approach is intended to exploit the valuation potential of the existing real estate portfolio and generate additional and, more importantly, sustainable rental income through a targeted reduction of vacancies. The more efficient management of properties and the optimisation of the corporate structure is expected to result in additional income and further cost savings in the short to medium term, leading to higher profitability for the Company in the medium term.

The first milestone in the DEMIRE 2.0 strategy was achieved with the refinancing of liabilities through the placement and increase of a rated, unsecured corporate bond at more favourable terms in the 2017 financial year. As a result of this transaction, interest expenses have fallen significantly in the 2018 financial year, resulting in a marked rise in funds from operations compared to the 2017 financial year. The positive effect from this transaction expected to materialise in subsequent years led DEMIRE to originally forecast funds from operations (FFO) of around EUR 16 to 18 million and rental income of approximately EUR 71 to 73 million for the 2018 financial year.

The real estate portfolio developed positively during the 2018 financial year, and DEMIRE was able to record stable rental income at the year's end despite the sale of non-strategic real estate. Rental income on a like-for-like basis (excl. acquisitions and disposals made in the 2018 financial year) increased by 2.9 %. DEMIRE was also once again able to reduce its EPRA vacancy rate by 190 basis points to 7.5 %. In the transaction market, DEMIRE successfully completed its first office portfolio purchase in November 2018 within the scope of its DEMIRE 2.0 strategy. The total investment volume of EUR 167 million will generate additional and attractive cash flows in the 2019 financial year upon the transfer of ownership, benefits and obligations. DEMIRE also sold and notarised three properties worth a total of EUR 1.1 million during the past financial year. Specifically, these were sales of non-strategic real estate whose management in the portfolio was no longer considered by DEMIRE to be economically efficient.

In November 2018, there was a significant change in the organisational structure of the DEMIRE Group. By outsourcing services for property and facility management which had been previously performed in-house, DEMIRE has chosen to apply a much more flexible and scalable real estate management model in the German commercial real estate market than before for its planned growth, which is also more in line with its listed competitors. The renowned service provider STRABAG assumed the property management from DEMIRE for around 80 % of the real estate portfolio, which had a total market value of more than EUR 1.1 billion in November 2018. The remaining 20 % of the real estate portfolio represents the indirect ownership of the DEMIRE Group through its investment in Fair Value REIT and is managed externally by IC Property Management GmbH. In addition, facility management was also fully outsourced through the complete sale of shares in PRAEDIA GmbH. After outsourcing the property and facility management in the fourth quarter of 2018, DEMIRE anticipates annual savings of up to EUR 1 million p. a.

Based on solid operating performance and first achievements within the scope of the DEMIRE 2.0 strategy, the Company adjusted its forecast for funds from operations (FFO I, before minority interests, after taxes) in November 2018 and raised it to EUR 23 to 24 million. The expected level of rental income was increased to around EUR 74 million. In the 2018 financial year, DEMIRE fully met and in some areas even exceeded its forecast. As at the reporting date, funds from operations reached EUR 23.4 million. Rental income was EUR 73.7 million, which was within the latest forecast range.

The Company developed profitably in the 2018 financial year and is well equipped to further expand its investment allure. In addition to further optimising the real estate management platform, the focus of DEMIRE and its shareholders is on achieving portfolio growth targeted at more than EUR 2 billion. The Company therefore expects a further substantial improvement in FFO I over the medium term, as well as a continued increase in its net asset value (NAV). In achieving this, DEMIRE will be establishing the basis for distributing attractive and sustainable dividends to its shareholders in the medium term from rising cash flows.

2018 target achievement

KEY EARNINGS FIGURES

23.4

in EUR millions

Original forecast for FFO I (after taxes, before minorities) of EUR 16 – 18 million exceeded, reaching the latest forecast of EUR 23 – 24 million

PORTFOLIO DEVELOPMENT

73.7

in EUR millions

Latest forecast for rental income of roughly EUR 74 million achieved

7.5

in percent

Successful reduction in EPRA vacancy rate by a further 1.9 percentage points

KEY FINANCIAL INDICATORS

38.7

in percent

Material reduction by 21.4 percentage points in the net loan-to-value ratio (net LTV); high non-recurring effect from raising equity capital within the scope of a cash capital increase of EUR 150 million in October 2018

3.00

in percent p. a.

Average interest costs

5.50

in EUR

EPRA NAV (diluted) rises significantly by EUR 0.56 per share

DEVELOPMENT OF THE REAL ESTATE PORTFOLIO

As at 31 December 2018, the real estate portfolio consisted of 84 commercial properties with total lettable floor space of roughly 926,000 m² and a market value of around EUR 1.1 billion. Based on the market value as of 31 December 2018, office properties accounted for the largest share of the total portfolio at around 68 % (31 December 2017: around 67 %). Roughly 23 % of the total portfolio consisted of retail real estate (31 December 2017: around 24 %). Around 6 % was attributed to logistics properties (31 December 2017: around 6 %) and around 3 % of the total portfolio at the end of 2018 contained other-use real estate (31 December 2017: around 3 %).

The independent real estate appraisal of DEMIRE's entire portfolio as at 31 December 2018 was carried out by the global real estate appraiser Savills Immobilien Beratungs-GmbH. Taking into account the real estate already sold, the portfolio's EPRA vacancy rate reached 7.5 % at the reporting date, which is about 1.9 percentage points below the level as at 31 December 2017. DEMIRE's real estate management in the past financial year achieved letting performance of around 82,600 m² (equivalent to around 8.9 % of the lettable space of the entire portfolio), of which approximately 36 % was attributable to new lettings and around 64 % to follow-on lettings. This corresponds to a total rental volume over the entire rental period of around EUR 27.0 million. The average rental period of the letting performance in the past financial year was around 4.8 years. The weighted average lease term (WALT) of the entire portfolio was 4.5 years as at the reporting date, which represented a year-on-year decline of 0.4 years. Over the next two years, the share of the expiring rental contract volume amounts to around 17.7 %. Approximately 4.1 % of the rental contract volume has no set termination date. The rental income of the real estate portfolio increased roughly 2.9 % or EUR 2.1 million in 2018 on a like-for-like basis.

PORTFOLIO BY INVESTMENT CATEGORY

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE IN THOU-SAND M²	VALUE PER M²	CONTRAC-TUAL RENT IN EUR MIL-LION P.A.	CONTRAC-TUAL RENT PER M²	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Core Plus	38	617.7	54.6	368.4	1,677	39.5	9.2	6.4	2.2	5.4
Value-Added	40	458.5	40.6	520.4	881	30.7	5.7	6.7	13.9	3.3
Redevelopment	6	54.2	4.8	37.7	1,438	3.0	7.8	5.5	0.6	2.1
Total 31/12/2018	**84**	**1,130.4**	**100**	**926.5**	**1,220**	**73.2**	**7.2**	**6.5**	**7.5**	**4.5**
Total 31/12/2017	**86**	**1,034.1**	**100**	**968.9**	**1,067**	**72.1**	**7.2**	**7.0**	**9.4**	**4.9**
Change in % / pp	–2	+9.3%		–4.4%	+14.3%	+1.5%	+0%	–50bp	–190bp	–0.4 years

* Excl. real estate held for sale

PORTFOLIO BY ASSET CATEGORY

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE IN THOU-SAND M²	VALUE PER M²	CONTRAC-TUAL RENT IN EUR MIL-LION P.A.	CONTRAC-TUAL RENT PER M²	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Office	61	765.0	67.3	547.8	1,396	49.3	8.1	6.4	7.2	4.0
Retail	16	263.5	23.9	159.8	1,649	17.5	10.4	6.6	7.4	6.0
Logistics	1	65.5	6.0	178.3	367	4.4	2.3	6.7	12.9	1.6
Other	6	36.4	2.8	40.5	899	2.0	4.4	5.5	0.2	5.9
Total 31/12/2018	**84**	**1,130.4**	**100**	**926.5**	**1,220**	**73.2**	**7.2**	**6.5**	**7.5**	**4.5**
Total 31/12/2017	**86**	**1,034.1**	**100**	**968.9**	**1,067**	**72.1**	**7.2**	**7.0**	**9.4**	**4.9**
Change in % / pp	–2	+9.3%		–4.4%	+14.3%	+1.5%	+0%	–50bp	–190bp	–0.4 years

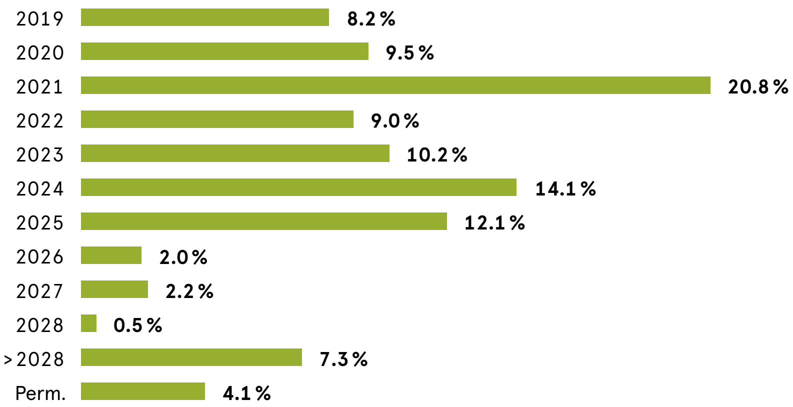
* Excl. real estate held for sale

PORTFOLIO VALUATION & TRANSACTIONS

The independent real estate appraiser Savills Immobilien Beratungs-GmbH assessed the market value of DEMIRE's real estate portfolio (incl. real estate held for sale) at EUR 1,130.4 million as at the 31 December 2018 reporting date (31 December 2017: EUR 1,034.1 million), for a total increase of around EUR 96.3 million.

In the 2018 financial year, a total of three real estate sales were notarised, and three properties with a value of around EUR 1.1 million underwent the transfer of ownership, benefits and obligations. Three properties with a sales volume of around EUR 12.3 million were held for sale (IFRS 5). Their transfer of ownership, benefits and obligations is expected to take place sometime in the 2019 financial year.

TERM OF RENTAL CONTRACTS



Based on annualised rental income

SALES

PORTFOLIO	LOCATION / DESCRIPTION	LATEST MARKET VALUE (in EUR thousands)	SALE PRICE (in EUR thousands)	NOTARISED	TRANSFER OF OWNERSHIP, BENEFITS AND OBLIGATIONS
DEMIRE	Yellow Portfolio (1 property)	70.0	61.4	December 2016	Still pending
DEMIRE	Darmstadt	6,565.5	10,400.0	December 2016	Still pending
DEMIRE	Apolda	1,840.0	1,875.0	August 2017	Still pending
DEMIRE	Bad Hersfeld	350.0	400.0	April 2018	July 2018
DEMIRE	Bayreuth	20.0	23.0	June 2018	August 2018
Fair Value REIT	Trappenkamp	620.0	625.0	October 2018	November 2018
	Total	**9,494.5**	**13,384.0**		

TOP 5 NEW RENTALS

PORTFOLIO CLUSTER	CITY	STREET	TENANT	LETTABLE SPACE (in m²*)	TERM OF RENTAL CONTRACT (in months)
Value-Added	Leipzig	Am Alten Flughafen 1	Q CELLS Hanwha GmbH	15,500	9
Value-Added	Leipzig	Am Alten Flughafen 1	Neumann & Müller Event Technology GmbH & Co. KG	3,400	60
Value-Added	Bayreuth	Nürnberger Str. 38	University of Bayreuth	970	60
Value-Added	Ludwigsburg	Uhlandstraße 21	City of Ludwigsburg	880	60
Value-Added	Dusseldorf	Wiesenstraße 70	L & W LORENZO WILMOWSKY GmbH	700	36

*Rounded figures

TOP 5 FOLLOW-ON RENTALS

PORTFOLIO CLUSTER	CITY	STREET	TENANT	LETTABLE SPACE (in m²*)	TERM OF RENTAL CONTRACT (in months)
Value-Added	Leipzig	Am alten Flughafen 1	Q CELLS Hanwha GmbH	15,500	6
Core +	Münster	Hammer Straße 455 – 459	toom Baumarkt GmbH	7,400	120
Value-Added	Leipzig	Am alten Flughafen 1	Neumann & Müller Event Technology GmbH & Co. KG	7,000	60
Value-Added	Leipzig	Am alten Flughafen 1	TI Automotive GmbH	3,100	12
Value-Added	Dresden	Nossener Brücke 8 – 12	Bundesanstalt für Immobilienaufgaben	2,700	60

*Rounded figures

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

In the 2018 financial year, rental income increased slightly year-on-year based on successful new lettings. Earnings included valuation gains from a significant increase in fair value adjustment to investment properties. These gains were partially offset by higher general and administrative expenses which stemmed mainly from the higher non-recurring legal and consulting fees in connection with capital market transactions executed in the past financial year. Due to the large extent of refinancing measures in the 2017 financial year, financial expenses almost halved in the year under review.

CONSOLIDATED STATEMENT OF INCOME (Selected information in EUR thousands)	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	IN %
Rental income	73,709	73,716	– 7	0.0
Income from utility and service charges	15,101	14,624	477	3.3
Operating expenses to generate rental income	– 30,310	– 32,708	2,398	– 7.3
Profit / loss from the rental of real estate	**58,500**	**55,632**	**2,868**	**5.2**
Income from the sale of real estate and real estate companies	1,052	28,389	– 27,338	– 96.3
Expenses from the sale of real estate and real estate companies	– 1,002	– 27,445	26,444	– 96.3
Profit / loss from the sale of real estate and real estate companies	**50**	**944**	**– 894**	**– 94.7**
Profit / loss from fair value adjustment to investment properties	93,059	48,560	44,499	91.6
Impairments of receivables	– 1,874	– 2,763	889	– 32.2
Other operating income and other effects	2,513	5,052	– 2,539	– 50.3
General and administrative expenses	– 19,007	– 15,304	– 3,703	24.2
Other operating expenses	– 6,176	– 7,524	1,348	– 17.9
Earnings before interest and taxes	**127,065**	**84,597**	**42,468**	**50.2**
Financial result	– 38,308	– 56,968	18,661	– 32.8
Profit / loss before taxes	**88,757**	**27,629**	**61,128**	**>100**
Current income taxes	– 540	– 333	– 207	62.2
Deferred taxes	– 19,164	– 7,864	– 11,300	> 100
Net profit / loss for the period	**69,053**	**19,432**	**49,621**	**> 100**
Thereof attributable to parent company shareholders	61,575	13,783	47,792	> 100
Basic earnings per share (EUR)	0.85	0.25	0.60	> 100
Weighted average number of shares outstanding (in thousands)	72,178	54,261		
Diluted earnings per share (EUR)	0.85	0.22	0.63	> 100
Weighted diluted average number of shares outstanding (in thousands)	72,698	67,875		

Profit / loss from the rental of real estate

In the financial year 2018, the DEMIRE Group achieved rental income of EUR 73.7 million (2017: EUR 73.7 million). Compared to the previous year, rental income was stable thanks to a successful letting performance, despite the sale of non-strategic real estate. Rental income thus reached the most recent adjusted forecast of around EUR 74 million (previously: EUR 71 to 73 million).

Income from utility and service charges of EUR 15.1 million (2017: EUR 14.7 million) includes tenant payments for utilities. Utility and service charges were recognised as expenses to generate rental income and amounted to EUR 30.3 million in the reporting year (2017: EUR 32.7 million). Of the operating expenses, an amount of EUR 19.9 million (2017: EUR 19.1 million) is generally allocable and can be passed on to tenants. Operating expenses of EUR 10.4 million (2017: EUR 13.6 million) are non-allocable.

The profit / loss from the rental of real estate in the reporting year amounted to EUR 58.5 million, increasing year-on-year by 5.2 % (2017: EUR 55.6 million). This was attributable to stable rental income as a result of letting activities and a reduction in vacancies in the core portfolio, as well as to a lower level of operating expenses than in the same prior-year period to generate rental income.

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

The profit / loss from the sale of real estate reached EUR 0.1 million in the 2018 financial year (2017: EUR 0.9 million) due to sales in the amount of EUR 1.1 million.

Other operating income and expenses

The result from fair value adjustment in investment properties amounted to EUR 93.1 million (2017: EUR 48.6 million) and almost doubled compared to the previous year. Other operating income fell by EUR 2.5 million year-on-year to EUR 2.5 million (2017: EUR 5.1 million). This decline was mainly due to lower non-period income that had resulted in the previous year from the derecognition of liabilities and claims for damages.

Impairment losses on receivables decreased by EUR 0.9 million to EUR 1.9 million as a result of offsetting with corresponding expenses..

Other operating expenses decreased by EUR 1.3 million year-on-year to EUR 6.2 million (2017: EUR 7.5 million). An increase within the item resulted primarily from the deconsolidation of the legacy portfolio and an increase in non-deductible input tax from higher administrative expenses. In contrast to this, non-period expenses declined as a result of invoicing operating costs for previous years, as well as from a decline in agent commissions.

General and administrative expenses

General and administrative expenses increased by 24.2 % to EUR 19.0 million at the end of 2018 (2017: EUR 15.3 million). The increase mainly resulted from higher one-off legal and consulting fees in connection with capital market transactions in the past financial year.

Financial result

The financial result as at the 2018 reporting date amounted to EUR – 38.3 million (2017: EUR – 57.0 million) and had improved significantly in the 2018 financial year mainly due to the extensive and successful refinancing in 2017. Financial expenses fell by EUR 23.3 million to a total of EUR 26.4 million (2017: EUR 49.7 million). In addition, interests of minority shareholders in the subsidiaries of Fair Value REIT-AG in the amount of EUR 12.4 million increased significantly (2017: EUR 8.3 million) due to a positive EUR 7.7 million in unrealised gains in the fair value of the real estate in the funds of Fair Value REIT.

Earnings before interest and taxes (EBIT) increased by EUR 42.5 million to EUR 127.1 million compared to financial year 2017 (EUR 84.6 million). The increase resulted mainly from the fair value adjustment to investment properties.

Net profit / loss for the period

The profit / loss for the period (earnings after taxes) reached EUR 69.1 million in the 2018 financial year, representing a more than 250 % increase above the previous year's result of EUR 19.4 million. The lower financial expenses from the refinancing activities in 2017 alongside valuation effects, helped boost the profit / loss for the period in the 2018 financial year.

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 on page 187.

NET ASSETS

Total assets of the DEMIRE Group amounted to EUR 1.379 billion as at 31 December 2018 (31 December 2017: EUR 1.147 billion) for an increase of EUR 231.6 million compared to the end of 2017. Non-current assets amounted to EUR 1,150.9 million (31 December 2017: EUR 1,032.9 million). Current assets have increased to EUR 215.5 million since the end of 2017 due to higher cash and cash equivalents from the capital increase in November 2018 (31 December 2017: EUR 102.0 million). Non-current assets held for sale as at 31 December 2018 and 2017 include EUR 12.3 million in real estate still held.

Group equity increased to EUR 582.3 million in the 2018 financial year (31 December 2017: EUR 325.5 million, after adjusting for new IFRS standards). The equity ratio was 42.2 % and was well above the previous year's level (by around EUR 256.9 million) following the cash capital increases in early April and November 2018 and the strong profit/loss for the period. Non-controlling minority interests in the amount of EUR 73.1 million are recognised under non-current liabilities and not in equity, mainly due to their legal form as a partnership in accordance with IFRS. The adjusted Group equity totalled EUR 655.4 million or 47.5 % of the Group's total assets (31 December 2017: EUR 389.6 million or 34.0 %). As a result, non-current liabilities amounted to EUR 742.7 million at the end of 2018 (31 December 2017: EUR 774.3 million) and current liabilities to EUR 53.7 million (31 December 2017: EUR 47.4 million). Total liabilities in the DEMIRE Group fell to EUR 796.6 million as at 31 December 2018 (31 December 2017: EUR 821.6 million).

The market value for the real estate portfolio (investment properties and non-current assets held for sale) determined by the external real estate appraiser Savills Immobilien Beratungs-GmbH as of the reporting date was EUR 1,130.4 million (31 December 2017: EUR 1,034.1 million).

Selected information from the consolidated balance sheet

CONSOLIDATED BALANCE SHEET – ASSETS (Selected information in EUR thousands)	31/12/2018	31/12/2017	CHANGE	IN %
Assets				
Total non-current assets	1,150,944	1,032,897	118,046	11.4
Total current assets	215,487	101,957	113,530	>100
Assets held for sale	12,262	12,262	0	0
Total assets	**1,378,692**	**1,147,116**	**231,576**	**20.2**

As at 31 December 2018, non-current assets increased by EUR 118.0 million to EUR 1,150.9 million (31 December 2017: EUR 1,032.9 million). The largest contribution to this increase was attributable to investment properties of EUR 118.0 million, which resulted mainly from fair value adjustments.

As at 31 December 2018, DEMIRE Group's current assets increased by EUR 113.5 million to EUR 215.5 million (31 December 2017: EUR 102.0 million). This increase resulted in particular from a higher level of cash and cash equivalents from a cash capital increase in the amount of around EUR 150 million in November 2018. This increase was partially offset by the repayment of around EUR 33.4 million to the bondholders of the 2017 / 2022 corporate bond who, in accordance with the bond conditions, accepted the repurchase offer indicated by DEMIRE. Due to the takeover bid by the new major shareholder, Apollo Global Management, LLC, and the associated change of control on 16 April 2018, DEMIRE was obliged to offer the bondholders a repurchase offer at a repurchase price of 101 % of the nominal amount plus interest accrued and unpaid until the date of the repurchase offer.

The assets held for sale as at 31 December 2018 include the properties in Apolda, Limbach-Oberfrohna and a sub-property in Darmstadt in the amount of EUR 12.3 million (31 December 2017: EUR 12.3 million).

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (Selected information in EUR thousands)	31/12/2018	31/12/2017	CHANGE	IN %
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to parent company shareholders	537,913	285,417	252,497	88.5
Non-controlling interests	44,425	40,053	4,372	10.9
TOTAL EQUITY	**582,338**	**325,469**	**256,869**	**78.9**
LIABILITIES				
Total non-current liabilities	742,696	774,262	– 31,565	– 4.1
Total current liabilities	53,658	47,385	6,273	13.2
TOTAL LIABILITIES	796,354	821,647	– 25,293	– 3.1
TOTAL EQUITY AND LIABILITIES	**1,378,692**	**1,147,116**	**231,576**	**20.2**

Total financial liabilities of EUR 636.6 million (31 December 2017: EUR 694.9 million) include bonds of around EUR 359.7 million and liabilities to banks and third parties of approximately EUR 265.9 million (31 December 2017: combined EUR 675.7 million). The proportion of unencumbered assets as at 31 December 2018 is 46.6 %, up 160 basis points year-on-year (31 December 2017: 45.0 %). As at the reporting date, there were variable interest rate agreements in the amount of EUR 38.7 million. The average nominal interest rate for financial liabilities as at the reporting date was unchanged at 3.0 % p.a.

As at 31 December 2018, trade payables and other liabilities increased to EUR 19.7 million (31 December 2017: EUR 14.7 million). Of these, trade payable accounted for EUR 12.2 million (31 December 2017: EUR 8.6 million) and other liabilities for EUR 7.5 million (31 December 2017: EUR 6.1 million).

At EUR 796.4 million, DEMIRE Group's total liabilities as at 31 December 2018 were slightly below the previous year's level (31 December 2017: EUR 821.6 million).

FINANCIAL POSITION

Financial management

The financial management of the DEMIRE Group is carried out in accordance with the guidelines approved by the Executive Board. This applies to both liquidity management and financing. The central liquidity analysis helps to optimise cash flows with the primary objective being to secure liquidity for the entire Group and retain financial independence. Here, the focus is on long-term and stable financing, which positively supports the business development on an ongoing basis.

Providing periodic information on the financial position to the Supervisory Board is an integral part of the risk management system of DEMIRE. 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 EUR thousands)	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	%
Cash flow from operating activities	38,862	35,814	3,048	8.5
Cash flow from investing activities	– 24,039	20,554	– 44,593	>100.0
Cash flow from financing activities	101,745	– 13,783	115,528	>100.0
Net change in cash and cash equivalents	**116,568**	**42,585**	**73,983**	**>100.0**
Cash and cash equivalents at the end of the period	**190,442**	**73,874**	**116,568**	**>100.0**

The cash flow development in the 2018 financial year reflects the impact of the capital increases in April and November of 2018, as well as the repayment of bonds to the bondholders who accepted DEMIRE's repurchase offer in accordance with the terms of the bond in June 2018 following a change of control. The detailed consolidated cash flow statement precedes the Notes to the consolidated financial statements.

Cash flow from operating activities amounted to EUR 38.9 million at the end of the 2018 financial year (2017: EUR 35.8 million), which is slightly higher than in the previous year. Cash flow from operating activities includes lower distributions and dividends to minority shareholders, totalling a combined EUR 3.0 million, and changes in financial receivables and other financial assets as described in the section on net assets.

Cash flow from investing activities reached EUR 24.0 million in 2018, compared with EUR 20.6 million in the same period of 2017. This includes advance payments in connection with a portfolio acquisition and investments in the real estate portfolio.

Cash flow from financing activities amounted to EUR 101.7 million (2017: EUR – 13.8 million) and compared to the same period of the previous year was influenced by the cash inflows from the two capital increases in April and November 2018. The proceeds from the assumption of financial liabilities amounted to EUR 41.1 million and essentially include the bridge financing to repay the cancelled 2017 / 2022 bond in the amount of EUR 33.4 million as part of the change of control. The interest paid on financial liabilities amounts to EUR 22.8 million, and the repayment of financial liabilities amounts to EUR 85.0 million. The net change in cash and cash equivalents amounted to EUR 116.6 million at the end of the 2018 financial year (2017: EUR 42.6 million). Cash and cash equivalents at the end of the reporting period increased to EUR 190.4 million.

The DEMIRE Group was in a position to fully meet its payment obligations throughout the entire period under review.

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

Funds from operations (FFO)

The operating result of the DEMIRE Group is measured by funds from operations (FFO). This key earnings figure is adjusted for measurement effects, other disposal and one-off effects and non-periodic income and expenses. FFO I (after taxes and before minority interests) amounted to EUR 23.4 million as at the 31 December 2018 reporting date (2017 financial year: EUR 11.7 million). After minorities and taxes, FFO I amounted to EUR 19.4 million (2017 financial year: EUR 5.4 million). Taking into account the profit / loss from the sale of real estate, funds from operations (FFO II) after taxes and before minority interests amounted to EUR 23.4 million (2017 financial year: EUR 12.6 million), and EUR 19.5 million after taxes and after minorities (2017 financial year: EUR 6.6 million).

FFO CALCULATION (Selected information in EUR thousands)	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	IN %
Profit/loss before taxes	88,757	27,629	61,128	>100
Minority interests	12,373	8,279	4,094	49.4
Earnings before taxes (EBT) *	**101,130**	**35,908**	**65,222**	**> 100**
+/– Profit/loss from the sale of real estate companies	0	0	0	0.0
+/– Profit/loss from the sale of real estate	–50	–944	894	–94.7
+/– Profit/loss from fair value adjustments in investment properties	–93,059	–48,560	–44,499	91.6
+/– Profit/loss from the valuation of derivative financial instruments	0	2,697	–2,697	–100.0
+/– Other adjustments*	15,881	22,886	–7,005	–30.6
FFO I before taxes	**23,902**	**11,986**	**11,916**	**99.4**
+/– (Current) income taxes	–543	–248	–295	> 100
FFO I after taxes	**23,359**	**11,738**	**11,621**	**99.0**
Thereof attributable to parent company shareholders	19,419	5,413	14,006	> 100
Thereof attributable to non-controlling interests	3,939	6,325	–2,386	–37.7
+/– Profit/loss from the sale of real estate companies/real estate (after taxes)	53	862	–809	–93.8
FFO II after taxes	**23,412**	**12,600**	**10,812**	**85.8**
Thereof attributable to parent company shareholders	19,479	6,569	12,910	>100
Thereof attributable to non-controlling interests	3,933	6,031	–2,098	–34.8
FFO I after taxes per share				
Basic FFO I per share (EUR)	0.32	0.22	0.10	49.6
Weighted average number of shares outstanding (in thousands)	72,178	54,261	17,917	33.0
Diluted FFO I per share (EUR)	0.32	0.17	0.14	85.8
Weighted diluted average number of shares outstanding (in thousands)	72,698	67,875	4,822	7.1
FFO II after taxes per share				
Basic FFO II per share (EUR)	0.32	0.23	0.09	39.7
Weighted average number of shares outstanding (in thousands)	72,178	54,261	17,917	33.0
Diluted FFO II per share (EUR)	0.32	0.19	0.14	73.5
Weighted diluted average number of shares outstanding (in thousands)	**72,698**	**67,875**	**4,822**	**7.1**

* Other adjustments include:
- One-off refinancing costs (EUR 8.5 million, previous year: EUR 14.6 million, incl. one-off impairment of receivables related to sales, as well as other effects from refinancing)
- One-off transaction, legal and consulting fees (EUR 5.0 million, previous year: EUR 4.1 million)
- One-off administrative costs (EUR 2.4 million, previous year: EUR 1.9 million)
- Non-period expenses (EUR 0.1 million, previous year: EUR 2.5 million)

Net asset value (EPRA NAV / EPRA NNNAV)

The EPRA NAV 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. The EPRA NNNAV is equal to the EPRA NAV after being adjusted for the fair value of derivative financial instruments and liabilities.

EPRA NET ASSET VALUE (NAV / EPRA NNNAV) in EUR thousands	31/12/2018	31/12/2017	CHANGE	IN %
Net asset value (NAV)	537,913	285,417	252,497	88.5
Fair value of derivative financial instruments	0	0	0	0
Deferred taxes	62,050	42,893	19,157	44.7
Goodwill resulting from deferred taxes	– 4,738	– 4,738	0	0
EPRA NAV (basic)	**595,225**	**323,572**	**271,654**	**84.0**
Number of shares outstanding (in thousands) (basic)	107,777	54,271	53,506	98.6
EPRA NAV per share (EUR) (basic)	5.52	5.96	– 0.44	– 7.4
Effect of the conversion of convertible bonds and other equity instruments	520	12,048	– 11,528	– 95.7
EPRA NAV (diluted)	595,745	335,620	260,126	77.5
Number of shares outstanding (in thousands) (diluted)	108,297	67,885	40,413	59.5
EPRA NAV per share (EUR) (diluted)	**5.50**	**4.94**	**0.56**	**11.3**
Fair value of derivative financial instruments	0	0	0	0
Adjustments in fair value of liabilities	3,052	– 67,021	70,073	> 100
Deferred taxes	**– 62,928**	**– 62,182**	**– 747**	**1.2**
EPRA NNNAV (diluted)	**535,869**	**206,417**	**329,452**	**> 100**
EPRA NNNAV per share (EUR) (diluted)	**4.95**	**3.04**	**1.91**	**62.7**

Net loan-to-value ratio

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 at the reporting date was as follows:

NET LOAN-TO-VALUE (NET LTV) in EUR millions	31/12/2018	31/12/2017
Financial liabilities	636.6	694.9
Cash and cash equivalents	190.4	73.9
Net financial debt	**446.2**	**621.0**
Fair value of investment properties and non-current assets held for sale	**1,152.1**	**1,034.1**
Net LTV in %	**38.7 %**	**60.1 %**

The year-on-year improvement in the net loan-to-value ratio mainly originated from increases in the value of existing real estate and higher cash and cash equivalents compared to the previous year, mainly resulting from the cash capital increase of around EUR 150 million in November 2018.

The maturities of existing loan agreements are broadly staggered over time. There will be only a limited amount of follow-up financing necessary over the next three years. In 2022, a higher level of refinancing in the amount of EUR 551 million will be required. The liquidity requirements for follow-on financing and repayments (excl. convertible bonds) over the next few years are as follows:

MATURITIES in EUR millions	2019	2020	2021	2022	2023	AS OF 2024
	39.1	34.0	24.3	551.1	4.6	53.8

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 2018 financial year as planned, we brought further strategic and organisational functions in-house that were 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.

In November 2018, there was a significant change in the organisational structure of the DEMIRE Group. By outsourcing services for property and facility management which had been previously performed in-house, DEMIRE decided to apply a much more flexible and scalable real estate management model in the German commercial real estate market than before for its planned growth, which is also more in line with its listed competitors. In November 2018, the renowned service provider STRABAG assumed the property management from DEMIRE Deutsche Mittelstand Real Estate AG for around 80 % of the real estate portfolio, which currently has a total market value of more than EUR 1.1 billion. The remaining 20 % of the real estate portfolio represents the indirect ownership of the DEMIRE Group through its investment in Fair Value REIT and is managed externally by IC Property Management GmbH. In addition, facility management was also fully outsourced through the complete sale of shares in PRAEDIA GmbH. After outsourcing the property and facility management in the fourth quarter of 2018, DEMIRE anticipates annual savings of up to EUR 1 million from 2019 onwards.

Our corporate structure is based on flat hierarchies. We offer motivated and dedicated employees a variety of responsibilities 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 compensation system helps keep managers and employees focused on achieving corporate and divisional objectives. 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 the 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.

The Group employed a total of 74 people, excluding the Executive Board, at its consolidated and non-consolidated entities as at 31 December 2018 (31 December 2017: 96). The proportion of female employees in relation to male employees is 53 %. We welcome and encourage diversity within our Company. The age structure of our employees is widely distributed. Around 11 % of our employees are younger than 30 years of age, around 63 % are between 31 and 50 years old, and another 26 % 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.

	31/12/2018	31/12/2017
Average age of employees in years	42	45
Share of female employees in %	53	48
Share of employees aged 50 years or older in %	26	31
Share of employees with recognised severe disabilities or similar in %	5	4
Number of nationalities employed	7	5

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.
- 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 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, 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 target for the proportion of women on the Supervisory Board and the Executive Board remained at zero for the period from 1 July 2017 to 30 June 2022, and the target for the proportion of women in the first management level below the Executive Board for the same period was set at 25 %, which corresponded to the proportion of women in executive positions 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 at 31 December 2018. 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 European Public Real Estate Association (EPRA) 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 ZIA e.V. (Central Real Estate Committee), which is the voice of the German real estate industry, DEMIRE supports the Committee's work by representing its membership both publicly 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.

As one of more than 300 members of the German Institute for Compliance e.V. (DICO), DEMIRE promotes the development of good corporate governance and thereby consistently applies compliance standards internally. The Company's own Compliance Officers ensure 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, Dusseldorf, Frankfurt, Hamburg, Cologne, 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 annually 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 on our *DEMIRE's website.*

www.demire.ag/en/home

Changes in the composition of governing bodies

At the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG on 27 June 2018, Prof. Dr Alexander Goepfert was elected as new Supervisory Board member. At the constituent meeting, he also assumed the chair of the Supervisory Board from Prof. Dr Hermann Wagner, who left the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG at the end of the Annual General Meeting.

On 20 December 2018, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG appointed Mr Ingo Hartlief as a new member of the Executive Board and Chief Executive Officer of the Company with immediate effect until the end of 2021. The purpose of expanding the Executive Board was to prepare for the growing demands of the Company's planned portfolio growth.

On 3 January 2019, the Supervisory Board dismissed Mr Ralf Kind as a member of the Executive Board with immediate effect, terminated the contract of employment with him for good cause and, on 17 January 2019, appointed Mr Tim Brückner as a new member of the Executive Board with responsibility for the finance area. Mr Brückner assumed his duties at DEMIRE with effect from 1 February 2019.

Remuneration report

The following report summarises the basic principles of the Executive Board and Supervisory Board's 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 at 1 January.

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 financial year, Mr Ralf Kind and Mr Markus Drews were granted special bonuses in the amount of EUR 300,000 thousand and EUR 200,000 thousand, respectively, for their extraordinary service in connection with the issue of the 2017/2022 corporate bond in July 2017. Mr Ralf Kind was granted a further special bonus in the amount of EUR 150 thousand for his services 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 Ralf 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.

The Executive Board contract of Mr Ralf Kind was adjusted in mid-April so that from 1 January 2018 his annual base salary would increase to EUR 360,000.00 and the performance- and success-based bonus to EUR 180,000.00. In addition, the previously existing virtual stock option programme was modified.

Mr Ralf Kind was dismissed as a member of the Executive Board on 3 January 2019 by the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG and the contract of employment with him was terminated for good cause. The final amount payable to Mr Ralf Kind is still to be determined.

Mr Ingo Hartlief

On 20 December 2018, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG entered into an agreement with Mr Ingo Hartlief as Chief Executive Officer with immediate effect for a period of three years (a fixed-term Executive Board employment contract). In addition to the basic annual salary of EUR 320,000.00, he will receive a performance- and success-based bonus of up to EUR 190,000.00 per year starting in 2019. He will also receive a limited amount of remuneration based on the long-term performance of DEMIRE's share price according to a virtual stock option programme. The fixed component is paid on a monthly basis as a base salary and is granted on a pro rata basis in the event his executive service contract begins during the year.

The target bonus is also the maximum limit for the achievable bonus. The amount is calculated on the basis of the achievement of certain targets set by the Supervisory Board in its reasonable discretion. If the Executive Board contract ends during the year, the bonus is reduced on a pro rata basis. The bonus is payable at the end of the month of the following year in which the Company's annual financial statements are adopted.

For performance-based variable compensation on a multi-year basis in the form of virtual shares, in 2019 for the first time, virtual shares in the gross amount of EUR 190,000 (at the time of allocation) will be granted each financial year. The actual amount paid out depends on the long-term development of the Company's share price and amounts to a maximum gross amount of EUR 220,000. The details are based on the long-term incentive programme determined at the reasonable discretion of the Supervisory Board, as amended. The Company and Mr Hartlief already agreed on additional bonuses in case of reaching certain targets. A special bonus of EUR 500,000 depends on the achievement of certain portfolio-related targets. An additional special bonus of EUR 500,000 and virtual shares worth EUR 500,000 will be granted upon reaching certain capital-market-related targets.

Mr Hartlief is entitled to the customary contractual benefits in kind and fringe benefits. These benefits include the provision of a Company car; 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 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.

Mr Tim Brückner

On 17 January 2019, the Supervisory Board concluded a contract with Mr Tim Brückner as a further member of the Executive Board with effect from 1 February 2019 for a period of three years, i.e. a limited service contract was concluded. In addition to the basic annual salary of EUR 200,000.00, he will receive a performance- and success-based bonus of up to EUR 50,000.00 per year based on 100 % target achievement. He will also receive a limited amount of remuneration based on the long-term performance of DEMIRE's share price according to a virtual stock option programme. The fixed component is paid on a monthly basis as a base salary and is granted on a pro rata basis in the event his executive service contract begins during the year.

With falling short of or exceeding the targets, the bonus will decrease or increase up to a maximum amount of EUR 75,000. The bonus is granted on a pro rata basis in the event his executive service contract ends during the year. The bonus is payable at the end of the month of the following year in which the Company's annual financial statements are adopted.

For performance-based variable compensation on a multi-year basis in the form of virtual shares, in 2019 for the first time, virtual shares in the gross amount of EUR 50,000.00 (at the time of allocation) will be granted each financial year, in the case of a departure during the year on a pro rata basis. The actual amount paid out depends on the long-term development of the Company's share price and amounts to a maximum gross amount of EUR 75,000.00. The details are based on the long-term incentive programme determined at the reasonable discretion of the Supervisory Board, as amended.

A one-off special bonus in the form of virtual shares in the amount of a further EUR 250,000.00 will be granted upon reaching certain capital-market-related goals.

EMPLOYMENT CONTRACTS TERMINATED IN 2017

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 year 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 Prof. Steyer until the end of 30 June 2017 were fully met, and he was granted 100 % of the 2016 financial year bonus. As compensation for the loss of employment, the Company paid compensation to Prof. Steyer in the amount of EUR 550,000.00, which became due on 30 June 2017 upon Prof. Steyer's departure. The entitlements of 400,000 share options under the 2015 Stock Option Programme, resolved at the Extraordinary Annual Meeting on 6 March 2015, will remain unchanged after the termination of his employment.

Mr Markus Drews

On 2 December 2015, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG revised Mr 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 Mr Markus Drews for another three years until the end of 2020. His annual basic salary was raised to EUR 250,000.00 as at 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 financial 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 400,000 stock options granted under the 2015 Stock Option Programme as per the resolution of the Extraordinary Annual General Meeting of 6 March 2015, 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-off 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 financial year was adjusted to EUR 30,000.00 by a resolution of the Annual General Meeting on 30 June 2016. The Chairman of the Supervisory Board 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 financial 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 according to DRS 17 during the reporting year (in EUR)

	INGO HARTLIEF, CHIEF EXECUTIVE OFFICER SINCE 20 DECEMBER 2018			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	FY 2017
Fixed remuneration	–	–	–	–
Fringe benefits	–	–	–	–
Total	**–**	**–**	**–**	**–**
Variable remuneration (one-year)	–	–	–	–
Variable remuneration (multi-year)	–	–	–	–
Stock options	–	–	–	–
Total	**–**	**–**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**–**	**–**	**–**	**–**

	HON. PROF. ANDREAS STEYER, SPEAKER OF THE EXECUTIVE BOARD FROM 5 MARCH 2013 TO 30 JUNE 2017			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	FY 2017
Fixed remuneration	–	–	–	125
Fringe benefits	–	–	–	8
Total	**–**	**–**	**–**	**133**
Variable remuneration (one-year)	–	–	–	0
Variable remuneration (multi-year)	–	–	–	0
Stock options	–	–	–	119
Total	**–**	**–**	**–**	**252**
Pension expenses	–	–	–	2
Severance payment	–	–	–	550
Total remuneration	**–**	**–**	**–**	**804**

	RALF KIND, SPEAKER OF THE EXECUTIVE BOARD FROM 1 MARCH 2017 TO 3 JANUARY 2019			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	FY 2017
Fixed remuneration	360	360	360	202
Fringe benefits	20	20	20	10
Total	**380**	**380**	**380**	**212**
Variable remuneration (one-year)	180	–	180	554
Variable remuneration (multi-year)	–	–	–	–
Stock options	302	–	302	73
Total	**862**	**560**	**862**	**839**
Pension expenses	16	16	16	12
Total remuneration	**878**	**396**	**878**	**851**

	MARKUS DREWS, SPEAKER OF THE EXECUTIVE BOARD FROM 1 DECEMBER 2014 TO 31 DECEMBER 2017			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	FY 2017
Fixed remuneration	–	–	–	247
Fringe benefits	–	–	–	27
Total	**–**	**–**	**–**	**274**
Variable remuneration (one-year)	–	–	–	325
Variable remuneration (multi-year)	–	–	–	0
Stock options	–	–	–	158
Total	**–**	**–**	**–**	**757**
Pension expenses	–	–	–	5
Severance payment	–	–	–	375
Total remuneration	**–**	**–**	**–**	**1,137**

Benefits received during the reporting year (in EUR)

	INGO HARTLIEF, CHIEF EXECUTIVE OFFICER SINCE 20 DECEMBER 2018	
in EUR thousands	FY 2018	FY 2017
Fixed remuneration	–	–
Fringe benefits	–	–
Total	**–**	**–**
Variable remuneration (one-year)	–	–
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**–**	**–**
Pension expenses	–	–
Total remuneration	**–**	**–**

	HON. PROF. ANDREAS STEYER, SPEAKER OF THE EXECUTIVE BOARD FROM 5 MARCH 2013 TO 30 JUNE 2017	
in EUR thousands	FY 2018	FY 2017
Fixed remuneration	–	125
Fringe benefits	–	8
Total	**–**	**133**
Variable remuneration (one-year)	–	125
Variable remuneration (multi-year)	–	0
Stock options	–	0
Total	**–**	**258**
Pension expenses	–	2
Severance payment	–	550
Total remuneration	**–**	**810**

	RALF KIND, SPEAKER OF THE EXECUTIVE BOARD FROM 1 MARCH 2017 TO 3 JANUARY 2019	
in EUR thousands	FY 2018	FY 2017
Fixed remuneration	360	202
Fringe benefits	20	10
Total	**380**	**212**
Variable remuneration (one-year)	275	300
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**655**	**512**
Pension expenses	16	12
Total remuneration	**671**	**524**

	MARKUS DREWS, SPEAKER OF THE EXECUTIVE BOARD FROM 1 DECEMBER 2014 TO 31 DECEMBER 2017	
in EUR thousands	FY 2018	FY 2017
Fixed remuneration	–	247
Fringe benefits	–	27
Total	**–**	**274**
Variable remuneration (one-year)	–	325
Variable remuneration (multi-year)	–	0
Stock options	–	590
Total	**–**	**1,189**
Pension expenses	–	5
Severance payment	–	375
Total remuneration	**–**	**1,569**

Report on risks, opportunities and outlook

RISK REPORT

RISK MANAGEMENT SYSTEM

The objectives of the risk management system are 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 included in the consolidated financial statements, except Fair Value REIT-AG, which has its own risk management system that is suitable 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, and redevelopment, as well as letting and managing the portfolio of real estate. Identified risks are quantified as far as practicable. 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 conditions and achievement of its objectives.

Early risk warning system

DEMIRE AG's early warning system is intended to detect all relevant risks and their causes, as well as to quantify and communicate them, thereby ensuring that any necessary countermeasures can be initiated at an early stage. The early risk warning system is audited and assessed annually by the auditor as part of the audit of the annual financial statements with regard to its compliance with the requirements set forth in the German Stock Corporation Act in accordance with Section 317 (4) HGB.

Risk identification and evaluation

Risk identification forms the basis for the appropriate and effective handling of risks. Our employees are called upon to consciously and responsibly deal with risks and opportunities within their scope of responsibility. Responsibilities are defined according to the hierarchy for all relevant risks. An identified risk is assessed for its probability of occurrence, and the potential extent of the loss is determined.

Risk management

The risk officers determine the appropriate risk management approach by developing suitable control measures and monitoring them regularly. If necessary, this can also be carried out together with the Executive Board.

Risk reporting

The reports of the risk officers are aggregated centrally in order to be able to assess the overall risk position of the DEMIRE Group. The Executive Board is informed on a quarterly basis. In the case of sudden, serious events, the Executive Board is also informed on an ad hoc basis. This is how DEMIRE ensures the complete and timely communication of information on material risks.

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

IT systems

At DEMIRE AG, the control and monitoring of our relevant IT systems take place centrally. In addition to the physical infrastructure, the system environment is also extensively protected against failures by means of suitable mechanisms to ensure the high availability of all necessary systems and components.

The proper operation of the programmes and interfaces we use is monitored regularly. The results of this monitoring are used for the ongoing optimisation of the processes. Our complete IT system is secured against unauthorised access and malicious programmes, such as viruses and trojans, based on a multi-level concept. The internal network of the DEMIRE Group is protected from outside access using firewalls.

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 financial reporting processes are structured to achieve the following objectives:

- 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 aggregation 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 processes are preceded by the bookkeeping, the preparation of the annual financial statements and the gathering of additional information from the Group companies included in the consolidated financial statements in accordance with uniform requirements, partly by external property management and partly by agency agreements by the employees of DEMIRE AG.

The required reports 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 Group companies
- A clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process
- The use of external specialists to the extent necessary to provide an expert opinion e.g. on the market value of real estate

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 2018 financial 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 the accounting-related internal control and risk management system and the steps necessary to eliminate any control weaknesses

Disclosure

Proven and established systems cannot fully exclude individual errors or infringements, so that the correct, complete and timely recording of facts in Group accounting cannot always be completely guaranteed. In addition, the discretion that employees have in recognising and measuring assets and liabilities may give rise to risks. One-off business transactions, especially those with a high degree of complexity and / or processing under extreme time pressure, harbour a certain risk potential. Control risk from the use of external service providers has been mitigated to the greatest extent possible by bringing functions in-house.

GENERAL RISK SITUATION

The decision in 2013 to turn the Company's focus to German commercial real estate has been successfully implemented via a number of strategic investments. In 2016, the portfolio was thoroughly analysed, and the non-core properties that were identified were disposed of. This has had a significantly positive effect on the DEMIRE Group's risk profile. In the context of the annual real estate and budget planning, the real estate is divided into the real estate investment categories Core Plus, Value-Added and Redevelopment. Under the strategic plan DEMIRE 2.0, certain properties were identified for the real estate category "Redevelopment", which in the future will be repositioned on the rental market through comprehensive modernisation and reconstruction measures for further letting. This is one example of how DEMIRE reacts proactively and 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 in terms of fair value was 4.8 % as at the 31 December 2018 reporting date. By simplifying the Group's structure and transferring project companies to Germany from abroad, legal as well as tax risks have also declined.

In the 2017 financial year, the early prolongation of a promissory note loan in the amount of EUR 148 million at considerably better terms took place in February and the placement and tapping of the rated, unsecured 2017 / 2022 corporate bond totalling EUR 400 million were executed in July and September. Using the funds from the corporate bond to refinance higher-interest liabilities brought about a significant reduction in the financial risks, particularly since 2018 as a result of the lower average interest costs, the elimination of certain amortisation costs and covenants from former bank loans, while at the same time improving the liquidity and average terms of debt financing. With the 10 % capital increase of EUR 23.6 million in April 2018, the conversion during the financial year of the 2013 / 2018 convertible bonds still outstanding at the beginning of 2018 and the capital increase of EUR 150.1 million, the equity base could be strengthened substantially and liquidity was generated for future growth under DEMIRE 2.0.

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”.

The individual risks are assessed on the basis of the amount of loss and the probability of occurrence.

PROBABILITY OF OCCURRENCE	INFLUENCE ON FFO OR EQUITY				
Very probable	low	moderate	high	high	very high
Probable	low	moderate	moderate	high	high
Possible	low	low	moderate	moderate	high
Improbable	low	low	low	moderate	moderate
Very improbable	very low	low	low	low	moderate
AMOUNT OF LOSS	very low	low	moderate	high	very high

Macroeconomic, market-related and sector risks

The DEMIRE Group's real estate portfolio in Germany is exposed to a variety of macroeconomic, market-related and sector risks.

Macroeconomic risk

Macroeconomic changes can have both positive and negative effects on our net assets, financial position and results of operations. The economic forecasts for 2019 project a slowdown in economic growth, although moderate growth is still expected in Germany. The economic outlook still leaves room for the expected hiring of additional employees, which will drive demand for new office space, especially in secondary locations. The rising wages and salaries mean that private consumption should remain a growth driver of the German economy. This development could also benefit the rental of our retail space.

In contrast to the positive domestic climate, globally there are a number of uncertainties; particularly with respect to the United States' tendency towards protectionism and the outcome of the Brexit negotiations, which may affect the economy in the EU and around the world. Uncertainty about the future development of the global economy could lead to economic instability and restrictions on access to debt and equity capital. These factors could also lead to a reduction or loss of rental income for the Company due to a deterioration in the economic situation of our tenants, which could adversely affect the Company's net assets, financial position and results of operations.

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

Real estate market risk in Germany

DEMIRE Deutsche Mittelstand Real Estate AG holds commercial properties consisting mainly of office and retail buildings in medium-sized cities and up-and-coming peripheral areas near metropolitan areas throughout Germany. It follows that our business success is significantly dependent on the development of the German real estate market.

The real estate industry is one of the most diverse economic sectors in modern economies. In addition to real estate management, we also have activities in the areas of redevelopment, real estate asset management and real estate financing. Each and every phase – from buying and selling to financing to the management and administration of real estate – is fraught with risks and opportunities.

On the back of the strong increase in rents in Germany and especially in the so-called "secondary locations", there is a risk that rents will no longer increase and that a downward trend may occur 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 a 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, 2016 and 2018 financial 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, the persistently low level of interest rates and generally positive corporate expectations continue to support the favourable environment for the German real estate market.

In the rental market, oversupply or outdated amenities can lead to price pressure, margin loss and vacancies, or the need to undertake costly maintenance or refurbishments. A shortage of suitable space, however, can lead to high demand from tenants and rising prices for the qualities most looked for.

Due to the stable environment and solid economic fundamentals, the German commercial real estate market has evolved into an attractive investment market also for foreign investors. In our view, the Brexit decision and the associated changes in Europe present short- and medium-term opportunities rather than risks for our business. International companies considering relocating to continental Europe or expanding their existing locations could be a positive stimulus for the German real estate market.

In our intense examination of real estate prior to their purchase, we strive to avoid any of the risks that may arise from difficulty in re-letting or lack of flexibility in the use of the properties. At the same time, we are interested in identifying opportunities arising from existing vacancies that we can exploit through our highly effective internal asset and portfolio management activities and through our external property management service provider, who is also skilled in implementing challenging tasks.

We currently believe that there is a medium probability of negative developments in the real estate market in 2019 and, therefore, estimate the risk of a negative impact to the net assets, financial situation and results of operations to be moderate.

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 at the level of the respective project companies is affected by revenue from real estate less management, administrative and financing costs and at the level of the Company by proceeds in the form of dividends, profit distributions, profit transfers and withdrawals from Group companies.

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 liabilities 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 at the reporting date and the level of cash flow targeted for 2019 are sufficient for the current needs of 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 negative effect on DEMIRE's liquidity.

As at the reporting 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 the financing of Sihlegg Investments Holding GmbH, the DSCR complies with the capital coverage required by the respective agreements as at 31 December 2018.

In the event of the assumption of debt and the issuance of (preferred) shares by DEMIRE AG or relevant Group 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") and "net secured LTV" ratio and the fixed charge coverage ratio ("FCCR") in order to ensure a minimum cash flow to cover interest and principal payments on existing liabilities.

The internationally renowned rating agencies Standard & Poor's and Moody's confirmed their BB+ and Ba2 rating for the 2017 / 2022 corporate bond in July 2018. 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 to the Executive Board 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-rate loans and to a lesser extent variable-rate loans, as well as tradable instruments, including corporate bonds and financial instruments with conversion options in company shares until the end of 2018. 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 level leads to a burden on the Group. As at the reporting date, financial liabilities in the amount of EUR 597.6 million had fixed interest rates and EUR 38.7 million had variable interest rates.

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 very low foreign currency risks for the existing portfolio of commercial real estate in Germany, as all material 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

The rental and management of real estate entail 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, rent-free periods). In general, we strive for long-term lettings and take early action to secure follow-on and new lettings. When DEMIRE is unable to lease its properties at attractive terms or lease contracts have formal defects and therefore agreements cannot be enforced or are void, this could have a negative impact on the Company's net assets, financial position and results of operations.

There is the risk of unexpected costs for maintenance and repair measures or for adjustments of properties to modern requirements, also due to delays in the implementation, e.g. as a result of late granting of the building permit, so that there may be delays in the start of rental agreements and thus in the inflow of rental income and returns.

Due to the tenant structure, there were no significant rental risks at the time this report was prepared which had a direct impact on the Group's earnings situation. Default risks from rent receivables are taken into account by impairments. Generally, we try to avoid dependence on large tenants. In the 2018 financial year, 47.6 % (31 December 2017: 48.2 %) of the contractual rents were attributable to the ten largest tenants. These are all well-known and largely creditworthy tenants, especially from the public, telecommunications and retail sectors. However, there is a dependency on a few tenants who have a significant share of the rental income. Deutsche Telekom (GMG Generalmietgesellschaft GmbH) is the largest tenant with a cumulative share of the total contractual rents of the real estate portfolio of 30.4 % (31 December 2017: 30.6 %) across multiple leases and real estate locations. If it were not possible to find new tenants for the corresponding space for this tenant or other significant tenants from the ten largest tenants after the end of the rental agreements or extraordinary termination, this would lead to a significant decline in rental income and thus to a significant negative effect on the Company's net assets, financial position and results of operations. As a result of our own highly effective asset and portfolio management, we are close to tenants and foster long-term tenant loyalty. The Executive Board therefore considers the risk from rental and management risks and the resulting effects on net assets, financial position and results of operations to be low.

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 socio-economic 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 funds from operations (FFO) and 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. We are constantly reviewing and developing options to expand our real estate portfolio. If we succeed in exploiting growth opportunities, this could lead to an increase in rental income and the profit / loss from the rental of real estate. The lack of investment opportunities in real estate could drive up the price of such properties. In addition, availability also depends on numerous 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 medium-term target to grow its real estate portfolio to EUR 2 billion.

In the case of acquisitions, a false assessment of the real estate location, as well as the change in the infrastructure of the micro-location or the regional structures of the macro-location, may result in site risks. In line with our strategy, we therefore examine the location situation and site intensively in the run-up to investment and acquisition decisions. In operational terms, our professional internal asset and portfolio management team and our property management service provider help to identify changes in the environment in good time and to react appropriately, for example by repositioning or selling.

There is the risk of unexpected costs for maintenance and repair measures or for adjustments to purchased properties to meet modern requirements. These risks can also arise if the buyer is only able to carry out 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, and real estate portfolios in particular, may lead to a misjudgement or overestimation of earnings or potential synergies, which may negatively impact the Company's net assets, financial position and results of operations versus the Company's planning. We reduce risks before buying the real estate through a detailed due diligence process involving the necessary external experts. The Executive Board estimates the risk from acquisitions and the resulting effects on net assets, financial position and results of operations to be low.

Sales risk

We use real estate sales from our portfolio to reduce the cluster risk related to the sector and regional mix in the portfolio, realise profits and accelerate debt reduction, thereby reducing financial risks. After the sale of real estate, buyer's claims under warranty can arise if the real estate does not feature the promised characteristics due to, for example, its state of modernisation and promise of no contamination, as well as with respect to letting. These factors may have a negative effect on the Company's net assets, financial position and results of operations.

Due to the small volume of divestments made by DEMIRE in recent years, the Executive Board estimates that the level of risk related to sales risks and the resulting effects on net assets, financial position and results of operations are low.

OTHER RISKS

Legal risk

Risks may arise with respect to DEMIRE's business model, particularly from changes in regulations and in the legal framework. Compared to other countries in Europe, the German economy has historically proven to have highly stable regulation, with little potential for sudden action or regulatory intervention unless there is a broad consensus on social and economic policies. However, DEMIRE may still be required to pay for unrecognised contaminated sites, environmental pollution and harmful building structures, or for non-compliance with building law requirements in accordance with the applicable legal situation.

Legal risk can also result from portfolio investments in countries with somewhat less stable legal systems. Given the advanced stage of the Company's withdrawal from investments in Eastern Europe and the Black Sea Region, these risks are considered to be low compared to prior financial years.

Other legal risks can generally arise from a variety of conflicts, such as those in relation to rentals or personnel matters. Rental disputes are 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.

Compliance risks

Responsible and sustainable corporate governance is part of the corporate culture and day-to-day business of DEMIRE. Therefore, we continue to develop our Compliance Programme with the goal of helping employees comply with relevant legislation and standards of conduct. At the beginning of 2017, DEMIRE introduced a Group-wide Code of Conduct as the central element of the Compliance Programme, which is mandatory for all employees to sign. Regular compliance training is provided to deepen and clarify the guidelines and principles of the Code covering the following topics:

- Anti-corruption and avoidance of conflicts of interest
  - Prohibition of taking or granting personal benefits to influence business decisions
  - A reasonable ratio of consultant remuneration to the service rendered
  - Binding arrangements for the acceptance and granting of gifts, invitations and other benefits and the handling of donations
  - Avoiding a conflict of interest from secondary employment and company participations
- Discrimination protection and respect
  - No discrimination or unwanted conduct based on race, ethnic origin, gender, religion, disability, age and / or sexual identity
  - A respect-filled working environment and fair working conditions
- Trade secrets and data protection
  - Commitment to data privacy
  - Collection, storage and processing of personal data in accordance with the Privacy Policy
  - Ban on the exploitation of inside information
- Reporting and information
  - Complete, proper and timely reporting
  - Comprehensive, timely and transparent information

The Compliance Officer is the contact person for compliance issues and information on non-compliant behaviour. 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 risks

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
- Restriction of real estate trading and non-real-estate-related services in return for payment
- Compliance with the free-float ratio of a minimum of 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 financial year
- 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 payments of taxes and significant outflows of liquidity, and in the event of loss of the REIT status, potentially to the compensation claims of shareholders in Fair Value REIT-AG. 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 moderate.

Personnel risk

Competent, committed and motivated employees are an essential prerequisite for DEMIRE's successful development. The DEMIRE Group could lose or be unable to replace members of the Executive Board or other key personnel with sufficiently qualified staff on a timely basis. The Executive Board estimates personnel risks and the resulting effects on the Company's net assets, financial position and results of operations as moderate.

IT risks

The IT systems belonging to DEMIRE and its subsidiaries, as well as their service providers, could irretrievably lose important data or face unauthorised data access from external sources. Both could cause business disruptions and costs and may ultimately lead to financial loss. DEMIRE has protected itself against IT risks through its own network, modern hardware and software solutions as well as measures against external attacks. The Company also additionally secures all of its data. Employees only have access to the systems and documents required for their work via a system of detailed access rights. The Executive Board estimates the IT risks and the resulting effects on the Company's net assets, financial position and results of operations to be low.

OVERALL ASSESSMENT OF THE RISK SITUATION

The risk situation of the DEMIRE Group and the Company continued to improve during the reporting period. In addition to the prolongation of the promissory note and the placement and tapping of the unsecured 2017 / 2022 corporate bond at significantly better interest rates in 2017, this was a result of an improved liquidity position in the financial year. These financing measures sharply reduced interest expenses and repayment obligations, as well as the associated cash outflow. At the same time, the early repayment of the secured loans of Logistikpark Leipzig GmbH, Sihlegg Investments Holding GmbH and DEMIRE Objektgesellschaft Germavest GmbH (formerly Germavest Real Estate S.à.r.l.) resulted in the release of significant real estate assets held as collateral that are now available to be used again as collateral. By further diversifying its funding sources, DEMIRE has increased its flexibility for future growth. Within the scope of placing its corporate bond, DEMIRE received its first rating from the recognised rating agencies Standard & Poor's and Moody's in 2017. As a result, DEMIRE has further increased its visibility on the capital markets. The rating confirmed in July 2018 remains at BB / Ba2 with a stable outlook. DEMIRE is striving for an investment grade rating in the medium term to be able to procure future capital to finance business growth at favourable terms. With the entry of AEPF III 15 S.à.r.l., a holding company owned by Apollo European Principal Finance Fund III, as a major shareholder via the 10 % capital increase in April 2018 and the subsequent increase of the stake through the exercise of convertible bonds in May and June 2018 and the capital increase in November 2018, the Company received equity and considerably reduced its liquidity risks.

According to the current assessment, 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

DEMIRE expects the macroeconomic and sector environment to be favourable in the 2019 financial year and therefore continues to see good opportunities for the targeted expansion of the DEMIRE Group real estate portfolio. Germany continues to demonstrate robust and healthy economic development, which lends long-term stability to commercial space. In this environment, the DEMIRE Group intends to further increase its enterprise value through the careful and professional selection of new properties and through the active real estate management of its existing portfolio.

The real estate experts at Jones Lang LaSalle (JLL) see continued demand for real estate in 2019 and anticipate commercial real estate transaction volumes of up to EUR 55 billion – below the record high of 2018 primarily due to lower supply. The development of the major German office letting markets has also been impacted by rising rents over the past twelve months due to an ever-decreasing supply of space and high demand.

Although the economic outlook has deteriorated somewhat due to the global political situation and discussions, the market is still expected to see stable to slightly lower demand for office space in 2019.

BUSINESS OPPORTUNITIES

The strong growth experienced in recent years, particularly from the acquisition of the majority interest in Fair Value REIT-AG at the end of 2015, has given DEMIRE the necessary size to enter into framework agreements with national utility suppliers for basic utilities and lower its costs through volume purchases and better service conditions.

The gradual insourcing of corporate functions and the associated harmonisation of IT structures and processes and a further expansion in internal asset and portfolio management activities may result in greater efficiency and economic benefits. With the outsourcing of property and facility management to a renowned service provider in November 2018, DEMIRE has chosen to apply a much more flexible and scalable real estate management model in the German commercial real estate market for its planned portfolio growth to more than EUR 2 billion. After outsourcing its property and facility management, DEMIRE anticipates significant, sustainable cost savings as of 2019. Through professional and dedicated support, the chance to prolong tenancy periods and conclude follow-on lettings increases which, in turn, will continue to bring down tenant fluctuation and vacancies.

The regions in which DEMIRE holds real estate offer not only higher demand for commercial space but also opportunities to re-let vacant properties.

At the same time, the purchase of previously under-managed properties with higher vacancies and shorter residual rent periods is highly attractive for DEMIRE's business model, which through its active real estate management approach can increase the cash flows of the properties and thus achieve high added value in its future real estate investments.

FINANCIAL OPPORTUNITIES

DEMIRE plans to take advantage of current interest rates to further reduce its average interest rate on borrowings. Following the extensive refinancing of existing liabilities in 2017, which resulted in significantly lower interest expenses in the 2018 financial year, DEMIRE intends to further optimise the financial structure of the Group in the context of its planned growth and by using a mix of both secured and unsecured financing.

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

Over the past several years, 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 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 sees good opportunities for DEMIRE to further grow its portfolio and improve profitability in the coming years through planned internal and external growth, continued increases in efficiency as well as through optimising its real estate management platform.

REPORT ON OUTLOOK

ECONOMIC ENVIRONMENT – GROWTH MOMENTUM IS SLOWING

Towards the end of 2018, the global economy lost momentum and the economic sentiment dampened in several regions. These factors are having an influence on the current year, which is reflected in the expected decline in the global economic growth rate to 3.4 % in 2019. The Kiel Institute for the World Economy (IfW) sees risks, e.g. in rising trade conflicts, and in most emerging economies production is expected to expand at a slower pace.

In the eurozone, Italy's public debt and the delay in reforms in France are dampening economic sentiment. Uncertainties regarding Britain's exit from the European Union (Brexit) could weaken the European economy in 2019. Although the IfW anticipates a gradual slowdown in the pace of the eurozone's expansion, favourable financing fuelled by expansionary monetary policy will continue to ensure an upward economic trend going forward. The eurozone's economy is currently anticipated to grow by 1.7 % in 2019.

Modest economic growth will slow down the decline in unemployment. The IfW estimates that the unemployment rate will drop to 8.2 % in 2019. The institute forecasts an inflation rate at a level of 1.5 % for the eurozone.

The upswing in Germany also came to a halt at the turn of the year. According to the IfW, companies are finding it increasingly difficult to expand their production, and capacity limitations make it even more difficult, especially for the construction industry. For 2019, the IfW is projecting German economic growth of 1.8 %. Job creation is anticipated to continue to be somewhat slower in 2019, with the unemployment rate likely to fall to 4.8 %. Economic experts forecast an inflation rate of just over 2 % as a result of the over-utilisation of production capacity.

SECTOR ENVIRONMENT – DEMAND TO REMAIN BRISK

Capacity constraints will stand in the way of potentially stronger construction activity in 2019, predicts the IfW. Based on continued favourable financing conditions and a high order backlog, the IfW forecast assumes an increase in construction investment of around 3 %. For construction prices, the estimate is based on an annual increase of approximately 5 %, as production capacity is anticipated to not keep up with the brisk demand.

Transaction market for commercial real estate

After a record year in 2018, a slight decline in momentum is expected in the commercial investment market. Market researchers from Catella expect a transaction volume in the area of EUR 55 billion.

Despite the moderate rise in interest rates, investing in real estate is still attractive and will continue to be so in 2019, according to the consulting company Jones Lang LaSalle (JLL). JLL bases its prediction on the fact that there are no high-return alternatives available, causing more and more investors, such as pension funds and insurance companies, to increase their share of real estate investment. These companies have a high capital pressure, which leads to a correspondingly large quantitative effect on the real estate market.

The biggest threats in 2019 are global trade restrictions and a no-deal Brexit. The resulting negative impact on the German economy would also have consequences for the domestic real estate market.

Office property market

The investment market for office real estate is again projected to register better-than-average performance in 2019. The real estate consultant Colliers International expects transaction volumes to settle at about the same level as in 2018. The office property market should benefit from the general investment pressure on real estate. As for the prime yields, the minimum should be reached, whereas yields for secondary locations are likely to decline.

Given the relatively stable economic situation, office space should continue to be in high demand in 2019. In view of this, Colliers International expects strong floor space turnover of up to 3.5 million m² for the year. JLL has a more pessimistic view and is not ruling out a decline in office space turnover in 2019. The consulting firm cites lack of space availability and a possible decline in demand in case the economic situation deteriorates as the reasons. Only 1.68 million m² of new space is expected in 2019 due to a significant delay in scheduled projects. The vacancy rate should continue to decline and rental prices are projected to continue to increase.

Retail property market

For 2019, JLL expects demand for inner-city retail properties to decline slightly. The reasons for this are stagnating or declining retail rents as well as the continued growth in online commerce.

Colliers International offers a similar assessment. Structural breaks in the retail landscape are expected to lead to investors becoming more selective in 2019. Many investors are likely to wait for modernisation and repositioning of shopping centres and inner-city retail properties.

Colliers International expects a rise in yields at shopping centres in the course of 2019. The specialist retail segment, which is dominated by the food retail sector, will continue to be the driver of transaction activity for the foreseeable future, resulting in stable to slightly higher purchase prices. It is not expected that turnover in 2019 will break the EUR 10 billion mark, despite the high number of expected transactions. In the end, the property volumes are just too low.

Logistics property market

For forecasts on the logistics rental market, JLL uses the "Supply Chain Activity Index" to make short-term predictions. The index is based on the indicators that correlate with the demand for warehouse and logistics space (e.g. gross domestic product).

The “Supply Chain Activity Index” for Germany continues to expect a strong interest in warehouse space in 2019, despite the decline in the index at the end of 2018 due to a stagnating economy and drop in the confidence indicator in the retail sector. The forecasts for the first half of 2019 indicate a growth rate between 0.2 % and 0.3 %, and a recovery in the trend is expected.

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

Overall, DEMIRE Deutsche Mittelstand Real Estate AG expects a stable to good environment in the 2019 financial year, along with the continued positive performance of its business.

DEMIRE’s priority is to continue implementing its growth strategy. In the past financial year, the key financial and operating figures improved significantly once again versus the previous year. Rental income was stable thanks to a very good operational development despite the sale of non-strategic real estate. Successful letting performance resulting in a further decrease in vacancy contributed to this. The EPRA vacancy rate of the existing portfolio was reduced again by a further 190 basis points to 7.5 % within a one-year period (31 December 2017: 9.4 %). Funds from operations (FFO I, before minority interests, after taxes) almost doubled compared to the previous year and reached EUR 23.4 million for the 2018 financial year (31 December 2017: EUR 11.4 million).

After initial purchases in November 2018 of EUR 167 million, DEMIRE plans to continue to significantly expand its real estate portfolio in the 2019 financial year as it pursues its medium-term target to grow its portfolio to more than EUR 2 billion. DEMIRE also plans to achieve a lasting improvement in its current real estate portfolio through active real estate management, a reduction in vacancies, exploiting the potential for value creation and the further sale of selected non-strategic real estate. In 2019, DEMIRE expects a gradual increase in its earnings as a result of further purchases, an increase in profitability through the ongoing optimisation of its real estate management and cost structures, as well as from the utilisation of synergies and economies of scale wherever possible.

EXPECTED DEVELOPMENT OF DEMIRE’S KEY PERFORMANCE INDICATORS

The forecasts for the economy, and particularly for real estate, indicate that the overall economy and the commercial real estate market in Germany are expected to continue to enjoy favourable overall conditions. DEMIRE’s business model and focus on Germany’s secondary locations as investments are also expected to do well in this environment.

In the 2019 financial year, DEMIRE plans to generate rental income of around EUR 77 to 79 million from the letting of the real estate portfolio as at 31 December 2018, following the disposal of already sold properties and planned sales while taking into account already notarised purchases. This forecast does not take into account the effects of potential acquisitions using equity and debt financing in 2019. Active real estate management is also expected to contribute to an increase in rental income, i.a. with the aim of raising occupancy rates through the efficient use of investment. On the basis of the anticipated rental income and the positive effects from the further implementation of the strategy already taken into account in the 2019 financial year, DEMIRE expects to see a further increase in the FFO result for 2019 (FFO I, before minority interests, after taxes) in a range of EUR 27 to EUR 29 million. Real estate transactions and other unforeseeable factors in the 2019 financial year may, however, lead to a change in the FFO forecast during the course of the year.

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 stable.
- Brexit (Britain's exit from the EU) 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, and the ECB in particular, will not significantly increase key interest rates in the eurozone.
- 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.
- There will be 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.

Acquisition-related information

COMPOSITION OF SUBSCRIBED CAPITAL

a) As at 31 December 2018

As at 31 December 2018, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 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 178,893 no-par value bearer shares were not recorded in the commercial register until the beginning of February 2019. 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 10,568,103 shares resulted from the exercise of the 2013 / 2018 convertible bond, 3,000,000 shares from the 2015 / 2018 mandatory convertible bond and 39,938,477 shares from two capital increases. The subscribed capital of the Company has been conditionally increased following the exercise of conversion rights from the convertible bonds and the issue of 10,568,103 new shares from Conditional Capital I / 2013, I / 2017 and I / 2018. The original number of convertible bonds was 11,300,000. No conversion rights remain after repayment of the remaining 45,288 convertible bonds in December 2018. The conditional capital increase served to grant subscription and / or conversion rights to the holders of option and / or convertible bonds which were issued in accordance with the authorisation granted by the Company's Annual General Meeting on 23 October 2013.

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 at 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 into 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") had exceeded the 30 % threshold on 26 February 2018 and on this day amounted to a total of 32.19 % (17,471,893 voting rights).

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) sentences 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 was financed by own funds.

On 25 October 2018, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, with the approval of the Supervisory Board, resolved to increase the share capital of the Company against a cash contribution by EUR 34,512,703.00 from EUR 73,085,728.00 to EUR 107,598,431.00 by issuing of 34,512,703 no-par value ordinary shares each with a notional interest of EUR 1.00 and a profit entitlement as of 1 January 2018 (the “new shares”) from authorised capital with subscription rights for existing shareholders of the Company (the “capital increase”).

The new shares were offered to existing shareholders of the Company at a price of EUR 4.35 per new share and a subscription ratio of 36:17. Accordingly, existing shareholders were able to acquire 17 new shares for 36 existing shares in the Company. AEPF III 15 S.à r.l. (“AEPF”), the largest single shareholder in the Company, currently holding approximately 49.58 % of the Company’s share capital, had undertaken to exercise its subscription rights and subscribe directly to the number of new shares attributable to its interest according to the subscription ratio. AEPF had also undertaken to acquire any new shares for which subscription rights of the Company’s existing shareholders were not exercised. The capital increase was entered in the commercial register on 12 November 2018.

b) Development after 31 December 2018

Until the date of this Annual Report's publication, no 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 3 % OF THE VOTING RIGHTS

a) As at 31 December 2018

As at 31 December 2018, the following shareholders of DEMIRE Deutsche Mittelstand Real Estate AG held interests in the Company representing more than 3 %, 5 % and 10 % of the voting rights:

- AEPF III 15 S.à r.l. held a total of 64.07 % of the shares.
- Klaus Wecken held a total of 24.50 % of the shares through Wecken & Cie., Basel, Switzerland.

As at 31 December 2018, 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 2018

At the time of this Annual Report's publication, the Company was not aware of any further notifications of direct or indirect interests that exceeded 3 %, 5 % or 10 % of the voting rights.

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 a chairperson and a vice chairperson as well as deputy Board members to the Executive Board.

Amendments to the Articles of Association

Changes to the Articles of Association require a resolution by 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 relate 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 at 31 December 2018

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 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 at 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 into the commercial register on 5 April 2018. The resolution of the Annual General Meeting of 27 June 2018 cancelled the remaining Authorised Capital I / 2017 in the amount of EUR 21,703,098.00 and its provisions in Section 6 of the Articles of Association (Authorised Capital) and authorised the Executive Board, with the approval of the Supervisory Board – by countermotion – to increase the Company's share capital by up to a total of EUR 36,532,419.00 (Authorised Capital I / 2018) by issuing a total of 36,532,419 new no-par value bearer shares against contribution in cash and / or in kind once or several times in partial amounts until 26 June 2023. 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 an issue price not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, and to issue shares to employees and execute capital increases against contribution in kind.

On 25 October 2018, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved, with the approval of the Supervisory Board, to increase the share capital of the Company by EUR 34,512,703.00 from EUR 73,085,728.00 to EUR 107,598,431.00 from authorised capital by issuing 34,512,703 new no-par value bearer shares with a notional interest of EUR 1.00 each and full dividend entitlement as at 1 January 2018 (the "new shares") against cash contribution with subscription rights for existing shareholders of the Company (the "capital increase"). The capital increase was entered in the commercial register on 12 November 2018, reducing Authorised Capital I / 2018 to EUR 2,019,716.00.

b) Development after 31 December 2018

The resolution of the Extraordinary General Meeting on 11 February 2019 cancelled Authorised Capital I / 2018 and its provisions under Section 6 of the Articles of Association (Authorised Capital) subject to the condition precedent to the entry of the amendment of the Articles of Association in the commercial register proposed in paragraph c) below, insofar as it had not yet been utilised by resolution of the Executive Board with the approval of the Supervisory Board until the Extraordinary General Meeting.

At the same time, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by a total of EUR 53,888,662.00 by issuing up to a total of 53,888,662 new no-par value ordinary shares on one or more occasions against cash contribution and / or contribution in kind until 10 February 2024 (Authorised Capital I / 2019). Shareholders are generally entitled to subscription rights. The new shares can also be subscribed to by one or several banks or similar institutions pursuant to Section 186 (5) sentence 1 AktG 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 one or several times for fractional amounts, in the case of cash capital increases of up to 10 % of the share capital at an issue price not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, and to issue shares to employees and execute capital increases against contribution in kind.

There were no further changes from 31 December 2018 to the time this Annual Report was published.

Conditional capital

a) As at 31 December 2018

Conditional Capital I / 2013 was fully consumed in the 2018 financial year. The conditional capital increase served to grant subscription and / or conversion rights to holders of warrant and / or convertible bonds issued in accordance with the authorisation of the Company's Annual General Meeting on 23 October 2013.

Based on the resolution of the Annual General Meeting on 30 June 2016, 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. Due to the conversion of the 2015 / 2018 mandatory bond into 3,000,000 new no-par value bearer shares as at 22 May 2018, Conditional Capital I / 2016 was consumed in full.

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 financial 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 27 June 2018, Conditional Capital II / 2015 in the amount of EUR 1,000,000.00 and divided into a maximum of 1,000,000 no-par value bearer shares and the related provisions of Section 5 (6) of the Articles of Association were cancelled. At the same meeting, Conditional Capital I / 2018 of up to EUR 560,000.00 and divided into a maximum of 560,000 new, no-par-value shares was created with the related amendment to the Articles of Association due to the partial use of the options as remuneration for former employees and a member of the Executive Board.

Following the utilisation of EUR 4,107,098.00 divided into 4,107,098 no-par value bearer shares for the exercise of the 2013 / 2018 convertible bonds, Conditional Capital I / 2017 of EUR 12,747,552.00 divided into 12,747,552 no-par value bearer shares and its regulations under Section 5 (7) of the Articles of Association were cancelled by resolution of the Annual General Meeting on 27 June 2018. At the same general meeting, Conditional Capital II / 2018 was created in the amount of EUR 35,972,419.00 divided into up to 35,972,419 new no-par value bearer shares with a corresponding amendment to 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 23 October 2013 under Agenda Item 8 to grant convertible bonds and / or bonds with warrants and / or (ii) the authorisation resolved by the Annual General Meeting of 29 June 2017 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) and / or (iii) based on the authorisation resolved by the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect affiliates and that grant a conversion or option right or establish a conversion obligation to new no-par value bearer shares of the Company. 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. Until 31 December 2018, Conditional Capital II / 2018 was utilised in the amount of EUR 199,783 due to conversions.

The conditional capital increase 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 at the start of the previous financial year provided they are created as a result of exercise before the start of the

Company's Annual General Meeting, or otherwise as at the start of the financial 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 2018

In accordance with the terms and conditions of the 2013 / 2018 convertible bonds, no further conversions were possible after 24 December 2018.

The resolution of the Extraordinary General Meeting on 11 February 2019 cancelled Authorised Capital II / 2018 and its provisions under Section 5 (5) of the Articles of Association subject to the condition precedent to the entry of the amendment of the Articles of Association in the commercial register proposed in paragraph c) below, insofar as it had not yet been utilised by issuing new shares until the Extraordinary General Meeting.

At the same time, the Company's share capital was conditionally increased by up to EUR 53,328,662.00 through the issue of up to 53,328,662 no-par value bearer shares (Conditional Capital I / 2019). The conditional capital increase serves to grant no-par-value bearer share 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 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or a combination of these instruments) and / or (ii) based on the authorisation resolved by the Annual General Meeting of 11 February 2019 under Agenda Item 2 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or a combination of these instruments) by the Company or its direct or indirect affiliates and that grant a conversion or option right or establish a conversion or option obligation to new no-par value bearer shares of the Company. The new shares will be issued at the option or conversion price to be determined in accordance with the respective resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights, or the holders obliged to convert or exercise their obligations meet their exercise or conversion obligations, unless a cash settlement or own shares are granted, or shares are created from authorised capital. The shares participate in the profit from the beginning of the previous financial year, if they arise through exercise until the beginning of the Ordinary General Meeting of the Company, otherwise from the beginning of the financial year in which they arise through the exercise of subscription rights. The Executive Board is authorised, with the approval of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase.

Authorisation to issue convertible bonds or bonds with warrants

a) As at 31 December 2018

The authorisation to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds in the aggregate nominal amount of up to EUR 125,000,000.00 granted by the resolution of the Annual General Meeting on 29 June 2017 under Agenda Item 8 was cancelled by the resolution of the Annual General Meeting of 27 June 2018. By resolution of the same Annual General Meeting, the Executive Board was authorised with the approval of the Supervisory Board, to issue on one or several occasions bearer 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”) with a limited or unlimited maturity period in the aggregate principal amount of up to EUR 125,000,000.00 until 26 June 2023 and grant the holders or creditors of these bonds option rights for no-par value bearer shares of the Company with a notional interest in the share capital of up to a total of EUR 25,000,000.00 in accordance with the terms and conditions of the 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.

b) Development after 31 December 2018

The Executive Board’s authorisation by resolution of the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds with a total nominal value of up to EUR 125,000,000.00 was cancelled with the resolution of the Annual General Meeting on 11 February 2019. The Executive Board was authorised to issue – with the consent of the Supervisory Board – subordinated or non-subordinated 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”) with a limited or unlimited maturity period for a total nominal amount of up to EUR 325,000,000.00 on one or several occasions, also simultaneously in different tranches, until 10 February 2024, and grant the holders or creditors of these bonds conversion or option rights or conversion or option obligations for a total of up to 53,328,662 no-par value bearer shares of the Company with a notional interest in the share capital of up to a total of EUR 53,328,662.00 in accordance with the terms and conditions of the bonds.

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 the shareholders to submit offers to sell:

If the purchase of shares is executed on the stock exchange, the consideration paid per share (each excl. 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. A preferential acceptance of lesser quantities of up to 100 shares tendered per shareholder may be provided for.

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 of the direct or indirect acquisition of control of the Company's voting rights of at least 50 % or a comparable situation that restricts the Executive Board's management of the Company, Mr Ralf Kind (Executive Board member until 3 January 2019) had and Mr Ingo Hartlief has an extraordinary special right of termination. If the special right of termination is exercised, the contract ends with immediate effect and Mr Kind would have received a severance payment in the amount of an annual salary and Mr Hartlief will receive a severance payment in the amount of an annual salary, which is determined by the sum of the basic salary and the target bonus amount. The severance payment increases by the value of the stock options already granted to the member of the Executive Board, valued at the relevant time depending on the situation.

Corporate Governance Report / Corporate Governance Statement

On 6 March 2019, 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 "Company" section under the heading "Corporate Governance" on its website at www.demire.ag.

Management report 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 financial 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 2018 financial 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 27 (2017 financial year: 20).

The Company's financial statements as at 31 December 2018 were prepared in accordance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). Supplementary provisions from the Articles of Association did not arise.

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

Results of operations

In the 2018 financial year, DEMIRE Deutsche Mittelstand Real Estate AG incurred a net profit of EUR 93.3 million.

STATEMENT OF INCOME (EXCERPT) in EUR thousands	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	%
Revenue	2,618	7,104	– 4,486	– 63.1
Other operating income	97,969	2,366	95,603	>100
Staff costs	– 3,495	– 5,159	1,664	– 32.25
Other operating expenses, depreciation & amortisation	– 13,078	– 11,356	– 2,344	15.16
Income from investments	10,747	56	10,691	>100
Income from loans	12,452	14,742	– 2,290	– 15.53
Impairment of financial assets	– 260	– 10,522	10,262	– 97.53
Financial result	1,325	– 38,582	39,907	< – 100
Result before taxes	96,087	– 45,627	141,714	> 100
Net profit	93,326	– 45,769	139,095	> 100

The Company's revenue results mainly from management fees related to the provision of internal Group services to the subsidiaries and sub-subsidiaries of DEMIRE Deutsche Mittelstand Real Estate AG. A change in the calculation basis for the newly concluded agency agreements from 2018 onwards led to a decrease of EUR 4.5 million.

The significant increase in other operating income resulted from the contribution of shares in two affiliated companies as part of a cash capital increase with a premium provided in kind. This resulted in DEMIRE's release of hidden reserves totalling EUR 93.6 million. Other operating income also included income from the write-up of shares in affiliated companies of EUR 3.5 million and income from the forbearance commission on a loan of EUR 0.4 million.

Staff costs fell to EUR 3.5 million (2017 financial year: EUR 5.2 million). The decrease in staff costs compared to the previous year was primarily a result of higher expenses for the Executive Board of up to three persons, severance payments of EUR 0.9 million for former members of the Executive Board in the 2017 financial year and the compensation of EUR 0.6 million for stock options.

Other operating expenses and depreciation / amortisation increased by EUR 2.3 million to EUR 13.1 million. The high expenses in 2018 resulted from consultancy and service fees in connection with the partial termination and refinancing of the 2017 / 2022 corporate bond in the course of the takeover offer by Apollo Global Management, LLC, and the capital measures in April and November 2018.

Income from loans of financial fixed assets totalling EUR 12.5 million consisted solely of 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 amounted to EUR 1.3 million in the 2018 financial year (2017 financial year: EUR – 38.6 million). This includes income from investments of EUR 10.7 million (2017 financial year: EUR 56 thousands). This results from profit allocations from affiliated companies. In addition, the refinancing measures implemented in the previous year at more favourable terms by issuing the 2017 / 2022 corporate bond had a very positive effect on the financial result.

Impairment on financial assets amounted to EUR 0.3 million in the 2018 financial year (2017 financial year: EUR 10.5 million).

Based on the control and profit and loss transfer agreements concluded in the 2017 financial year, a profit of EUR 3.3 million (2017 financial year: EUR 0.9 million) and a loss of EUR 0.1 million (2017 financial year: EUR 19.6 million) were transferred to the Company.

The result before taxes totalled a net profit of EUR 93.3 million after a net loss of EUR 45.8 million in the 2017 financial year due to a significant improvement in the financial result, the contribution of subsidiaries with a premium provided in kind and a low level of impairment losses on financial assets.

Financial position

The Company's financial management is carried out in accordance with the guidelines adopted by the Executive Board. The primary objectives are to ensure liquidity and maintain financial independence. All financial obligations and credit clauses (financial covenants) were upheld during the financial year and as at the reporting date.

Providing periodic information on the financial position to the Supervisory Board is an integral part of the risk management system of DEMIRE AG.

Liquidity position

STATEMENT OF CASH FLOWS in EUR thousands	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	%
Cash flow from operating activities	– 16,117	– 61,198	45,081	73.7
Cash flow from investing activities	– 5,084	– 181,891	176,807	97.2
Cash flow from financing activities	133,354	272,917	– 133,563	– 51.1
Net change in cash and cash equivalents	**112,152**	**29,828**	**82,324**	**>100**
Cash and cash equivalents at the end of the period	**142,269**	**30,116**	**112,153**	**>100**

Operating activities resulted in a cash outflow of EUR 16.1 million in 2018 following a cash outflow in the previous financial year of EUR 61.2 million. The main drivers of this development were the lower interest payments for borrowings due to refinancing concluded in 2017. The cash flow from operating activities in 2017 was characterised by high interest payments for the originally high-yielding liabilities and prepayment penalties in connection with refinancing measures.

Lower volumes of lending to affiliates have led to a sharp decline in cash outflows from investing activities.

In the 2018 financial year, two capital increases were carried out to finance planned purchases of real estate and real estate companies with proceeds of EUR 23.6 million and EUR 150.1 million, respectively.

In the 2018 financial 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 EUR thousands)	31/12/2018	31/12/2017	CHANGE	%
Assets				
Fixed assets	579,135	472,257	106,878	22.63
Current assets / prepaid expenses	188,261	61,424	126,838	>100
Total assets	**767,396**	**533,681**	**233,715**	**43.79**

BALANCE SHEET – EQUITY AND LIABILITIES (Selected information in EUR thousands)	31/12/2018	31/12/2017	CHANGE	%
Equity and liabilities				
Equity	366,199	73,573	292,626	>100
Provisions	3,685	1,804	1,881	>100
Liabilities	397,512	458,304	– 60,792	– 13.26
Total equity and liabilities	**767,396**	**533,681**	**233,715**	**43.79**

The Company's total assets as at the 31 December 2018 reporting date amounted to EUR 767.4 million. This represents an increase of EUR 233.7 million, or almost 45 %, over the previous year's total of EUR 533.7 million.

Fixed assets increased by EUR 106.9 million in the financial year. The increase is mainly attributable to the contribution of shares in two affiliated companies as part of a cash capital increase with a premium provided in kind and additional loans granted to affiliated companies.

Current assets, including prepaid expenses, increased by EUR 126.8 million from EUR 61.4 million as at 31 December 2017 to EUR 188.3 million. The largest item was cash and cash equivalents in the amount of EUR 142.2 million, which increased mainly as a result of the two capital increases in the 2018 financial year with proceeds totalling EUR 170.7 million. This was partially offset by payments for the operating business and the repayment of 2017 / 2022 convertible bonds in the amount of EUR 33.4 million in the wake of the takeover offer by Apollo.

On the liabilities side of the balance sheet, the Company's equity increased from EUR 73.6 million as at 31 December 2017 to EUR 366.2 million as at 31 December 2018. The increase resulted from conversions of the 2013 / 2018 convertible bonds and the 2015 / 2018 mandatory convertible bond, as well as two capital increases in the 2018 financial year and the income from the cash capital increase with a premium provided in kind.

The equity ratio increased accordingly from 48.4 % at the end of 2017 to 47.7 % as at 31 December 2018.

Provisions of EUR 3.7 million as at 31 December 2018 (31 December 2017: EUR 1.8 million) mainly relate to other personnel costs; outstanding invoices, mainly for legal and consulting costs; as well as costs for the audit of the annual financial statements and consolidated financial statements.

The Company's liabilities decreased from EUR 458.3 million as at 31 December 2017 to EUR 397.5 million as at 31 December 2018. A key reason for this, aside from the conversions, was the early redemption of a portion of the 2017 / 2022 corporate bond totalling EUR 33.4 million.

Comparison of prior-year forecasts with actual business development

For the 2018 financial year, a slight improvement in EBIT and the net result had been forecast. However, as a result of the substantially lower interest expenses for the 2017 / 2022 corporate bond compared with the previous financing, as well as the higher profit transfers due to transfer agreements concluded in previous years, a significant improvement was achieved. The cash capital increase with a premium provided in kind led to a significant increase in the net profit / loss for the period. As a result of the capital measures in place to generate financial resources for the future growth of the Group, higher expenses for legal and advisory services were incurred. At the same time, lower personnel costs were incurred due to the reduction in the number of Executive Board members despite the increase in staff. Expenses such as prepayment penalties and impairment losses, which had a significant impact on earnings in the previous year, were not incurred in the reporting year.

Report on outlook

Based on an unchanged structure, the net profit / loss for the 2019 financial year is expected to be slightly positive. Further income from capital increases with a premium provided in kind in the same amount as in 2018 is not planned. Due to the positive developments in the real estate management of our real estate companies, a further moderate increase in profit transfers is expected. In order to optimise the Group structure, expenses in the financial year 2019 are expected to be at the same level as in the previous year. Due to the good conditions and residual term of the 2017 / 2022 corporate bond, the Company expects no major non-recurring expenses from refinancing in the 2019 financial year as in the previous year.

Concluding statement to the Dependency Report pursuant to Section 312 AktG

Pursuant to Section 312 AktG, the Executive Board has made the following concluding statement: “In accordance with the circumstances known to us at the time when the legal transactions were entered into, our Company received appropriate consideration for each legal transaction listed in the report on relationships with affiliated companies. In the year under review, no reportable measures were taken or omitted by our Company within the meaning of § [Article] 312 of the German Stock Corporation Act (AktG).”

Frankfurt am Main, 18 March 2019
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
Chief Executive Officer (CEO)

Tim Brückner
Chief Financial Officer (CFO)

23.4

FFO I

in EUR millions
in the 2018 financial year

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

for the financial year from 1 January to 31 December 2018

in EUR thousands	NOTE	2018	2017
Rental income		73,709	73,716
Income from utility and service charges		15,101	14,624
Operating expenses to generate rental income		– 30,310	– 32,708
Profit / loss from the rental of real estate	**D 1**	**58,500**	**55,632**
Income from the sale of real estate and real estate companies		1,052	28,389
Expenses relating to the sale of real estate and real estate companies		– 1,002	– 27,445
Profit / loss from the sale of real estate and real estate companies	**D 2**	**50**	**944**
Profit / loss from fair value adjustments in investment properties	D 3	93,059	48,560
Impairment of receivables	D 4	– 1,874	– 2,763
Other operating income	D 5	2,513	5,052
General and administrative expenses	D 6	– 19,007	– 15,304
Other operating expenses	D 7	– 6,176	– 7,523
Earnings before interest and taxes		**127,065**	**84,597**
Financial income*		480	1,013
Finance expenses		– 26,415	– 49,703
Interests of minority shareholders		– 12,373	– 8,279
Financial result	**D 8**	**– 38,308**	**– 56,968**
Profit / loss before taxes		**88,757**	**27,629**
Current income taxes	D 9	– 540	– 333
Deferred taxes	D 9	– 19,164	– 7,864
Net profit / loss for the period		**69,053**	**19,432**
Thereof attributable to:			
Non-controlling interests		**7,478**	**5,649**
Parent company shareholders		**61,575**	**13,783**
Basic earnings per share	D 10	0.85	0.25
Diluted earnings per share	D 10	0.85	0.22

* Prior-year figures have been adjusted due to changes in classification.
Further details are provided in Section C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year from 1 January to 31 December 2018

in EUR thousands	2018	2017
Net profit / loss for the period	**69,053**	**19,432**
Items that will be reclassified to profit and loss:		
Currency translation differences	0	–125
Other comprehensive income	**0**	**–125**
Total comprehensive income	**69,053**	**19,307**
Thereof attributable to:		
Non-controlling interests	**7,478**	**5,649**
Parent company shareholders	**61,575**	**13,658**

CONSOLIDATED BALANCE SHEET

as at 31 December 2018

ASSETS in EUR thousands	NOTE	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Intangible assets	E 1.1	6,884	6,985
Property, plant and equipment	E 1.2	465	1,875
Investment properties	E 1.3	1,139,869	1,021,847
Other assets *	E 1.4	3,725	2,190
Total non-current assets		**1,150,944**	**1,032,897**
Current assets			
Real estate inventory	E 2.1	0	1,734
Trade accounts receivable and other receivables	E 2.2	15,835	18,577
Financial receivables and other financial assets	E 2.3	6,326	5,184
Tax refund claims		2,884	2,588
Cash and cash equivalents	E 2.4	190,442	73,874
Total current assets		**215,487**	**101,957**
Non-current assets held for sale	**E 3**	**12,262**	**12,262**
TOTAL ASSETS		**1,378,692**	**1,147,116**

*Prior-year figures have been adjusted due to changes in classification.
Further details are provided in Section C.

EQUITY AND LIABILITIES in EUR thousands	NOTE	31/12/2018	31/12/2017
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital		107,777	54,271
Reserves		430,136	231,146
Equity attributable to parent company shareholders		**537,913**	**285,417**
Non-controlling interests*		44,425	40,053
TOTAL EQUITY	E 4	**582,338**	**325,469**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	E 5.1	62,050	42,893
Minority interests*	E 5.2	73,085	64,153
Financial liabilities	E 5.3	606,404	665,767
Other liabilities *	E 5.4	1,157	1,448
Total non-current liabilities		**742,696**	**774,262**
Current liabilities			
Provisions	E 6.1	1,302	1,016
Trade payables and other liabilities	E 6.2	19,703	14,663
Tax liabilities	E 6.3	2,486	2,559
Financial liabilities	E 5.3	30,168	29,147
Total current liabilities		**53,658**	**47,385**
TOTAL LIABILITIES		**796,354**	**821,647**
TOTAL EQUITY AND LIABILITIES		**1,378,692**	**1,147,116**

*Prior-year figures have been adjusted due to changes in classification. Further details are provided in Section C.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial year from 1 January to 31 December 2018

in EUR thousands	2018	2017
Group profit / loss before taxes	**88,757**	**27,629**
Financial expenses*	26,415	49,703
Financial income	– 480	– 940
Interests of minority shareholders*	12,373	8,279
Proceeds from the sale of real estate inventory	1,734	– 488
Change in trade accounts receivable and other receivables	2,743	1,508
Change in financial receivables and other financial assets	– 1,494	12,382
Change in provisions	286	– 723
Change in trade payables and other liabilities	2,403	– 1,370
Profit / loss from fair value adjustments in investment properties	– 93,059	– 48,560
Gains from the sale of real estate and real estate companies	– 50	– 944
Interest proceeds	129	403
Income taxes paid	– 881	– 461
Change in reserves	1,357	– 674
Depreciation and amortisation and impairment	2,113	2,941
Distributions to minority shareholders / dividends	– 2,961	– 6,752
Remaining amortisation of financial liabilities	0	– 5,689
Other non-cash items*	– 522	– 430
Cash flow from operating activities	**38,862**	**35,814**
Payments for investments in investment properties and property, plant and equipment	– 24,680	– 6,463
Acquisition of interests in in fully consolidated companies in the context of a business combination, less net cash equivalents acquired	0	– 973
Proceeds from the sale of real estate	641	27,990
Cash flow from investing activities	**– 24,039**	**20,554**
Proceeds from capital increases*	173,730	0
Payments for expenses associated with raising equity	– 2,145	0
Proceeds from the issuance of financial liabilities*	41,083	403,535
Interest paid on financial liabilities	– 22,814	– 46,537
Payments for the increase in shareholdings in subsidiaries	– 3,115	0
Payments for the redemption of financial liabilities	– 84,995	– 370,781
Cash flow from financing activities	**101,745**	**– 13,783**
Net change in cash and cash equivalents	**116,567**	**42,585**
Cash and cash equivalents at the start of the period	73,874	31,289
Cash and cash equivalents at the end of the period (Thereof restricted cash (EUR 0 thousand; 31 December 2017: EUR 591 thousand)	**190,442**	**73,874**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year from 1 January to 31 December 2018

in EUR thousands	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
01/01/2018	**54,271**	**0**	**231,433**	**-310**	**22**	**285,417**	**40,052**	**325,469**
First-time application of IFRS 9	**0**	**0**	**6,597**	**0**	**0**	**6,597**	**421**	**7,018**
Net profit / loss for the period	0	0	61,575	0	0	61,575	7,478	69,053
Other comprehensive income	0	0	0	0	0	0	0	0
Total comprehensive income	**0**	**0**	**61,575**	**0**	**0**	**61,575**	**7,478**	**69,053**
Capital increases	39,939	131,646	0	0	0	171,585	0	171,585
Stock option programme	0	1,357	0	0	0	1,357	0	1,357
Convertible bonds	13,568	-3,097	0	0	0	10,471	0	10,471
Dividend payments / distributions	0	0	0	0	0	0	-1,302	-1,302
Increase in shareholdings in subsidiaries	0	0	687	0	0	687	-2,042	-1,356
Other changes	0	-59	-3	310	-22	226	-182	43
31/12/2018	**107,777**	**129,938**	**300,288**	**0**	**0**	**537,914**	**44,425**	**582,338**
01/01/2017	**54,247**	**132,618**	**85,242**	**-310**	**147**	**271,945**	**36,692**	**308,637**
Net profit / loss for the period	0	0	13,783	0	0	13,783	5,649	19,432
Currency translation differences	0	0	0	0	-125	-125	0	-125
Other comprehensive income	0	0	0	0	-125	-125	0	-125
Total comprehensive income	**0**	**0**	**13,783**	**0**	**-125**	**13,658**	**5,649**	**19,307**
Capital increases	24	0	0	0	0	24	0	24
Stock option programme	0	-84	0	0	0	-84	0	-84
Mandatory convertible bond	0	-1				-1	0	-1
Dividend payments / distributions	0	0	0	0	0	0	-1,226	-1,226
Other changes*	0	-132,532	132,408	0	0	-125	-1,063	-1,187
31/12/2017	**54,271**	**0**	**231,433**	**-310**	**22**	**285,417**	**40,052**	**325,469**

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

Notes to the consolidated financial statements for the financial year from 1 January to 31 December 2018

A. GENERAL INFORMATION

1. BASIS OF PREPARATION

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

As at 31 December 2018, 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 am Main, Germany, and the Company's business address is Robert-Bosch-Straße 11, Langen, Germany.

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

DEMIRE 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. DEMIRE focuses on the German commercial real estate market and is active as an investor and portfolio manager. DEMIRE itself carries out the acquisition, management and leasing of commercial properties. Value appreciation is to be achieved through active real estate management. This may also include the targeted sale of properties when they are no longer a strategic fit or have exhausted their potential for value appreciation.

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

The consolidated financial statements of DEMIRE AG for the financial year ended 31 December 2018 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 2018 financial 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 by the Executive Board and approved by the Supervisory Board at its meeting on 18 March 2019.

2. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

2.1 First-time application of new and amended standards and interpretations in the 2018 financial year

The accounting policies applied to the consolidated financial statements are the same as those applied in the 2017 financial year except for the changes mentioned below under Section E 5.2. The following new and amended standards and interpretations that are material from DEMIRE's perspective were applied for the first time in the 2018 financial year.

FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS IN THE 2018 FINANCIAL YEAR

		ENDORSED ON	MANDATORY APPLICATION FOR FINANCIAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE'S CONSOLIDATED FINANCIAL STATEMENTS
IFRS 9	Financial Instruments (issued on 24 July 2014)	22 November 2016	1 January 2018	Effects are described below
IFRS 15	Revenue from Contracts with Customers (issued on 28 May 2014) incl. 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 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 IAS 40	Transfers of Investment Property (issued on 8 December 2016)	14 March 2018	1 January 2018	No effect
IFRIC 22	Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	28 March 2018	1 January 2018	No effect
Annual Improvements	Annual Improvements to IFRS 2014–2016 Cycle (issued on 8 December 2016)	7 February 2019	1 January 2018 / 1 January 2017	No effect

The effects on the net assets, financial position and results of operations of DEMIRE's consolidated financial statements from the standards that were applied for the first time in the 2018 financial year are described below.

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 replaced the 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 financial 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.

As a result of the first-time application of IFRS 9, EUR 99,625 thousand was reclassified from the classification and measurement category "Loans and receivables" in accordance with IAS 39 to the category of "At amortised cost" in the reporting period. There was also a one-off adjustment of non-current financial liabilities amounting to EUR –7,018 thousand and of Group equity in the amount of EUR 7,018 thousand which resulted from the immediate recognition of present value effects in connection with insubstantial modifications of financial liabilities. The first-time application of the expected credit loss model of IFRS 9 had no significant effect.

Since the Company did not apply hedge accounting in the 2018 financial year, the changes to hedge relationships are currently not applicable.

IFRS 15 "Revenue from Contracts with Customers" was applied for the first time in the financial year starting on 1 January 2018. In addition, DEMIRE has decided to apply IFRS 16 early as at 1 January 2018.

In the context of the analyses carried out in accordance with IFRS 15 / IFRS 16, DEMIRE has identified and assessed the performance obligations described in more detail below. Rental income accrues from leases classified as operating leases and is recognised as rental income over time. Property taxes and insurance invoiced as part of the service charges do not constitute a separate performance obligation and are therefore assigned to the rents.

With regard to other service charges (gas, electricity, water, etc.), the Company has come to the conclusion that it acts as the principal and continues to bear the material risks. Therefore, the gross presentation of revenue and corresponding costs remains unchanged in this regard. The first-time application of the standard – also with regard to the presentation of other income streams (such as the sale of real estate or real estate companies) – only leads to immaterial changes compared to the prior accounting.

The early application of IFRS 16 has no material impact on the consolidated financial statements of DEMIRE as the changes are marginal to the lessor. There are only very few cases in which DEMIRE or its subsidiaries act as lessees and therefore there is no material effect. As at 1 January 2018, the accounting for the right of use and the corresponding lease liability in the amount of EUR 1,832 thousand, of which EUR 71 thousand relates to car leases and EUR 1,761 thousand to the permanent usage right of an underground parking garage, resulted in an increase in total assets. The present value is calculated using the marginal borrowing interest rate of 3 %. The practical expedient in accordance with IFRS 16.C10 was applied.

DEMIRE classifies the majority of income from operating costs as non-lease components, which are accounted for under IFRS 15. Property tax and insurance are accounted for as other lease components in accordance with IFRS 16. The Company has determined that it acts as the principal for the operating costs that are to be accounted for as services under IFRS 15.

The effects of the first-time application of these standards have no overall material impact on the presentation of the net assets, financial position and results of operations. IFRS 15 and IFRS 16 will be introduced as at 1 January 2018 using the modified retrospective method. The cumulative effect of the first-time application in the amount of EUR 71 thousand will be recognised in equity as at 1 January 2018.

The amendments to IFRS 2, which include a clarification that the accounting of cash-settled share-based payments should be the same as the accounting of equity-settled share-based payments, have no impact on the financial statements of DEMIRE.

The amendments to IAS 40 have no impact on the consolidated financial statements of DEMIRE, as no transfer to or from investment properties from or to real estate inventory was made in the 2018 financial year.

The amendments to IFRS 4 relating to the treatment of insurance contracts have no impact on DEMIRE as the Company does not issue insurance contracts under IFRS 4.

The amendments to IFRIC 22 have no material impact on the financial statements of DEMIRE as most of the transactions are carried out in EUR.

2.2 Standards and interpretations for future mandatory application

The following IASB standards have been endorsed by the EU but are mandatory only after 31 December 2018.

STANDARDS AND INTERPRETATIONS THAT REQUIRE FUTURE MANDATORY APPLICATION

		ENDORSED ON	MANDATORY APPLICATION FOR FINANCIAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE'S CONSOLIDATED FINANCIAL STATEMENTS
IFRIC 23	Uncertainty over Income Tax Treatments (issued on 7 June 2017)	23 October 2018	1 January 2019	No material effect
Amendments to IFRS 9	Prepayment Features with Negative Compensation (issued on 12 October 2017)	22 March 2018	1 January 2019	No material effect
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	8 February 2019	1 January 2019	No effect

IFRIC 23 supplements the regulations in IAS 12 with regard to the consideration of uncertainties regarding the income tax treatment of items and transactions. The clarification of IFRIC 23 has no material impact on the consolidated financial statements of DEMIRE.

The amendments to IFRS 9, which clarify the rules governing the classification of financial assets with early termination options and clarify modifications to financial liabilities, have no impact on the consolidated financial statements of DEMIRE.

The amendments to IAS 28 clarify that entities are required to apply IFRS 9 to non-current investments in associates or joint ventures that are not accounted for using the equity method. This amendment has no effect on the consolidated financial statements of DEMIRE.

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

STANDARDS AND INTERPRETATIONS THAT REQUIRE FUTURE MANDATORY APPLICATION

		ENDORSEMENT	MANDATORY APPLICATION FOR FINANCIAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE'S CONSOLIDATED FINANCIAL STATEMENTS
IFRS 17	Insurance Contracts (issued on 18 May 2017)	Not yet scheduled	1 January 2021	No effect
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	Scheduled for 2018	1 January 2019	No effect
Amendment to IFRS 3	Business Combinations (issued on 22 October 2018)	Not yet scheduled	1 January 2020	Effect is currently being assessed
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 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 has not yet conclusively assessed the effects associated with the amendments to IFRS 3 and the amendments to the conceptual framework of IFRS so that no reliable statements can be made in this regard. The Company plans to conclude the necessary detailed analyses in the course of the 2019 financial year.

3. KEY DISCRETIONARY DECISIONS, JUDGEMENTS AND ASSUMPTIONS

In DEMIRE's 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 sectors and regions 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:

Measurement of investment properties: Significant valuation parameters include the expected cash flows, the assumed vacancy rate, as well as the interest rate used for discounting and capitalisation. Values are determined using the DCF method, which discounts future cash flows back to the reporting date. These estimates contain assumptions about the future. The valuation parameters used in the valuation model reflect market expectations and provide forecasts based on analysed market information and past values of the properties to be valued or compared.

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.

Income taxes	Note D 9
Goodwill impairment test	Note E 1.1.1
Deferred tax assets and liabilities	Note E 5.1

B. SCOPE AND PRINCIPLES OF CONSOLIDATION

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

As at the reporting 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 at 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 DEMIRE AG's subsidiaries are prepared using uniform accounting and valuation methods on the same reporting 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
- 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 at 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.

Interests in the net assets of subsidiaries that are not attributable to DEMIRE (so-called "non-controlling interests") are reported under the item "Non-controlling interests" within the Group's equity, but separately from the parent company shareholders' equity. If these interests can be terminated, e.g. for limited partners, minority interests are reported under non-current liabilities.

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 and increased or decreased on the basis of their fair values. Such a transaction or event does not result in goodwill or a difference arising from 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 reporting 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 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 management of the subsidiaries is decisive for the assessment of control. The voting rights in BBV Immobilien-Fonds Erlangen GbR, Munich ("BBV 02") 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 financial year by means of a simple majority in the shareholder 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. 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

In the reporting period, DEMIRE Ankauf 1 GmbH through DEMIRE Ankauf 10 GmbH (all 10 companies headquartered in Frankfurt am Main) and FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main, were included for the first time in the scope of consolidation.

During the reporting period, IC Fonds & Co. Gewerbeportfolio Deutschland 13. KG, Munich, PRAEDIA GmbH, Berlin, and DEMIRE Immobilien Management GmbH, Berlin, were deconsolidated. The deconsolidation did not have any significant effects on the net assets, financial position and results of operations.

Changes to the scope of consolidation in the prior year

There were no changes to the scope of consolidation in the prior period.

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 DEMIRE AG's consolidated financial statements as at 31 December 2015, as the Fair Value REIT subgroup. In the reporting period, dividend distributions of EUR 1,097 thousand 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 SUBGROUP'S FINANCIAL STATEMENTS BALANCE SHEET in EUR thousands	31/12/2018	31/12/2017
Non-current assets	314,213	291,049
Current assets	21,603	28,569
Thereof cash and cash equivalents	17,969	24,192
Non-current liabilities	165,381	175,490
Thereof interests of non-controlling shareholders	73,085	64,153
Current liabilities	24,278	16,577
Thereof financial liabilities	20,584	9,797
Net assets	**146,158**	**127,550**
STATEMENT OF INCOME		
Revenue	27,321	27,735
Interest income	1	406
Interest expense	–2,610	–3,124
Net profit / loss for the period	**22,780**	**12,571**

The interest of non-controlling shareholders in the 2018 financial year declined from 22.3 % to 20.6 % due to the acquisition of shares by DEMIRE. Prior to the acquisition, the carrying amount of the non-controlling interests of Fair Value minorities amounted to EUR 26,847 thousand. The acquisition of shares had the following impact on the equity of DEMIRE in the 2018 financial year:

in EUR thousands	2018
Carrying amount of acquired non-controlling interests	2,042
Consideration paid to non-controlling interests	– 1,952
Surplus of consideration paid, which is recognised in retained earnings	90

The purchase of additional shares of minority shareholders had the following effect:

in EUR thousands	2018
Carrying amount of the acquired interests of minority shareholders	1,727
Compensation paid to minority shareholders	– 1,130
Surplus of consideration paid, which is recognised in retained earnings	597

A share in the profit for the period for the 2018 financial year in the amount of EUR 4,693 thousand was attributable to non-controlling shareholders.

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.

Assets are generally measured at the cost of acquisition or production, except for the fair value measurement of investment properties pursuant to IAS 40. Real estate held for sale is carried either the carrying amount or fair value less costs to sell, whichever is lower. The fair value is the purchase price.

Assets, equity and debt instruments (excl. 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 that are available as at the valuation date in active markets for identical assets or liabilities.
- Level 2: Input factors other 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 are parameters for the asset or liability that 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).

The following changes in the reporting structure were made in the financial year to ensure a clear and transparent presentation of the relevant financial statement information:

In the financial year, interests in companies accounted for using the equity method are reported in the consolidated balance sheet under the item "Other financial assets". At the same time, the profit/loss from investments accounted for using the equity method is reported in the consolidated statement of income under "Financial income". The previous year's figures have been adjusted in accordance with these structural changes.

In the financial year, the profit/loss from the sale of real estate and the profit/loss from the sale of real estate companies are reported under the newly created item "Profit/loss from the sale of real estate and real estate companies" in the consolidated statement of income. The previous year's figures have been adjusted in accordance with this structural change.

There was a change in methodology in the financial year regarding the guaranteed dividend of non-controlling interests recognised in Group equity resulting from profit and loss transfer agreements concluded between companies of the DEMIRE Group and the non-controlling shareholders in 2017. At the time of the conclusion of the profit and loss transfer agreements, a financial liability in the amount of the present value of the perpetual annuity of the guaranteed dividend was recognised directly in Group equity against the interests of non-controlling shareholders. This results from the fact that the DEMIRE Group does not intend to terminate the profit and loss transfer agreements. Had this accounting method been continued in 2018, the minority interest would have been EUR 6,297 thousand higher than under the new method. In order to increase the comparability of the financial statements, the recognition of the financial liability was changed in the reporting year so that only the obligation to pay the guaranteed dividend for the non-cancellable period of the profit and loss transfer agreements is recognised (without also changing the intention to terminate the profit and loss transfer agreements). The change results in a reduction of the financial liability and a corresponding increase of non-controlling interests in Group equity. In addition, the liability from the guaranteed dividends is no longer reported as minority interests under financial liabilities but as a separate other financial liability, with the disclosure of the current and non-current portion.

D. NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

DEMIRE generates revenue both based on a point in time and over a period of time in the following areas:

2018 in EUR thousands	REVENUE FROM RENTING AND LEASING	REVENUE FROM SALE OF IAS 40 REAL ESTATE
Time-based recognition of revenue	0	0
Point in time	0	1,052
Period of time	88,810	0
Total	**88,810**	**1,052**

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. Net rents and prepayments of utility and service charges are made monthly. Unless there is a lump-sum agreement, final payments of utility and service charges are made after invoicing.

The first-time application of IFRS 15 has no impact on the realisation of rental revenues as these fall within the scope of IFRS 16 “Leases”.

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 and real estate companies are sold, income is recognised as soon as the buyer assumes control over the respective asset.

1. PROFIT / LOSS FROM THE RENTAL OF REAL ESTATE

The profit / loss from the rental of real estate in the amount of EUR 58,500 thousand (previous year: EUR 55,632 thousand) consists of the following:

in EUR thousands	2018	2017
Rental income	73,709	73,716
Income from utility and service charges	15,101	14,624
Rental revenue	**88,810**	**88,340**
Allocable operating expenses to generate rental income	–19,868	–19,095
Non-allocable operating expenses to generate rental income	–10,442	–13,613
Operating expenses to generate rental income	**–30,310**	**–32,708**
Profit / loss from the rental of real estate	**58,500**	**55,632**

The slight increase in rental revenue to EUR 88,810 thousand (previous year: EUR 88,340 thousand) results mainly from an improvement in the contract terms with existing tenants which compensated for disposals from the real estate portfolio.

ASSETS AND LIABILITIES FROM CONTRACTS WITH CUSTOMERS in EUR thousands	2018	2017
Current contract assets from operating costs	1,346	2,091
Impairment of operating costs	0	0
Total contract assets	**1,346**	**2,091**
Current contract liabilities from operating costs	656	563
Total contract liabilities	656	563

The revenue from operating costs is attributable to contract liabilities, which had amounted to EUR 9,191 thousand at the beginning of the reporting period before netting. These are offset by netable assets in the amount of EUR 11,398 thousand.

Ancillary rental costs were recognised as operating expenses to generate rental income and amounted to EUR 30,310 thousand in the reporting year (previous year: EUR 32,708 thousand). Of the operating expenses, an amount of EUR 19,868 thousand (previous year: EUR 19,095 thousand) is generally allocable and can be passed on to tenants. This figure includes an amount of EUR 1,489 thousand (previous year: EUR 1,795 thousand) that could not be passed on due to vacancy. Operating expenses of EUR 10,442 thousand (previous year: EUR 13,613 thousand) are not allocable, of which EUR 2,931 thousand (previous year: EUR 2,509 thousand) relate to staff costs at DEMIRE Immobilien Management GmbH, Hanse-Center Objektgesellschaft mbH and PRAEDIA GmbH.

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

In the reporting year, the Group generated a profit / loss from the sale of real estate in the amount of EUR 50 thousand (previous year: EUR 944 thousand). The properties sold were the properties Bayreuth and Bad Hersfeld of Reubescens S.à r.l., Luxembourg, and Trappenkamp of Fair Value REIT-AG. Essential costs related to the conclusion of the sales contracts were not incurred.

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

The result from the fair value adjustment in investment properties in the amount of EUR 93,059 thousand (previous year: EUR 48,560 thousand) concerns the properties of domestic and foreign direct and indirect subsidiaries located in Germany. Significant profits resulted from the revaluation of real estate of DEMIRE Objektgesellschaft Germavest GmbH in the amount of EUR 23,000 thousand, DEMIRE Objektgesellschaft Armstripe GmbH in the amount of EUR 11,400 thousand and Sihlegg Investments Holding GmbH in the amount of EUR 5,187 thousand.

The fair values of these properties are based on the appraisal reports of external, independent experts. In particular, the positive economic situation in Germany combined with the continued increase in foreign investors' demand for commercial real estate and the strong letting performance led to a significant change in 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.

4. IMPAIRMENT OF RECEIVABLES

Impairment on trade accounts receivable and other receivables amounted to EUR 1,874 thousand (previous year: EUR 2,763 thousand).

Impairment mainly relates to purchase price receivables amounting to EUR 1,695 thousand (previous year: EUR 1,016 thousand) from the legacy portfolio and rental receivables on properties located in Germany in the amount of EUR 143 thousand (previous year: EUR 1,046 thousand).

5. OTHER OPERATING INCOME

in EUR thousands	2018	2017
Derecognition of liabilities	602	1,217
Income from facility management	400	485
Forbearance commission	359	359
Income from allocated expenses	232	219
Insurance compensation	147	51
Benefits in kind	94	117
Other non-periodic income	28	313
Reversal of impairment losses on receivables	0	880
Income from the reversal of provisions	0	316
Compensation for damages	0	332
Tax refunds for prior years	0	109
Gains from foreign currency differences	0	9
Others	651	645
Total	**2,513**	**5,052**

The derecognition of liabilities relates to liabilities that had lapsed under the statute of limitations. The decrease in the item resulted from an unusually high level of liabilities that had lapsed under the statute of limitations in the previous year.

Income from facility management resulted from the provision of facility management services by PRAEDIA GmbH, which was deconsolidated as at 30 November 2018.

The forbearance commission is a payment in connection with the purchase price receivable of SQUADRA Immobilien GmbH & Co. KG.

The insurance compensation is insurance reimbursements due to fire and water damage.

The year-on-year decline in non-periodic income was mainly due to the high amount of income resulting from the subsequent crediting of corrected invoicing of operating costs relating to prior years.

Income from the reversal of provisions and impairment losses on receivables was allocated to the respective expense items in the reporting period.

6. GENERAL AND ADMINISTRATIVE EXPENSES

in EUR thousands	2018	2017
Legal and consulting fees	– 7,171	– 3,726
Staff costs	– 5,317	– 5,410
Accounting and audit costs	– 1,598	– 1,585
IT costs	– 675	– 603
Fund management costs	– 575	– 536
Expenses for real estate expert opinions	– 442	– 609
Implementation costs	– 355	0
Recruitment costs	– 341	– 103
Advertising and travel expenses	– 305	– 445
Supervisory Board remuneration	– 219	– 180
Costs for vehicles	– 179	– 253
Compensation of trust costs	– 129	– 275
Expenses for investor relations	– 127	– 126
Compensation of expenses	– 5	– 88
Leasing costs	0	– 57
Others	– 1,570	– 1,308
Total	**– 19,007**	**– 15,304**

Legal and consulting fees of EUR 7,171 thousand were largely related to a takeover bid by the new major shareholder Apollo in April 2018, resulting in the significant rise in comparison to the prior year.

Staff costs for the staff employed at the level of the ultimate parent company and Fair Value REIT-AG are reported exclusively within general administrative expenses.

Accounting and audit fees include expenses related to the annual and quarterly audits and the costs of preparing the financial statements.

IT costs include costs for software and ongoing IT consulting services.

Fund management costs originate from the management of the funds of Fair Value REIT-AG and are essentially unchanged compared to the previous year.

Implementation costs are one-off costs for the outsourcing of property and facility management starting in November 2018.

The increase in recruitment costs results from the search for a new member for the Executive Board in the financial year.

7. OTHER OPERATING EXPENSES

in EUR thousands	**2018**	**2017**
Impairments on legacy portfolio	– 2,701	0
Non-deductible input taxes	– 913	– 1,301
Deconsolidation result	– 466	0
Facility management expenses	– 227	– 213
Fees and incidental costs of monetary transactions	– 222	– 797
Amortisation of rights to use	– 208	0
Depreciation of property, plant and equipment	– 202	– 178
Brokerage fees	– 133	– 230
Insurance fees	– 115	– 81
Occupancy costs	– 121	– 363
Third-party services	– 79	– 315
Expenses for Annual General Meeting and investor relations	– 65	– 186
Non-periodic expenses from the settlement of operating costs relating to prior years	0	– 1,483
Marketing expenses	0	– 830
Stock option programme	0	– 123
Property management	0	– 105
Losses from foreign currency differences	0	– 104
Others	– 724	– 1,214
Total	**– 6,176**	**– 7,523**

Impairments on the legacy portfolio include impairment of real estate inventory in the amount of EUR 1,733 thousand and other assets.

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. The decline resulted from an adjustment of the input tax ratio within the scope of DEMIRE AG's tax group for value-added taxes.

The deconsolidation result is due to the deconsolidations described in Section B that were carried out in the reporting year.

The item "Amortisation of rights to use" results from the first-time application of IFRS 16 and the resulting amortisation of the rights to use for car leases and the rights to use of offices.

The high non-periodic expenses from operating cost settlements for previous years resulted primarily from the real estate portfolios acquired in the 2014 abbreviated financial year. As these were settled in the previous year, there were no longer any non-periodic expenses in the financial year from operating cost settlements in previous years.

The decline in marketing activities results from the one-off marketing services of individual subsidiaries of Fair Value REIT-AG incurred in the previous year.

8. FINANCIAL RESULT

in EUR thousands	2018	2017
Financial income	480	1,013
Finance expenses	– 26,415	– 49,703
Interests of minority shareholders	– 12,373	– 8,279
Financial result	**– 38,308**	**– 56,968**

The decline in financial expenses in the 2018 financial year was mainly due to the refinancing carried out in 2017 and the resulting reduction in the average interest rate on financial debt.

Financial expenses include a nominal interest expense of EUR 23,694 thousand (previous year: EUR 50,046 thousand), while the effective interest method results in expenses of EUR 4,648 thousand (previous year: EUR 152 thousand).

Profits from investments accounted for using the equity method amounting to EUR 101 thousand (previous year: EUR 73 thousand) are reported under financial income for the first time in the 2018 financial year due to their low amount and essentially relate to the revaluation of DEMIRE Assekuranzmakler GmbH & Co. KG, Dusseldorf, and G+Q Effizienz GmbH, Berlin, due to the increase in the carrying amount of the investment from profits on a pro rata basis of the financial year not yet distributed.

The share of profit / loss of minority shareholders amounting to EUR – 12,373 thousand (previous year: EUR – 8,279 thousand) concerns minority shareholders' profits in Fair Value REIT-AG's subsidiaries recorded as liabilities under IFRS. The increase in the share of profit / loss of minority shareholders resulted primarily from valuation gains in properties of these subsidiaries.

9. INCOME TAXES

in EUR thousands	2018	2017
Current income taxes	– 540	– 333
Deferred income taxes	– 19,164	– 7,864
Total income taxes	**– 19,704**	**– 8,197**

Current income tax expenses of EUR 540 thousand (previous year: EUR 333 thousand) include corporate taxes and trade taxes and were incurred almost entirely in Germany.

Deferred income taxes of EUR 19,704 thousand (previous year: EUR 7,864 thousand) consist of deferred tax income of EUR 1,398 thousand (previous year: EUR 585 thousand) and deferred tax expenses of EUR 20,562 thousand (previous year: EUR 8,449 thousand). Deferred tax expenses essentially resulted from temporary differences in the fair value measurement of investment properties pursuant to IAS 40.

As at the reporting date, non-utilised tax loss carryforwards totalled EUR 32,018 thousand (previous year: EUR 61,751 thousand) from investees included in the consolidated financial statements. 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

The tax reconciliation 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.

in EUR thousands	2018	2017
Profit / loss before taxes	**88,757**	**27,629**
Group tax rate	**28.78 %**	**28.78 %**
Expected income taxes	**25,544**	**7,952**
Trade tax effects*	– 8,544	– 6,708
Tax effects arising from non-deductible operating expenses	482	5,602
Tax effects of tax-free income	– 202	– 20
Tax effects from the loss of tax loss carryforwards*	2,524	3,407
Tax effects arising from the recognition of deferred tax assets for tax loss carryforwards which were not capitalised in prior periods	0	– 1,882
Others	– 100	– 154
Actual income taxes	**19,704**	**8,197**

* Change of name compared to the previous year

Tax-free income mainly resulted from the sale of real estate companies. The tax effect from non-deductible operating expenses is mainly the result of the income tax-related interest barrier rule. The tax effects from the loss of tax loss carryforwards are related to the change of control resulting from the acquisition by Apollo.

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 from subsidiaries.

DEMIRE did not recognise deferred tax liabilities for the accumulated results of subsidiaries amounting to EUR 10,581 thousand (previous year: EUR 8,759 thousand) 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-AG. The recognition of deferred taxes for outside basis differences at the level of Fair Value REIT-AG amounted to EUR 16,430 thousand as at 31 December 2018 (previous year: EUR 10,775 thousand).

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

10. EARNINGS PER SHARE

Earnings per share

Basic earnings per share are 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 are 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 options in connection with share-based payments are exercised.

	2018	2017
Net profit / loss for the period in EUR thousands	**69,053**	**19,432**
Net profit / loss for the period less non-controlling interests	61,575	13,783
Interest expenses from convertible bonds	0	1,052
Net profit / loss for the period less non-controlling interests (diluted)	61,575	14,835
Number of shares (in units)		
Number of shares outstanding as at the reporting date	107,777	54,271
Weighted average number of shares outstanding	72,178	54,261
Impact of conversion of convertible bonds and exercise under the 2015 Stock Option Programme	520	13,614
Weighted average number of shares (diluted)	72,698	67,875
Earnings per share (in EUR)		
Basic earnings per share	0.85	0.25
Diluted earnings per share	0.85	0.22

As at 31 December 2018, the Company had no potential ordinary shares outstanding from convertible bonds as a result of the expiration of the 2013 / 2018 convertible bond at the year's end (31 December 2017: 10,613,963 shares). The members of the 2015 Stock Option Programme are entitled to subscribe to 520,000 shares.

The increase in the number of shares outstanding as at 31 December 2018, resulted from conversions of the 2013 / 2018 convertible bond (10,568,103 shares), conversions of the 2015 / 2018 mandatory convertible bond (3,000,000 shares) and two cash capital increases of 5,425,774 shares and of 34,512,703 shares during the reporting period.

11. STAFF COSTS

in EUR thousands	2018	2017
Salaries	– 7,649	– 7,362
Statutory social expenses	– 599	– 557
Total	**– 8,248**	**– 7,919**

Staff costs of EUR 8,248 thousand are generally recognised in general and administrative expenses and relate mainly to DEMIRE AG (EUR 4,753 thousand) and Fair Value REIT-AG (EUR 564 thousand). This item also includes staff costs of EUR 2,931 thousand from DEMIRE Immobilien Management GmbH, Hanse-Center Objektgesellschaft mbH and PRAEDIA GmbH which are reported on the statement of income in expenses incurred to generate rental income. Of the statutory social expenses, about half are attributable to contributions to statutory pension insurance.

Income from the reversal of provisions in the amount of EUR 62 thousand is included in staff costs.

In the reporting period, staff costs at DEMIRE AG contained expenses for share-based payments from the 2015 Stock Option Programme in the amount of EUR 1,505 thousand (previous year: EUR 482 thousand). This was offset by the release of capital reserves in the amount of EUR 148 thousand (previous year: EUR 617 thousand) as described in Section G 4 d "Share-based payments". The increase resulted from the departure of employees who retained their entitlements under the 2015 Stock Option Programme. The virtual stock option programme for the Executive Board resulted in staff costs of EUR 302 thousand.

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 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.

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 at 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.

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

The Group carried out the annual impairment test as at 31 December 2018. 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 discount rate (WACC) used for cash flow forecasts was 3.74 %. The projections for cash flows after five years are based on the average amount from the last two detailed planning periods 2022 and 2023. 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 at 31 December 2018.

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 at 31 December 2018.

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. The 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 at 31 December 2018 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 EUR 25 thousand (31 December 2017: EUR 28 thousand) is reported in the statement of income in the line item "Other operating expenses".

1.2 Property, plant and equipment

Property, plant and equipment as at 31 December 2018 include almost exclusively office and operating equipment. These are carried at historical acquisition cost, less depreciation. Historical acquisition cost includes expenses that can be directly allocated to the acquisition of operating and office 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 EUR 178 thousand (31 December 2017: EUR 150 thousand).

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 in investment properties.

Valuation of real estate

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 to determine the valuation. 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.

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 financial 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 was as follows:

in EUR thousands	2018	OFFICE	RETAIL	LOGISTICS	OTHER	2017	OFFICE	RETAIL	LOGISTICS	OTHER
Fair value at the beginning of the financial year	**1,021,847**	**691,649**	**245,225**	**61,700**	**23,273**	**981,274**	**660,695**	**243,806**	**53,818**	**22,955**
Additions of properties	24,341	23,926	391	24	0	6,247	3,245	2,631	79	292
Reclassification under IFRS 16	1,592	1,592	0	0	0	0	0	0	0	0
Disposals	– 970	– 662	– 23	0	– 285	0	0	0	0	0
Reclassifications to non-current assets held for sale (Note E 3)	0	0	0	0	0	– 10,440	– 1,769	– 7,916	0	– 756
Unrealised gains from fair value measurement included in Item D 3 of the statement of income	97,956	72,846	17,923	3,713	3,475	49,005	31,459	8,878	7,804	865
Unrealised losses from fair value measurement included in Item D 3 of the statement of income	– 4,897	– 4,665	– 212	0	– 20	– 4,240	– 1,982	– 2,174	0	– 83
Fair value at the end of the financial year	**1,139,869**	**784,686**	**263,304**	**65,436**	**26,442**	**1,021,847**	**691,649**	**245,225**	**61,700**	**23,273**

The additions to investment properties in the amount of EUR 24,341 thousand mainly resulted from advance payments from the purchase of the portfolio of office properties in Cologne, Aschheim-Dornbach, Bad Vilbel and Essen. Furthermore, the additions include subsequent acquisition and production costs, primarily for properties belonging to Commercial Asset Management VIER GmbH, Frankfurt am Main, Condor Objektgesellschaft Eschborn GmbH, Frankfurt am Main, and Fair Value REIT-AG.

The permanent right of use for the underground parking garage in Ulm was reclassified as a result of the first-time application of IFRS 16 and recognised within investment properties.

Disposals concern the Trappenkamp property of Fair Value REIT-AG and the Bad Hersfeld and Bayreuth properties of Reubescens S.à r.l.

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

TOTAL in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	IN %	±0.00%	IN %	+0.50%	IN %
+0.50%	-93,230,000	-8%	-41,290,000	-4%	+20,641,000	2%
±0.00%	-54,570,000	-5%	–	0%	+64,670,000	6%
-0.50%	-13,840,000	-1%	+43,490,000	4%	+111,380,000	10%

OFFICE in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	IN %	±0.00%	IN %	+0.50%	IN %
+0.50%	-64,980,000	-8%	-28,480,000	-4%	+15,080,000	2%
±0.00%	-38,400,000	-5%	–	0%	+45,610,000	6%
-0.50%	-10,130,000	-1%	+29,970,000	4%	+77,820,000	10%

RETAIL in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+ 0.50 %	IN %	± 0.00 %	IN %	+ 0.50 %	IN %
+ 0.50 %	– 21,070,000	– 8 %	– 9,350,000	– 4 %	+ 4,700,000	2 %
± 0.00 %	– 12,150,000	– 5 %	–	0 %	+ 14,630,000	6 %
- 0.50 %	– 3,060,000	– 1 %	+ 10,020,000	4 %	+ 25,310,000	10 %

LOGISTICS in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+ 0.50 %	IN %	± 0.00 %	IN %	+ 0.50 %	IN %
+ 0.50 %	– 5,400,000	– 8 %	– 2,500,000	– 4 %	+ 700,000	1 %
± 0.00 %	– 3,000,000	– 5 %	–	0 %	+ 3,400,000	5 %
- 0.50 %	– 500,000	– 1 %	+ 2,600,000	4 %	+ 6,200,000	9 %

OTHER in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+ 0.50 %	IN %	± 0.00 %	IN %	+ 0.50 %	IN %
+ 0.50 %	– 1,770,000	– 7 %	– 960,000	– 4 %	+ 130,000	1 %
± 0.00 %	– 1,020,000	– 4 %	–	0 %	+ 1,030,000	4 %
- 0.50 %	– 150,000	– 1 %	+ 900,000	3 %	+ 2,050,000	8 %

A change in market rent per m² results in the following changes:

TOTAL in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	DELTA IN %
-10%	1,165	-104	-8%
-5%	1,217	-52	-4%
±0%	1,269	–	–
+5%	1,322	+53	+4%
+10%	1,374	+105	+8%

LOGISTICS in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	DELTA IN %
-10%	397	-50	-11%
-5%	422	-25	-5%
±0%	447	–	–
+5%	472	+25	+5%
+10%	496	+49	+11%

OFFICE in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	DELTA IN %
-10%	1,281	-116	-8%
-5%	1,338	-58	-4%
±0%	1,396	–	–
+5%	1,454	+58	+4%
+10%	1,513	+116	+8%

OTHER in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	DELTA IN %
-10%	743	-57	-7%
-5%	770	-30	-4%
±0%	800	–	–
+5%	828	+27	+3%
+10%	855	+55	+7%

RETAIL in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	DELTA IN %
-10%	1,570	-126	-7%
-5%	1,633	-63	-4%
±0%	1,696	–	–
+5%	1,761	+65	+4%
+10%	1,824	+128	+8%

1.4 Other assets

Financial assets are classified and accounted for at the settlement date in accordance with the categories of IFRS 9.

Financial assets are classified by DEMIRE as “At amortised cost” if they are held as part of a business model and the objective is to hold them for the collection of contractual cash flows and if the contractual terms of the financial asset result in cash flows at specified dates that are exclusive repayments and interest payments on the principal amount outstanding.

DEMIRE did not classify any financial assets as “At fair value through other comprehensive income” or “At fair value through profit or loss” in the 2018 financial year.

With respect to impairments, DEMIRE applied the relevant requirements of IFRS 9 for the first time. For financial assets, trade accounts receivable and lease receivables, DEMIRE applies the simplified model of expected credit losses under IFRS 9.5.5. As a result, the credit losses expected over the entire term are used for all relevant items. In contrast to the incurred loss model of IAS 39, expected losses are to be recognised in accordance with IFRS 9, even if there are no concrete indications of a default at the time of preparing the financial statements. A further explanation of the simplified model of expected credit losses can be found in Section 2.2.

The carrying amount of other non-current assets as at 31 December 2018 amounts to EUR 3,725 thousand (31 December 2017: EUR 2,190 thousand) and essentially includes non-current securities, rent incentives capitalised for the first time and, for the first time, interests in investments accounted for using the equity method. The reason for the reclassification is the insignificance of the investments accounted for “at equity”. First-time capitalisation and reclassifications lead to an increase in other non-current assets.

For investments accounted for using the equity method, DEMIRE has (only) a significant influence on these investments. At each reporting date, DEMIRE determines whether there is objective evidence that the interest in 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 with only limited business activity in the real estate sector.

Interests in companies over which DEMIRE AG can exert significant influence but where the possibility of control is not available, are accounted for using the equity method in accordance with IAS 28. 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 rises and falls in accordance with the share in the profit / loss for the period (incl. 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. 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 EUR 185 thousand (31 December 2017: EUR 200 thousand) as at 31 December 2018. This includes the shareholdings in G+Q Effizienz GmbH, Berlin, in an amount of EUR 93 thousand, including transferred comprehensive income for the year of EUR 52 thousand and DEMIRE Assekuranz GmbH & Co. KG, Dusseldorf, in an amount of EUR 92 thousand, including transferred comprehensive income for the year of EUR 49 thousand. Irao Magnat 28 / 2 LLC, Tbilisi, Georgia, is no longer included in investments accounted for using the equity method with a carrying amount of EUR 0 thousand (31 December 2017: EUR 116 thousand), including transferred comprehensive income for the year of EUR 0 thousand (previous year: EUR 0 thousand).

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.

Real estate inventory was fully impaired to EUR 0 thousand in the reporting period (31 December 2017: EUR 1,734 thousand).

2.2 Trade accounts receivable and other receivables

The following table shows the composition of trade accounts receivable and other receivables as at 31 December 2018.

in EUR thousands	31/12/2018 GROSS	IMPAIRMENT	31/12/2018 NET	31/12/2017 GROSS	IMPAIRMENT	31/12/2017 NET
Trade accounts receivable	4,446	728	3,718	3,734	926	2,808
Receivables from the sales of the investment in SQUADRA Immobilien GmbH & Co. KG	7,543	0	7,543	7,543	0	7,543
Purchase price receivables from sales of legacy portfolio	2,874	2,874	0	2,880	1,879	1,001
Unbilled service charges	1,346	0	1,346	2,091	0	2,091
Purchase price receivables from BBV 02	1,355	0	1,355	1,367	0	1,367
Receivables from processing value-added tax	878	0	878	1,367	0	1,367
Creditors with net debit balances	86	0	86	0	0	0
Deposits	0	0	0	586	0	586
Receivables due from former owners of Kurfürster Immobilien GmbH	0	0	0	366	0	366
Others	908	0	908	1,020	0	1,020
Total	**19,436**	**3,602**	**15,835**	**21,382**	**2,805**	**18,577**

Credit risk, or default risk, is the risk that the counterparties – who are essentially the tenants of the real estate held by DEMIRE – cannot meet their contractual payment obligations, which can lead to a loss for the Company. In order to mitigate and manage default risks as much as possible, DEMIRE reviews the creditworthiness of tenants for new lettings.

Default risks exist for all classes of financial instruments, but especially for trade accounts receivable and purchase price receivables. There are no significant default risks for other financial instruments. In addition, DEMIRE is not exposed to any significant credit risk with regard to individual counterparties. There is no risk concentration.

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.

In accordance with IAS 39, the model of incurred losses was applied in previous years. If in the case of trade accounts receivable and other receivables 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 was recognised in accordance with IAS 39 through profit or loss using an impairment account.

The requirements of IFRS 9 relating to impairment were implemented for the first time in the 2018 financial year. The simplified model of expected credit losses was used for trade accounts receivable. As a result, the credit losses expected over the entire period are taken into account for all trade accounts receivable. In order to measure expected credit losses, the trade accounts receivable and contract assets were combined on the basis of credit risk characteristics. DEMIRE mainly has receivables from rental and purchase price receivables from real estate located in Germany. The classification of the credit risk has taken place at the level of the property companies, as these have different default rates. The expected default rates are based on the payment profiles of the last three years prior to the reporting date. Impairment is recognised upon receipt of the receivable. An expected credit loss of EUR 728 thousand was calculated.

RECONCILIATION OF IMPAIRMENTS in EUR thousands	
Impairments pursuant to IAS 39 as at 31 December 2017	**2,805**
Opening balance sheet amounts adjusted through retained earnings	0
Impairments pursuant to IFRS 9 as at 1 January 2018	**2,805**
Increase in impairments through profit or loss in the financial year	1,564
Decrease in impairments through profit or loss in the financial year	767
Impairments pursuant to IFRS 9 as at 31 December 2018	**3,602**

For reasons of materiality, no adjustment to the opening balance sheet values was made through retained earnings.

Impairments amounting to EUR 3,602 thousand (31 December 2017: EUR 2,805 thousand) were recognised on the reporting date as at 31 December 2018. The expenses from the allocation of the impairments are shown in the consolidated statement of income in the item “Impairment of receivables”.

Purchase price receivables from the disposals of the legacy portfolio were fully impaired in the financial year.

The purchase price receivable for a commercial property of BBV Immobilien-Fonds Erlangen GbR (BBV 02) is still outstanding as at the reporting date due to a required completion addendum in the purchase agreement. The completion addendum was notarised by the parties on 8 January 2019. Payment is expected in the first quarter of 2019.

2.3 Financial receivables and other financial assets

As in the previous year, financial receivables and other financial assets of EUR 6,326 thousand (31 December 2017: EUR 5,184 thousand) primarily consist of receivables from the loan to Taurecon Real Estate Consulting GmbH, Berlin, amounting to EUR 2,855 thousand and from the loan to Taurecon Beteiligungs GmbH, Berlin, amounting to EUR 2,428 thousand, which holds minority shareholdings in certain Group companies of DEMIRE.

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 reporting date.

Cash and cash equivalents of EUR 190,442 thousand (31 December 2017: EUR 73,874 thousand) include cash on hand and bank balances. Cash and cash equivalents include deposits from tenants in the amount of EUR 0 thousand (previous year: EUR 591 thousand), which are offset by liabilities of the same amount. The decline resulted from the outsourcing of the property and facility management.

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. In accordance with the exceptions of IFRS 5.5d, these rules continue to apply to real estate that is measured using the fair value model. The fair value of non-current assets held for sale is equal to their purchase price. Impairment losses are recognised as expenses in subsequent measurement. 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 EUR 12,262 thousand (31 December 2017: EUR 12,262 thousand) as at the reporting date 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 has been delayed but is now expected to take place in the 2019 financial year.

4. EQUITY

Subscribed capital increased by EUR 10,568 thousand in the reporting period due to conversions of the 2013/2018 convertible bonds. In addition, subscribed capital rose by EUR 5,426 thousand and EUR 34,513 thousand, respectively, as a result of two cash capital increases and by EUR 3,000 thousand as a result of the conversion of the 2015/2018 mandatory convertible bond to a total of EUR 107,777 thousand. 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 granting control powers were not issued. The 2013/2018 convertible bonds were almost entirely converted during the financial year and any unconverted units were redeemed in cash.

Capital reserves in accordance with Section 272 (2) no. 1 HGB were reduced by a withdrawal in the prior period. As a result of this withdrawal, the prior year's accumulated loss was reduced in the consolidated financial statements of the parent company. A change in capital reserves also resulted from expenses from the stock option programm (see Note G 4d) in the amount of EUR 1,505 thousand (previous year: EUR 532 thousand), partly offset by a reversal of expenses previously recognised in equity in the amount of EUR 148 thousand (previous year: EUR 617 thousand) due to the departure of employees whose entitlements were fully settled by a one-off payment. This resulted in a net effect of EUR 1,357 thousand (previous year: EUR –84 thousand). Furthermore, there was an increase in capital reserves of EUR 17,546 thousand and EUR 114,110 thousand due to both cash capital increases (net of costs for raising equity of EUR 628 thousand for the first capital increase and EUR 1,517 thousand for the second capital increase). Due to the conversion of the 2015/2018 mandatory convertible bond, the capital reserves were reduced by EUR 3,000 thousand in the 2018 financial year. As a result of the conversion of the convertible bonds, there was a further reduction in the capital reserve of EUR 97 thousand.

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. The change in the method applied resulted in an increase of the previous year's amount of EUR 6,369 thousand. Further details are provided in Section C.

AUTHORISED CAPITAL I/2017

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 an issue price not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, and to issue shares to employees and execute capital increases against contribution in kind.

On 26 February 2018, the Executive Board of DEMIRE resolved, with the approval of the Supervisory Board, to increase the share capital of the Company by EUR 5,425,774.00 from EUR 54,270,744.00 to EUR 59,696,518.00 from authorised capital 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 at 1 January 2017 against cash contribution excluding the subscription rights of the Company's shareholders. The capital increase was entered in the commercial register on 5 April 2018.

AUTHORISED CAPITAL I/2018

By resolution of the Annual General Meeting of 27 June 2018, the remaining Authorised Capital I/2017 in the amount of EUR 21,703,098.00 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 – by countermotion – to increase the Company's share capital by up to a total of EUR 36,532,419.00 (Authorised Capital I/2018) by issuing a total of 36,532,419 new, no-par value bearer shares against contribution in cash and/or in kind once or several times in partial amounts until 26 June 2023. 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 an issue price not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, and to issue shares to employees and execute capital increases against contribution in kind.

On 25 October 2018, the Executive Board of DEMIRE resolved, with the approval of the Supervisory Board, to increase the share capital of the Company by EUR 34,512,703.00 from EUR 73,085,728.00 to EUR 107,598,431.00 from authorised capital by issuing 34,512,703 new, no-par value bearer shares with a notional interest of EUR 1.00 each and full dividend entitlement as at 1 January 2018 against cash contribution with subscription rights for existing shareholders of the Company (the "capital increase"). The capital increase was entered in the commercial register on 12 November 2018, reducing Authorised Capital I / 2018 to EUR 2,019,716.00.

For any changes after 31 December 2018, please refer to the events after the reporting date.

Authorisation to repurchase own shares

The Company has been authorised to acquire up to 10 % of the existing subscribed capital outstanding as at 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. The authorisation may be exercised in whole or in part, once or several times. The Company did not hold any treasury shares as at the reporting date.

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). The realisation of deferred tax assets generally 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. Deferred tax assets for tax loss carryforwards were recognised in the amount of EUR 5,016 thousand (previous year: EUR 7,516 thousand) because this is the amount in which sufficient deferred tax liabilities exist. Deferred taxes are not expected to be realised within the first twelve months but instead after the first twelve months following the reporting date.

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 reporting 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 of Fair Value REIT-AG by applying the company-specific tax rate as at the reporting date. Because Fair Value REIT-AG is generally exempt from taxes, no taxes are incurred at the level of Fair Value REIT-AG as long as its status as a tax-exempt REIT (Real Estate Investment Trust) is maintained. Nevertheless, deferred taxes are taken into account for Fair Value REIT-AG according to the "tax-transparent entities" 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 tax liabilities consist of the following:

in EUR thousands	31/12/2018	31/12/2017
Tax loss carryforwards	5,016	7,516
Financial liabilities	0	134
Deferred tax assets before offsetting	**5,016**	**7,650**
Investment properties	65,457	49,210
Financial liabilities	1,609	1,326
Deferred tax liabilities before offsetting	**67,066**	**50,536**
Offsetting	– 5,016	– 7,650
Deferred tax liabilities	**62,050**	**42,886**

The requirements of IAS 12.74 are met with respect to the deferred tax assets arising from tax loss carryforwards in the amount of EUR 5,016 thousand prior to their offsetting (31 December 2017: EUR 7,516 thousand).

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

in EUR thousands	01/01/2018	STATEMENT OF INCOME	31/12/2018
Investment properties	– 49,210	– 16,247	– 65,457
Tax loss carryforwards	7,516	– 2,500	5,016
Financial liabilities	– 1,192	– 417	– 1,609
Total	**– 42,886**	**19,164**	**– 62,050**

The item "Financial liabilities" refers primarily to deferred taxes related to the 2017/2022 corporate bond and the promissory note.

Tax loss carryforwards and deductible temporary differences that were not taken into account when determining deferred taxes and are generally non-forfeitable, amounted to EUR 26,524 thousand (31 December 2017: EUR 30,711 thousand). In the reporting year, there were unrecognised deferred tax assets amounting to EUR 4,199 thousand (31 December 2017: EUR 7,448 thousand).

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

in EUR thousands	01/01/2017	STATEMENT OF INCOME	31/12/2017
Investment properties	–37,683	–11,534	–49,217
Interest rate swaps	200	–200	0
Tax loss carryforwards	4,523	2,993	7,516
Financial liabilities	–2,071	879	–1,192
Total	**–35,030**	**–7,862**	**–42,893**

5.2 Minority interests

Minority interests reported under the Group's liabilities concern the capital of limited partners, who are mainly natural persons, in real estate funds in the legal form of a GmbH & Co. KG totalling EUR 73,085 thousand as at the reporting date (previous year: EUR 64,153 thousand). The prior-year figure was adjusted due to a change in the method used to calculate compensation payments. 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-AG at their carrying amounts.

Due to a change in the calculation method applied to compensation payments, there was an adjustment of the previous year's amount of EUR 7,777 thousand. Further details are provided in Section C.

The increase in minority interests mainly results from an increase in valuation gains. Please refer to Note 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 at 31 December 2018 consisted of the following:

FINANCIAL LIABILITIES in EUR thousands	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2017 / 2022 corporate bond	361,208	0	361,208
Other financial liabilities	236,574	38,790	275,857
Total	**597,782**	**38,790**	**636,572**

Financial liabilities as at 31 December 2017 consisted of the following:

FINANCIAL LIABILITIES in EUR thousands	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**

The following table shows the nominal value of financial liabilities as at 31 December 2018:

FINANCIAL LIABILITIES in EUR thousands	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2017 / 2022 corporate bond	366,625	0	366,625
Other financial liabilities	245,085	38,790	283,875
Total	**611,710**	**38,790**	**650,500**

The following table shows the nominal value of financial liabilities as at 31 December 2017:

FINANCIAL LIABILITIES in EUR thousands	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**

Other financial liabilities mainly comprise financial liabilities to credit institutions at a weighted average nominal interest rate of 3.16 % (31 December 2017: 3.19 %). The weighted average nominal interest rate on all financial liabilities amounted to 3.00 % p. a. as at 31 December 2018 (31 December 2017: 3.04 % p. a.).

A significant portion of other financial liabilities is a promissory note loan with a nominal interest rate of 4.00 % and a maturity in 2022.

As at the reporting date, financial liabilities were collateralised by assets in the amount of EUR 434,624 thousand (previous year: EUR 286,629 thousand). As in the previous year, no assets of DEMIRE had been encumbered with a mortgage as a guarantee 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 (such as financial statements) to reporting on the compliance with covenants.

The monitoring, compliance and reporting of the covenants specified in the loan agreements for the properties financed are 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

In the 2017 financial year, DEMIRE AG placed an unencumbered corporate bond (ISIN: XS1647824173) with an issue volume of EUR 400,000 thousand. 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 corporate bond was awarded a BB+ and a Ba2 rating, respectively, by the Standard & Poor's and Moody's rating agencies.

Since the beginning of the year, the corporate bond corporate bond declined from its previous high of 103.26 % on 25 January 2018 to a level of 97.639 % at the end of December 2018. The reason for the price development was the higher volatility in the overall market.

As at the reporting date of 31 December 2018, the outstanding nominal value of the unsecured 2017 / 2022 corporate amounted to EUR 366,625 thousand. The announcement of a takeover offer by the new major shareholder, Apollo Global Management, LLC, triggered a change of control on 16 April 2018. Under the terms of the bond, DEMIRE AG was required to offer its bondholders early redemption of the bond at a repurchase price equal to 101 % of the principal amount plus interest accrued and unpaid until the repurchase date ("repurchase offer") within 30 days of obtaining knowledge of the change of control. DEMIRE AG published this repurchase offer, among others, on its website on 16 May 2018. The bondholders were able to request repayment until 11.00 a.m. on 14 June 2018. The repurchase offer was accepted for a total volume of EUR 33,375,000.

In accordance with the terms of the 2017 / 2022 corporate bond, DEMIRE AG is required to comply with financial covenants if new financial liabilities are assumed. In the event these financial covenants are not complied with, this could lead to extraordinary termination by the bondholders and thus to a repayment obligation on the part of the Company, as well as distribution restrictions. The financial covenants consist of various key financial indicators, particularly the loan-to-value ratio (net LTV), which is not permitted to exceed 65 % in the period from the placement of the corporate bond until 30 June 2018, 60 % in the period from 1 July 2018 to 31 December 2019 and 55 % from 1 January 2020. A further indicator to be complied with is the so-called fixed charge coverage ratio (FCCR), which is not permitted to fall below 1.45 until and including 30 June 2018, 1.60 in the period from 1 July 2018 to 31 December 2018 and 1.75 from 1 January 2019. Furthermore, the so-called net secured loan-to-value (net secured LTV) may not exceed 40 %. The obligation to review and calculate the financial covenants takes place exclusively within the scope of the assumption of additional financial liabilities. The monitoring, compliance and reporting with respect to the financial covenants are carried out by DEMIRE's management, treasury and asset management areas. None of these financial covenants had been breached as at the 31 December 2018 reporting date.

Changes in financial liabilities

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

in EUR thousands	FINANCIAL LIABILITIES
31 December 2017	**694,914**
Cash-effective changes	
Proceeds from the assumption of financial liabilities	41,083
Payments for the redemption of financial liabilities	– 84,955
Non-cash changes	
Effect of the conversion of the convertible bond and mandatory convertible bond	– 10,735
Present value increase according to IFRS 9	– 8,048
Valuation effects from applying the effective interest method	4,648
Deferred interest	– 388
Other valuation effects	92
31 December 2018	**636,572**

5.4 Other non-current liabilities

Due to a change in the calculation method applied to compensation payments, there was an adjustment of the previous year's amount of EUR 1,409 thousand. As at 31 December 2018, other non-current liabilities amounted to EUR 1,157 thousand (31 December 2017: EUR 1,448 thousand). These are compensation payments to minority shareholders in accordance with Section 304 AktG in the context of the profit and loss transfer agreements concluded in the previous year. Further details are provided in Section C.

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 reporting date.

DEMIRE assumes that the provisions will be fully utilised in the following 2019 financial year since these are only of a short-term nature.

Provisions developed as follows during the reporting period:

in EUR thousands	31/12/2017	UTILISATION	REVERSAL	ADDITIONS	31/12/2018
Staff costs	883	– 810	– 61	940	952
Provisions for building maintenance	133	– 133	0	0	0
Other provisions	0	0	0	350	350
Total	**1,016**	**– 943**	**– 61**	**1,290**	**1,302**

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

Other provisions relate to potential payments to be made in connection with the purchase of properties.

6.2 Trade payables and other liabilities

Liabilities are recognised at amortised cost after their initial recognition.

As at the reporting date, trade payables and other liabilities were as follows:

in EUR thousands	31/12/2018	31/12/2017
Trade payables	14,754	8,718
Lease liabilities	1,737	0
Liabilities from value-added taxes	739	933
Compensation payments	675	337
Accounting and audit costs	646	1,132
Purchase price liabilities	69	362
Personnel-related expenses	68	156
Deposits received	13	293
Debtors with net credit balances	4	669
Deposits received	0	591
Others	998	1,472
Total	**19,703**	**14,663**

Trade payables of EUR 14,754 thousand (previous year: EUR 8,718 thousand) are due in full at short notice as at 31 December 2018 and 2017.

Lease liabilities must be recognised as a result of the first-time application of IFRS 16. These essentially include the permanent right to use an underground parking garage in Ulm and DEMIRE's vehicle fleet.

The compensation payments are a guaranteed dividend from profit and loss transfer agreements concluded between DEMIRE companies and non-controlling shareholders in 2017.

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

The decline in deposits received resulted from the outsourcing of property and facility management and the resulting transfer of deposit accounts.

6.3 Tax liabilities

Current income tax liabilities of EUR 2,486 thousand (previous year: EUR 2,559 thousand) are divided into trade taxes of EUR 697 thousand (previous year: EUR 778 thousand) and corporate taxes of EUR 1,789 thousand (previous year: of EUR 1,764 thousand).

7. LEASES

7.1 Operating leases – DEMIRE 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 arise from long-term operating leases of rented commercial real estate.

in EUR thousands	31/12/2018	31/12/2017
Due within 1 year	72,399	68,436
Due between 1 and 5 years	152,081	177,866
Due after more than 5 years	141,128	92,658
Total future rental income	**365,608**	**338,960**

7.2 DEMIRE as lessee

DEMIRE lets office buildings, car parking spaces and vehicles. Lease agreements are concluded for fixed periods of 3 to 20 years, but may have options to extend. Leases contain a variety of different conditions.

Leases are accounted for at the time the leased asset is made available. The leasing rate is split into an interest and repayment portion. The right to use is amortised on a straight-line basis over the term of the lease or, if shorter, over the useful life.

The initial recognition of assets and liabilities from leasing relationships takes place at present value.

Payments for short-term leases and low-value leases are recognised as an expense in the statement of comprehensive income. Short-term leases are all agreements with a term of less than 12 months.

The balance sheet shows the following amounts related to leases:

RIGHTS TO USE in EUR thousands	31/12/2018	31/12/2017
Leased properties	1,592	0
Vehicles	52	0
Total	**1,644**	**0**

LEASE LIABILITIES in EUR thousands	31/12/2018	31/12/2017
Current	141	0
Non-current	1,982	0
Total	**2,123**	**0**

Additions to the rights to use category in the financial year amounted to EUR 1,778 thousand. The rights to use leased properties are disclosed as investment properties. The rights to use vehicles are disclosed as property, plant and equipment.

The following lease-related amounts are shown in the consolidated statement of income:

AMORTISATION EXPENSE FOR RIGHTS TO USE in EUR thousands	2018	2017
Leased properties	120	0
Vehicles	88	0
Total	**208**	**0**
Interest expense (included in financial expense)	65	0
Short-term leases expenses	0	0
Low-value lease expenses that are not short-term leases	12	0
Expenses for variable lease payments not included in the valuation of lease liabilities	0	0

The total cash outflow for leases in 2018 amounted to EUR 341 thousand.

OTHER LEASE OBLIGATIONS in EUR thousands	31/12/2018	31/12/2017
Due within 1 year	141	10
Due between 1 and 5 years	538	21
Due after more than 5 years	1,444	0
Total	**2,123**	**31**

The obligations arising from rental and lease contracts for office space no longer exist due to the deconsolidation of PRAEDIA GmbH and DEMIRE Immobilien Management GmbH. The decline in rental and lease obligations for vehicles is also a result of the deconsolidation.

The increase in other lease obligations results from obligations of DEMIRE Objektgesellschaft Armstripe GmbH from a permanent right to use an underground parking garage in Ulm.

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

in EUR thousands	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Vehicles	38	253
Office space	38	132
Other lease obligations	150	0
Total	**226**	**358**

8. CONTINGENT LIABILITIES

The following contingent liabilities existed as at 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 at 31 December 2018 consist of mortgages under Section 1191 BGB in the amount of EUR 434,624 thousand (previous year: EUR 290,337 thousand). The maximum liability for these properties is limited to the carrying amount of EUR 434,624 thousand (previous year: EUR 290,337 thousand). In addition to the credit agreement with SÜDWESTBANK AG, Stuttgart, dated 8 April 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, FVR Beteiligungsgesellschaft Siebente mbH & Co. KG and FVR Beteiligungsgesellschaft Achte mbH & Co. KG, all located in Frankfurt am Main, are pledged as guarantees. If the market price of the pledged shares falls below a total value of EUR 15,000 thousand, corresponding to EUR 4.41 per share, DEMIRE AG undertakes to provide additional guarantees to the lender providing up to EUR 15,000 thousand 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 2018: EUR 8.00).

The following contingent liabilities existed as at the reporting date for the pledging of collateral for third-party liabilities, of which EUR 940 thousand (31 December 2017: EUR 940 thousand) relates to liabilities from affiliated companies.

DEMIRE AG entered into a letter of guarantee in the amount of EUR 940 thousand 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 at the reporting 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.

No further contingent liabilities existed.

9. OTHER FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

The following other financial obligations existed as at the reporting date:

in EUR thousands	31/12/2018	31/12/2017
Due within 1 year	2,180	100
Due between 1 and 5 years	400	400
Due in more than 5 years	620	720
Total	**3,200**	**1,220**

The real estate purchase agreements concluded in the 2017 financial year that were not still in effect as at the reporting date, do not result in any financial obligations as at 31 December 2018.

Contractual obligations exist for the modification and expansion of the properties in Eschborn, Wismar and the Gutenberg-Galerie and LogPark in Leipzig. These are fixed in terms of their scope. 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 EUR 378 thousand (previous year: EUR 665 thousand).

As at the reporting date, there are no obligations for future lease payments under long-term leasehold agreements.

There are contingent liabilities amounting to EUR 188 thousand from ongoing legal disputes as at the reporting date. These are continuously assessed by DEMIRE to determine whether an outflow of resources with economic benefits has become probable. If an outflow of future economic benefits is probable for an item previously treated as a contingent liability, a provision is recognised at the end of the period in which the change in probability occurs.

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 on 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 the commercial properties which are held by the subsidiaries of DEMIRE AG, with the exception of the real estate of Fair Value REIT. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

Fair Value REIT is listed in the General Standard and, due to its status as a REIT company, is subject to the requirements of the REIT Act. When making management decisions, these requirements must be taken into account. As a result, a distinction is made between the Core Portfolio segment and the Fair Value REIT segment. Internal reporting to the management takes place at the aggregated basis.

2018 in EUR thousands	**CORE PORTFOLIO**	**FAIR VALUE REIT**	**CORPORATE FUNCTIONS / OTHERS**	**GROUP**
External revenues	62,063	27,799	0	89,862
Total revenues	**62,063**	**27,799**	**0**	**89,862**
Profit / loss from fair value adjustments in investment properties	70,059	23,089	– 89	93,059
Other income	1,036	739	737	2,513
Segment revenues	**133,159**	**51,626**	**648**	**185,433**
Expenses on real estate sales	– 403	– 599	0	– 1,002
Other expenses	– 25,977	– 12,851	– 18,540	– 57,367
Segment expenses	**– 26,379**	**– 13,450**	**– 18,540**	**– 58,369**
EBIT	**106,780**	**38,176**	**– 17,891**	**127,065**
Financial income	192	1	287	480
Financial expenses	– 23,073	– 2,611	– 731	– 26,415
Interests of minority shareholders	0	– 12,373	0	– 12,373
Income taxes	– 6,191	– 5,671	– 7,842	– 19,704
Net profit / loss for the period	**77,707**	**17,522**	**– 26,177**	**69,053**
Significant non-cash items	**– 64,498**	**– 17,443**	**7,855**	**– 74,087**
Impairment losses in net profit / loss for the period	**620**	**– 8**	**1,261**	**1,874**

ADDITIONAL INFORMATION

31 DECEMBER 2018				
SEGMENT ASSETS in EUR thousands	**873,156**	**345,813**	**159,723**	**1,378,692**
Thereof current financial receivables and other financial assets	158	1	6,167	6,326
Thereof tax refund claims	12	9	2,863	2,884
Thereof additions to non-current assets	96,144	23,249	185	119,578
Thereof non-current assets held for sale	12,262	0	0	12,262
SEGMENT LIABILITIES	**566,604**	**205,466**	**24,284**	**796,354**
Thereof non-current financial liabilities	514,602	91,802	0	606,404
Thereof current financial liabilities	9,583	20,584	0	30,168
Thereof tax liabilities	2,283	0	203	2,486

The column Corporate Functions / Others mainly contains the activities of DEMIRE AG for its subsidiaries in its function as the Group holding in areas such as risk management, finance and controlling, investor relations, financing, legal, IT and compliance. The activities as the Group holding do not constitute a separate segment but rather reconcile items that cannot be allocated to the other segments.

In the financial year, more than 10 % of total revenue in the amount of EUR 22,265 thousand (previous year: EUR 22,066 thousand) 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 EUR 70,059 thousand (previous year: EUR 38,794 thousand), income taxes of EUR – 455 thousand (previous year: EUR – 6,347 thousand) and the profit / loss from investments accounted for using the equity method in the amount of EUR 101 thousand (previous year: EUR 73 thousand).

Transactions between segments are carried out on the basis of comparable external conditions.

2017 in EUR thousands	CORE PORTFOLIO	FAIR VALUE REIT	CORPORATE FUNCTIONS / 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*	0	0	0	0
Unrealised fair value adjustments in equity investments	0	0	0	0
Segment revenues*	**115,964**	**52,832**	**1,546**	**170,342**
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	**72,149**	**23,940**	**– 11,491**	**84,598**
Financial income*	189	406	418	1,013
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**

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

ADDITIONAL INFORMATION

31 / 12 / 2017				
SEGMENT ASSETS in EUR thousands	**770,861**	**326,262**	**49,993**	**1,147,116**
Thereof investments accounted for using the equity method*	0	0	0	0
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*	**601,338**	**201,619**	**18,691**	**821,647**
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

G. OTHER DISCLOSURES

1. FINANCIAL INSTRUMENTS

Generally, reference is made to the risk report in DEMIRE's combined 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 Supervisory Board of DEMIRE AG.

Within the consolidated Group, some loan agreements exist 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 reporting date are only available until investments are made and will be subsequently tied up in projects according to plan.

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 previous financial year following the issue of the 2017 / 2022 corporate bond. Due to the limited amount of risk, there is no hedging.

The following table assumes a change in the interest rate of + 100 basis points or – 100 basis points. If all other parameters were to remain unchanged, an increase or decrease in the interest expenses of the Company would lead to the following interest expenses:

MEASUREMENT OF INTEREST RATE SENSITIVITY in EUR thousands	2018	2017
Interest expense / nominal interest expenses from variable interest loans	684	888
Increase in interest expenses from a fictitious rise of 100 bp in variable interest rates	387	421
Decrease in interest expenses from a fictitious decline of 100 bp in variable interest rates	– 385	– 421

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. Rental deposits amounting to EUR 1,327 thousand (previous year: EUR 1,181 thousand) are available as security in the event a tenant defaults on payment. For an analysis of the impaired receivables, please refer to Note E 2.2.

Liquidity risk

In the initial phase of DEMIRE, 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 combined 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 Executive Board of DEMIRE AG. The requirements were met both in the reporting year and in the previous year.

DEMIRE monitors its capital using the equity ratio (IFRS and EPRA NAV), which is also an important indicator for investors, analysts and banks. For a detailed explanation, please refer to the combined management report.

Other disclosures on financial instruments

Financial assets and financial liabilities are classified and accounted for at the date of acquisition according to the categories of IFRS 9.

DEMIRE has applied IFRS 9 for the first time to the financial year beginning on 1 January 2018. The Company makes use of the option to present comparative information in accordance with IAS 39.

According to IFRS 9, financial assets are classified in the categories of "At amortised cost", "At fair value through other comprehensive income" or "At fair value through profit or loss". As at the reporting date, the Company holds financial instruments only in the "At amortised cost" category. 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.

In contrast to IAS 39, which recognised impairment when losses were incurred, impairment under IFRS 9 is recognised on expected losses. In order to determine the expected credit loss, reasonable and reliable information on past events, current circumstances and forecasts of future economic developments must be determined at a reasonable cost. Information on DEMIRE's approach to impairments can be found in E 1.4 and 2.2.

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 reconcile these values to the IFRS 9 measurement categories applied for the first time as at the reporting date of the year under review and of the prior year. The measurement category relevant for DEMIRE in accordance with IFRS 9 is “At amortised cost”.

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 2018 in EUR thousands	MEASUREMENT CATEGORY	CARRYING AMOUNT UNDER IFRS 9	FAIR VALUE
Investments accounted for using equity method	n/a	185	185
Other assets	At amortised cost	3,540	3,540
Trade accounts receivable and other receivables	At amortised cost	15,835	15,835
Financial receivables and other financial assets	At amortised cost	6,326	6,326
Cash and cash equivalents	At amortised cost	190,442	190,442
Bonds	At amortised cost	361,208	358,156
Other non-current financial liabilities	At amortised cost	246,656	248,393
Trade payables and other liabilities	At amortised cost	19,028	19,028
Current financial liabilities	At amortised cost	28,708	28,708
Compensation payments to minority shareholders	At amortised cost	1,831	1,831

n/a: not applicable

The reconciliation between the measurement categories from IAS 39 to IFRS 9 is shown in the following table. The first-time application of IFRS 9 resulted in a one-time adjustment of other non-current financial liabilities of EUR 7,108 thousand to EUR 156,928 thousand, which was due to the immediate recognition of present value effects in connection with non-substantial modifications of financial liabilities. Group equity increased by EUR 7.018 thousand as a result of the adjustment. The first-time application of the expected credit loss method leads to a decrease of EUR 14 thousand in trade accounts receivable and other receivables.

in EUR thousands	MEASUREMENT CATEGORY UNDER IAS 39	MEASUREMENT CATEGORY UNDER IFRS 9	CARRYING AMOUNT UNDER IFRS 9 AS AT 31/12/2017	CARRYING AMOUNT UNDER IFRS 9 AS AT 01/01/2018
Investments accounted for using equity method	n/a	n/a	200	200
Other financial assets	LaR	At amortised cost	1,990	1,990
Trade accounts receivable and other receivables	LaR	At amortised cost	18,577	18,563
Financial receivables and other financial assets	LaR	At amortised cost	5,184	5,184
Cash and cash equivalents	LaR	At amortised cost	73,874	73,874
Convertible bonds	AmC	At amortised cost	10,660	10,660
Bonds	AmC	At amortised cost	392,532	392,532
Financial liabilities (Fair Value REIT)	AmC	At amortised cost	120,641	120,641
Other non-current financial liabilities	AmC	At amortised cost	163,946	156,928
Trade payables and other liabilities	AmC	At amortised cost	14,734	14,734
Current financial liabilities	AmC	At amortised cost	8,657	8,657
Compensation payments to minority shareholders	AmC	At amortised cost	1,747	1,747

n/a: not applicable

31 DECEMBER 2017 in EUR thousands	MEASUREMENT CATEGORY	CARRYING AMOUNT	IAS 39 MEASUREMENT FAIR VALUE THROUGH PROFIT / LOSS	AMORTISED COST	FAIR VALUE
Investments accounted for using equity method	n / a	200	0	126	126
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 bonds	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	14,365	0	14,365	14,365
Current financial liabilities	AmC	7,136	0	7,136	7,136
Compensation payments to minority shareholders	AmC	2,084	0	2,084	2,084
Amount per measurement category					
	LaR	99,625	0	99,625	99,625
	AmC	711,403	0	711,403	779,469

LaR: Loans and Receivables
AmC: Amortised Cost
n / a: not applicable

Due to the short-term maturity of cash, 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.

NET GAINS / LOSSES ON FINANCIAL INSTRUMENTS IN 2018 in EUR thousands		OF WHICH INTEREST
Assets		
At amortised cost	– 1,148	726
Liabilities		
At amortised cost	– 26,036	– 26,036

NET GAINS / LOSSES ON FINANCIAL INSTRUMENTS IN 2017 in EUR thousands		OF WHICH INTEREST
Assets		
LaR	– 584	1,229
Liabilities		
AmC	– 49,283	– 49,283

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
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
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:

in EUR thousands	2019	2020	2021	2022	2023	AFTER 31/12/2023
Debentures	10,540	10,540	10,540	377,599	0	0
Bank liabilities	22,166	17,071	7,429	31,818	4,641	53,750
Other financial liabilities	6,429	6,415	6,370	141,674	0	0
Trade payables and other liabilities	20,859	830	545	268	0	0
Total	**59,994**	**34,892**	**24,884**	**551,359**	**4,641**	**53,730**

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. As at the reporting date, AEPF III 15 S.à r.l., Luxembourg/Luxembourg, held a 64.07% stake in DEMIRE and is, therefore, the direct parent company. The ultimate parent company is BRH Holdings GP Ltd., Grand Cayman, Cayman Islands. It prepares the consolidated financial statements for the largest group of companies, which are regularly submitted to the SEC as part of the Form 10-K Report. The consolidated financial statements of DEMIRE AG are the smallest and largest scope of consolidation in which the Company is included.

The group of related companies includes the fully consolidated subsidiaries 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.

Legal transactions with related companies and persons

In the financial 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 are 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.

Consultancy and other services provided by members of the Supervisory Board to the Company existed with Prof. Dr Alexander Goepfert, Chairman of the Supervisory Board of the Company. Prof. Dr Goepfert was active until 31 December 2018 as a partner of the law firm Noerr LLP. The law firm Noerr LLP became legal advisers in 2018 to DEMIRE. In the year under review, the Company recognised expenses of around EUR 150 thousand, which corresponded to less than 2.1% of the legal and consulting fees of DEMIRE in 2018. The Supervisory Board dealt in detail with the mandates and voted in favour of each of the mandates with Prof. Dr Goepfert abstaining from the vote. The resolution was passed in writing by the Supervisory Board and included a description of all individual mandates. Payments will only be made after the approval of the Supervisory Board. The Supervisory Board dealt with the appropriateness of the fee versus the legal services rendered by the law firm Noerr LLP in comparison to the fees of other law firms. The amounts in euro stated in this section are net amounts, and the respective VAT was paid. There are no other consultancy services or work contracts between members of the Supervisory Board and the Company either directly or indirectly.

The following balances exist with respect to associated companies:

in EUR thousands	31/12/2018	31/12/2017
Financial receivables and other financial assets	0	294

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.

Volume of business transactions with associated companies:

in EUR thousands	2018	2017
Financial receivables and other financial assets	0	294

Volume of business transactions with joint ventures:

in EUR thousands	2018	2017
Financial receivables and other financial assets	0	294

3. AUDITOR'S FEE

The auditor's fee for PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, charged in the financial year related to DEMIRE consists of the following:

in EUR thousands	2018
Auditing services	401
Other assurance services	367
Tax consultation services	0
Other services	0
	768

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, was appointed as the auditor for the financial year ended 31 December 2018 for the first time. In addition to the audit services, other assurance services (non-audit services) were provided in the financial year 2018, in connection with the granting of comfort letters within the scope of a capital increase.

In the previous period, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn / Frankfurt am Main, was the appointed Group auditor. The auditor's fee consisted of the following:

in EUR thousands	2017
Auditing services	381
Other assurance services	1,103
Tax consultation services	0
Other services	106
	1,590

4. EXECUTIVE BOARD, SUPERVISORY BOARD AND EMPLOYEES

a. Executive Board

In accordance with the Articles of Association of DEMIRE AG, the Executive Board is responsible for managing business activities.

The Executive Board has consisted of the following members since the 2017 financial year:

- Tim Brückner (since 1 February 2019)
- Ingo Hartlief (since 20 December 2018)
- Ralf Kind (until 3 January 2019)
- Markus Drews (until 15 November 2017)
- Hon. Prof. Andreas Steyer (until 30 June 2017)

In the 2018 financial year, DEMIRE AG recognised variable remuneration in the amount of EUR 180 thousand (previous year: EUR 879 thousand), fixed remuneration of EUR 396 thousand (previous year: EUR 1,563 thousand) and share-based payments of EUR 302 thousand (previous year: EUR 350 thousand) for the members of the Executive Board. The Company appointed three Executive Board members for periods in the prior year.

in EUR thousands	2018	2017
Short-term benefits	572	927
Post-employment benefits	0	0
Other long-term benefits	0	0
Benefits related to termination of employment	0	1,515
Share-based remuneration	302	350
Total	**874**	**2,792**

As at the reporting date, EUR 302 thousand (previous year: EUR 350 thousand) of share-based payments and EUR 180 thousand (previous year: EUR 275 thousand) of bonus payments were still outstanding.

The remuneration of the active members of the Executive Board during the financial year consisted of the following:

in EUR thousands	FIXED REMUNERATION	PERFORMANCE-BASED REMUNERATION	SHARE-BASED REMUNERATION	TOTAL 2018
Ingo Hartlief	0	0	0	0
Ralf Kind	396	180	302	878
Total	**396**	**180**	**302**	**878**

The final amount of remuneration payable to Mr Ralf Kind is still to be determined.

in EUR thousands	FIXED REMUNERATION	PERFORMANCE-BASED REMUNERATION	SHARE-BASED REMUNERATION	TOTAL 2017
Hon. Prof. Andreas Steyer	685	0	119	804
Markus Drews	654	325	158	1,137
Ralf Kind	236	554	73	839
Total	**1,563**	**879**	**350**	**2,792**

Please refer to the explanations in the remuneration report of the combined management report.

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 Supervisory Board of DEMIRE AG, their professions and Supervisory Board remuneration received during the past financial year are listed in the table below.

NAME	POSITION	PROFESSION	PERIOD	2018	2017
Prof. Dr Alexander Goepfert	Chair	Attorney at Law	Since 27 June 2018	46	0
Prof. Dr Hermann Anton Wagner	Chair	Auditor and tax consultant	Since 17 April 2013 until 27 June 2018	44	90
Dipl.-Volksw. Frank Hölzle	Vice Chair	Managing Director	Since 14 February 2017	60	50
Dr Thomas Wetzel	Member	Attorney at Law	Since 14 February 2017	30	25
Dr Peter Maser	Vice Chair	Attorney at Law	Until 13 February 2017	0	10
Günther Walcher	Member	Entrepreneur	Until 23 January 2017	0	5
Total				**180**	**180**

Supervisory Board members were also reimbursed for travel expenses in the amount of EUR 9 thousand (previous year: EUR 5 thousand).

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 at the reporting date is listed in the following table:

	31/12/2018	31/12/2017
Executive Board members	2	1
Permanent employees	74	96
Trainees	**0**	0
Total	**76**	**97**

The average number of employees in the 2018 financial year was 91 (previous year: 83). Eight of the 76 permanent employees, or an average of 5, were employed by PANACEA Property GmbH, which is not consolidated for reasons of materiality. PANACEA Property GmbH is of minor importance for the consolidated financial statements under IFRS and are therefore not included in the IFRS consolidated financial statements as at 31 December 2018 for reasons of materiality.

d. Share-based payments

2015 Stock Option Programme

In the 2015 financial 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 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 reporting 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 Programme 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 Executive Board of DEMIRE AG with the consent of the Supervisory Board. To the extent members of the Executive Board of DEMIRE AG 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 Programme" 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 non-vesting condition since meeting the condition is based on a performance target. In the case of DEMIRE AG, the exercise condition is to be classified as a non-vesting 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.

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. As at the reporting date, the first tranche still contains an entitlement to 400,000 stock options for one former member of the Executive Board and to 60,000 stock options for selected employees. Regarding the second tranche, there is still an entitlement to 40,000 stock options.

In the reporting period, changes in the accounting of the stock option programme occurred due to the departure of employees. All entitlements to 80,000 stock options from the first tranche were settled by a one-off payment.

In the previous year's reporting period, the departure of two members of the Executive Board had also led to a change in the accounting of the stock option programme. One of the departing Executive Board members retained his entitlements under the stock option programme. 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-off payment.

The calculation of the stock option's fair value as at 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 (%)*	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

* 180-day historical volatility

Staff costs from the 2015 Stock Option Programme recognised in the reporting period amounted to EUR 1,357 thousand (previous year: EUR 409 thousand) and were recognised directly in equity under general and administrative expenses. The increase results from employees departing from the Company who have retained their entitlement to the stock options and employees who opted for compensation for their entitlement. At the time of their departure from the Company, the outstanding expenses from the stock option programme were allocated directly and not recognised in instalments as was the case for employees who remained in the Company.

2017 Virtual Stock Option Programme

In the previous year, share-based payments in the form of virtual stock options were granted to one Executive Board member. Value appreciation rights were allocated to 150,000 shares per year in three tranches: the first tranche was allocated with retrospective effect as at 1 January 2017, the second as at 1 January 2018 and the third tranche as at 1 January 2019. A new virtual stock option programme replaced the second and third tranches. As at 31 December 2018, entitlements existed only to the first tranche. Each value appreciation right can be exercised during a three-year period after the end of a four-year vesting period following the allocation. The accounting of share-based payments is governed by IFRS 2. Cash-settled, share-based payment transactions (virtual shares) are accounted for as provisions, reducing expenses. Share-based payments are measured at fair value based on an option price model.

As at 31 December 2018, the fair value was EUR 56 thousand 31 December 2017: EUR 73 thousand). Staff costs are reported under general and administrative expenses.

The key parameters in the calculation are the following:

- The strike price, which is the arithmetic mean of the volume-weighted average price over the 20 trading days in Xetra trading after the publication of the quarterly financial statements for the third quarter of the calendar year immediately preceding the allocation (or similar), amounts to EUR 3.51 on the day of allocation.
- The grant price on 1 January 2017 was EUR 3.569 and the price on the valuation date of 31 December 2018 was EUR 4.31.

Each stock appreciation right grants entitlement to a payout in the amount of the positive difference between the share price at the time of exercise and the strike price, but not more than three times the strike price less the strike 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 strike price on 10 consecutive trading days during the four-year vesting period.

2018 Virtual Stock Option Programme

The 2017 Virtual Stock Option Programme was replaced by another virtual stock option programme with effect from 1 January 2018. In this case, a member of the Executive Board is granted “Performance Share Units” (PSUs) with an allocation amount of EUR 420 thousand each year. The number of PSUs granted is determined based on the allocation amount divided by the average share price of DEMIRE AG 60 trading days prior to the grant date. Granting takes place on 1 January of each year, and for the first time on 1 January 2018. The PSUs will vest after a performance period of 4 years from the grant date, depending on the achievement of performance targets. The performance targets consist of 50 % annual stock price increases and 50 % relative total shareholder return (TSR). The relative TSR compares the development of the DEMIRE TSR with the return of the EPRA / NAREIT Developed Europe Index UK over the four-year performance period.

As at 31 December 2018, the provision for the virtual stock option programme, which will apply from 2018, amounts to EUR 246 thousand (31 December 2017: EUR 0 thousand). In addition to the 2018 tranche, the 2019 and 2020 tranches were also included. The 60-day average price before granting the 2018 tranche is EUR 3.78. With regard to the 2019 tranches, a 60-day average before granting of EUR 4.155 was used, and for the 2020 tranche EUR 4.35, which corresponds to the price on the last cut-off date.

5. SUBSEQUENT EVENTS

Subsequent events that occurred after the end of the financial year that are of particular significance to DEMIRE's net assets, financial position and net profit/loss for the period are as follows:

On 3 January 2019, the DEMIRE Supervisory Board resolved to dismiss Mr Ralf Kind as a member of the Company's Executive Board with immediate effect and his contract of employment was terminated for good cause.

On 17 January 2019, the DEMIRE Supervisory Board appointed Mr Tim Brückner as a member of the Executive Board with responsibility for the Finance department. Mr Brückner assumed his duties at DEMIRE with effect from 1 February 2019.

The Extraordinary General Meeting of DEMIRE on 11 February 2019 resolved to cancel the Authorised Capital I/2018 and to create a new Authorised Capital I/2019 with the option to exclude subscription rights. Under this authorisation, the Executive Board is authorised to increase the Company's share capital by up to a total of EUR 53,888,662 on one or more occasions by issuing up to a total of 53,888,662 new, no-par-value ordinary shares against cash or contributions in kind (Authorised Capital I/2019) until 10 February 2024. In addition, shareholders issued a new authorisation to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds. This authorisation gives the Executive Board the ability to issue bonds with a total nominal value of up to EUR 325,000,000 until 10 February 2024. Furthermore, shareholders approved the cancellation of Conditional Capital II/2018 and the creation of new conditional capital (Conditional Capital I/2019). As a result, the Company's share capital will be conditionally increased by up to EUR 53,328,662 by issuing up to 53,328,662 no-par-value shares (Conditional Capital I/2019). The conditional capital increase serves to grant no-par-value shares to the holders and creditors of convertible and/or bonds with warrants, profit participation rights and/or profit participation bonds.

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 by DEMIRE AG to shareholders once per calendar year. The Declaration of Conformity with the German Corporate Governance Code was issued on 6 March 2019 and made permanently available to shareholders on *DEMIRE AG's website* under the section titled "Company".

Frankfurt am Main, 18 March 2019
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
Chief Executive Officer (CEO)

Tim Brückner
Chief Financial Officer (CFO)

www.demire.ag

APPENDIX 1: SCHEDULE OF SHAREHOLDINGS PURSUANT TO SECTION 313 (2) HGB

COMPANY	INTEREST CAPITAL IN %
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[4]	100.00
Panacea Property GmbH, Berlin[1]	51.00
PRAEDIA GmbH, Berlin[4]	51.00
Fair Value REIT-AG, Munich	79.39
IC Fonds & Co. Büropark Teltow KG, Munich[2]	62.05
IC Fonds & Co.Gewerbeportfolio Deutschland 13. KG, Munich[4]	44.58
IC Fonds & Co. SchmidtBank-Passage KG, Munich[2]	42.93
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich[2]	40.61
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich[2]	49.41
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich[2]	46.27
GP Value Management GmbH, Munich	79.39
BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich	79.39
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	79.39
BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich	79.39
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	79.39
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	79.39
BBV Immobilien-Fonds Erlangen GbR, Munich[2]	33.36
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich[2]	41.47
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich[2]	38.38
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 CAPITAL IN %
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
FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate GmbH, Frankfurt a. M.	100.00
DEMIRE Real Estate Munich 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

COMPANY	INTEREST CAPITAL IN %
GERMANY	
CONDOR Objektgesellschaft Bad Oeynhausen GmbH, Frankfurt a. M.	94.00
CONDOR Objektgesellschaft Lichtenfels GmbH, Frankfurt a. M.	94.00
DEMIRE Einkauf GmbH, Frankfurt a. M.	51.00
DEMIRE Assekuranzmakler GmbH % Co. KG, Dusseldorf[3]	47.50
G+Q Effizienz GmbH, Berlin[3]	49.00
DEMIRE Parkhaus Betriebsgesellschaft mbH, Berlin	51.00
Kurfürster Immobilien GmbH, Leipzig	94.90
Ritterhaus Immobilienverwaltungs GmbH, Dusseldorf	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
DEMIRE Ankauf 1 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 2 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 3 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 4 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 5 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 6 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 7 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 8 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 9 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 10 GmbH, Frankfurt a. M.	100.00

COMPANY	INTEREST CAPITAL IN %
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., Nicosia	94.00
THE 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 3	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
4 Companies deconsolidated in the financial year

APPENDIX 2: VALUATION PARAMETERS ACCORDING TO IFRS AS AT 31 DECEMBER 2018

	31/12/2018
Average market rent (in EUR per m² per year)	87.04
Range of market rents (in EUR per m²)	33.20 – 220.43
Rentable space as at reporting date (in m²)	894,718
Vacant space as at reporting date (in m²)	84,974
Value-based vacancy rate according to EPRA (in %)	7.47
Average vacancy rate based on rentable space (in %)	9.50
Range of vacancy rates based on rentable space (in %)	0.00 – 100
Weighted average lease term – WALT (in years)	4.59

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 m² on the valuation date for the various types of use are shown in the table below:

CONTRACTUAL RENTS in EUR		31/12/2018
Office	Min.	3.32
	Max.	13.22
	Average	8.14
Retail	Min.	3.20
	Max.	19.77
	Average	10.49
Others	Min.	2.89
	Max.	10.05
	Average	3.35
Total	Min.	2.32
	Max.	19.35
	Average	**7.27**

APPENDIX 3: VALUATION PARAMETERS ACCORDING TO IFRS 13 AS AT 31 DECEMBER 2017

	31/12/2017
Average market rent (in EUR per m² per year)	85.21
Range of market rents (in EUR per m²)	33.35 – 204.02
Rentable space as at reporting date (in m²)	913,802
Vacant space as at reporting 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 m² on the valuation date for the various types of use are shown in the table below:

CONTRACTUAL RENTS in 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
Total	Min.	2.82
	Max.	19.26
	Average	**7.56**

APPENDIX 4: SCHEDULE OF NON-CURRENT ASSETS

in EUR thousands	GOODWILL		OTHER INTANGIBLE ASSETS		OPERATING AND OFFICE EQUIPMENT		TECHNICAL EQUIPMENT		ADVANCE PAYMENTS	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Acquisition costs as of the beginning of the financial year	7,246	7,246	298	290	851	549	1,370	1,370	0	30
Accumulated depreciation / amortisation / impairment as of the beginning of the financial year	463	463	96	68	346	196	0	0	0	0
Carrying amounts as of the beginning of the financial year	6,783	6,783	202	222	505	353	1,370	1,370	0	30
Additions	0	0	0	8	269	299	1	0	0	0
Reclassifications	0	0	0	0	2	3	– 1,370	0	0	– 30
Disposals	0	0	76	0	99	0	0	0	0	0
Depreciation / amortisation	0	0	25	28	213	150	0	0	0	0
Acquisition costs as of the end of the financial year	7,246	7,246	222	298	1,023	851	1	1,370	0	0
Accumulated depreciation / amortisation / impairment as of the end of the financial year	463	463	121	96	524	346	0	0	0	0
Carrying amounts as of the end of the financial year	6,783	6,783	101	202	464	505	1	1,370	0	0

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 operations of the Group, and 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, 18 March 2019
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
Chief Executive Officer (CEO)

Tim Brückner
Chief Financial Officer (CFO)

Independent auditor's report

To DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DEMIRE Deutsche Mittelstand Real Estate AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the Statement on Corporate Governance pursuant to § [Article] 289f HGB (Handelsgesetzbuch – German Commercial Code) and § 315d HGB.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the Statement on Corporate Governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters which, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. MEASUREMENT OF INVESTMENT PROPERTIES
2. PRESENTATION, MEASUREMENT AND RELATED DISCLOSURES OF FINANCIAL LIABILITIES

Our presentation of these key audit matters has been structured in each case as follows:
1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter, we present the key audit matters:

1. MEASUREMENT OF INVESTMENT PROPERTIES

1. In the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG as of 31 December 2018, investment properties amounting to k€ 1,139,869 (82.7 % of total assets) are reported. DEMIRE exercises the option set out in IAS 40.30 of accounting for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realised when properties are sold, as well as unrealised changes in the fair value (market value), are recognised at fair value through profit or loss. In the past financial year, k€ 93,059 (prior year: k€ 48,560) in unrealised changes in market value were recognised through profit or loss in the consolidated statement of income.

When determining the fair value of investment property, it is assumed that the current use corresponds to the highest and best use of the property. Fair value is determined by the executive directors with support by an external advisory firm using a model based on projections of net cash inflows from the management of the properties which are derived using the discounted cash flow method. A market value is determined for properties with no positive net cash inflows (usually vacant buildings) using the net asset value method. Undeveloped land is usually measured based on an indirect comparison of indicative land values. To the extent possible, data directly observable on the market are used to determine the fair value (sources include property market reports prepared by expert committees and public and subscriptions-based market databases).

The measurement of investment properties is based on a large number of relevant parameters, which are in general subject in some respects to uncertainties with regard to estimates and judgements. Significant measurement parameters include in particular expected cash flows, the assumed vacancy rate and the discount and capitalisation rate. Even slight changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance for our audit, because the measurement of investment properties is in general subject to substantial judgement and estimation uncertainties and there is the risk that the changes in fair value which are recognised through profit or loss do not fall within an appropriate range.

2. As part of our audit, in collaboration with specialists from our Valuation & Strategy department, we assessed the measurement models used with respect to their compliance with IAS 40 in conjunction with IFRS 13, the correctness and completeness of the property portfolio data used and the appropriateness of the valuation parameters used, such as the expected cash flows (market rent per m², planned maintenance per m²), the assumed vacancy rate and the discount and capitalisation rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we examined the plausibility of calculations based on a comparison of results at the level of the individual properties as well as at the portfolio level against our expectations to the change in value.

   As part of our audit procedures, we prepared a comparison calculation for specific properties on a sample basis using the standardised German income approach (Ertragswertverfahren) pursuant to the German Property Valuation Regulation (Immobilienwertermittlungsverordnung; ImmoWertV).

   The valuation technique applied is appropriately designed and suitable for calculating fair values in accordance with IFRS. The underlying assumptions reflect the current market level.

3. The Company's disclosures relating to investment properties are contained in Sections C and E 1.3.

2. PRESENTATION, MEASUREMENT AND RELATED DISCLOSURES OF FINANCIAL LIABILITIES

1. In the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG as of 31 December 2018, financial liabilities amounting to k€ 636,572 (46.2 % of total assets) are reported. The financial liabilities relate to the 2017 / 2022 corporate bond amounting to k€ 361,208 and other financial liabilities amounting to k€ 275,364, which include in particular a promissory note loan and financial liabilities to credit institutions.

   The main part of financial liabilities by far has fixed interest rates. There were no hedging activities made for interest volatilities.

   Financial liabilities are initially recognised at fair value, taking into account transaction costs as well as premiums and discounts. The fair value at the grant date is equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk. In case of derivatives requiring separate accounting on initial recognition, these are accounted for separately from the underlying contract. There was no derivative requiring separate accounting for the bond issued. Subsequent measurement takes place at amortised cost using the effective interest method. The effective interest rate is determined at the date on which the financial liabilities are recognised initially.

   The matters presented above were of particular significance for our audit due to the amount of financial liabilities and the risk related therewith.

2. We involved experts from our Corporate Treasury Solutions (CTS) department in the audit of the accounting treatment and measurement of the financial liabilities. With their assistance, among other things we assessed the established internal control system.

   For the audit of financial liabilities, related agreements were selected according to specific risk-oriented criteria and evaluated whether the relevant measurement parameters and any embedded derivatives were properly recorded. In addition, a recalculation of amortised costs was carried out on a sample basis and analytical audit procedures were carried out for all financial liabilities.

   As part of our audit of the fair values disclosed in the notes to the financial statements for the financial liabilities, which are valued at amortised costs, we assessed the valuations based on the relevant market data (yield curves) and the base data used on a selective sample basis.

We obtained bank confirmations to assess whether all financial liabilities were recognised in full.

3. The Company's disclosures relating to financial liabilities are contained in Sections C, E 5.3 and G 1.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the Statement on Corporate Governance pursuant to § 289f and § 315d HGB.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 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 group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than 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 group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We 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 Article 10 of the EU Audit Regulation

We were elected as Group auditor by the Annual General Meeting on 27 June 2018. We were engaged by the Supervisory Board on 27 November 2018. We have been the Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, without interruption since the 2018 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Gregory Hartman.

Berlin, 18 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Gregory Hartman
Wirtschaftsprüfer
(German Public Auditor)

Dr Frederik Mielke
Wirtschaftsprüfer
(German Public Auditor)

Imprint

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RESPONSIBLE PUBLISHER

The Executive Board of
DEMIRE Deutsche Mittelstand Real Estate AG

CONCEPT AND LAYOUT

FIRST RABBIT GmbH

STATUS

March 2019

Scan the QR code with your smartphone
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