DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

DEMIRE Deutsche Mittelstand Real Estate AG

ANNUAL REPORT 2016

Financial year January 1 – December 31, 2016

DEMIRE at a glance

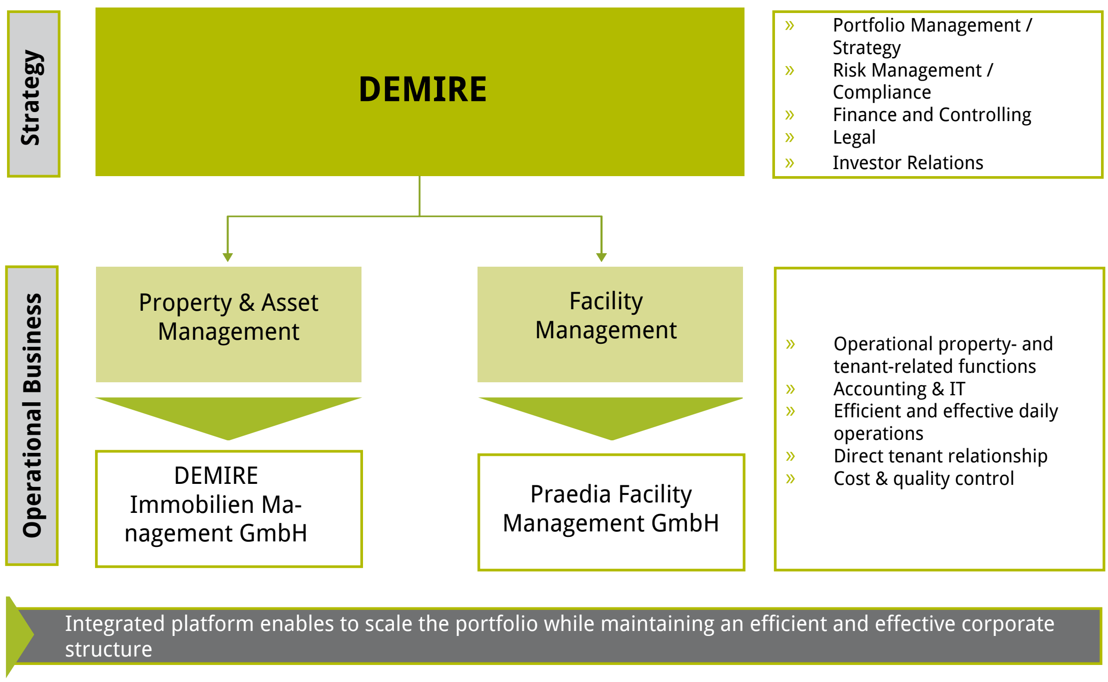
FIRST IN SECONDARY LOCATIONS

DEMIRE Deutsche Mittelstand Real Estate AG has commercial real estate holdings in mid-sized cities and upcoming areas bordering metropolitan areas across Germany. The Company has its special strength in these secondary locations – first in secondary locations – and focuses on properties which that are particularly attractive for medium-sized companies. DEMIRE has grown rapidly in recent years as a result of aquisitions of individual properties and company shares alike. At the end of the 2016 fiscal year, DEMIRE's portfolio contained rental space of 1.1 million sqm with a market value of more than EUR 1 billion.

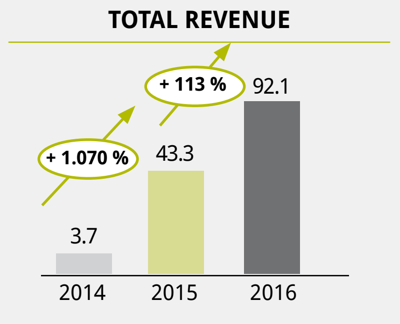
The portfolio's focus on office, retail and logistic properties results in a risk structure that DEMIRE believes is reasonable for the commercial real estate segment. The Company places importance on long-term contracts with solvent tenants and, therefore, anticipates stable and sustainable rental income.

DEMIRE intends to maintain its corporate organisation as lean as possible, although it believes that economies of scale and portfolio optimisation are best achieved by having its own in-house asset, property and facility management. This safeguards the Company's business expertise and, equally important, allows the Company to maintain direct contact with the customer.

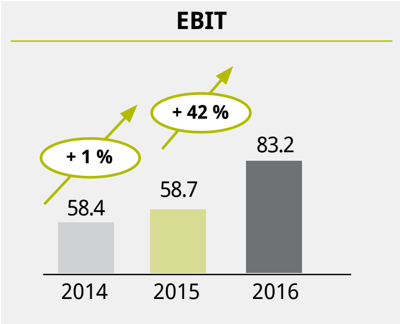
The shares of DEMIRE Deutsche Mittelstand Real Estate AG are listed on the regulated market (Prime Standard Segment) of the Frankfurter Stock Exchange.



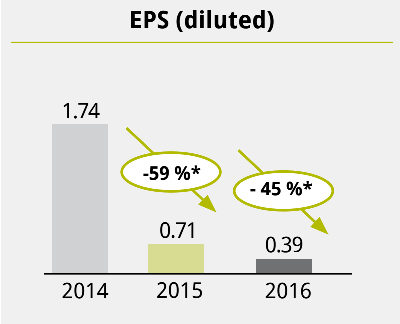
DEMIRE at a glance



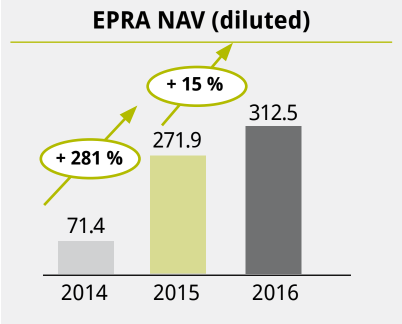
in EUR million



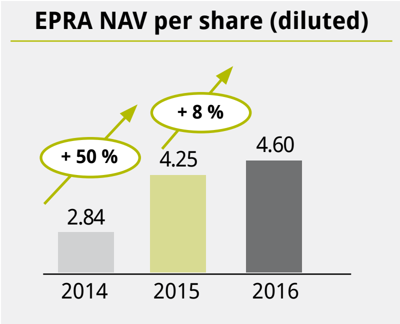
in EUR million



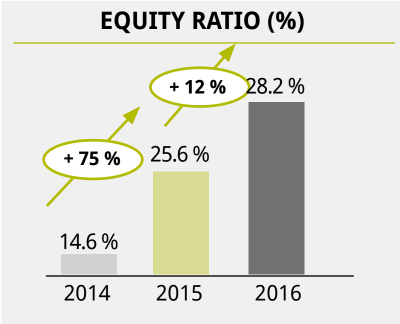
* considering district increase in average number of shares

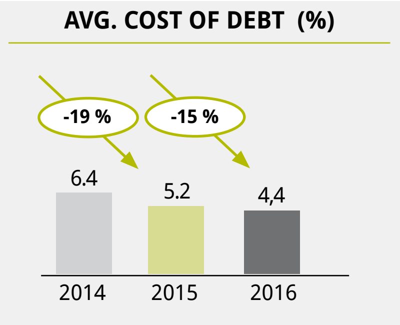


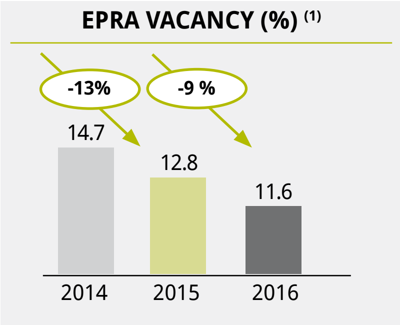
in EUR million

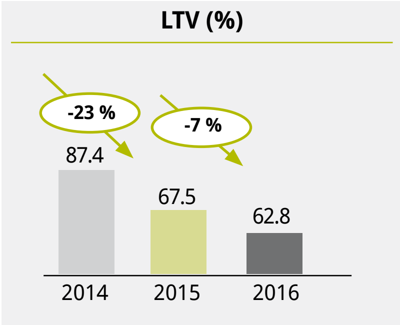


in EUR







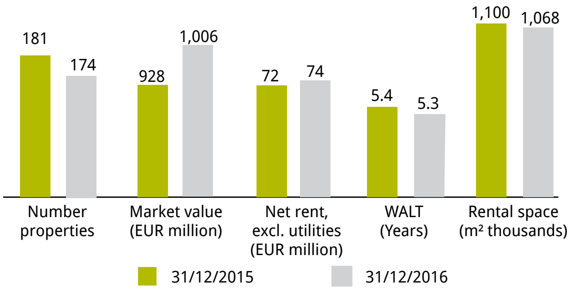


CONSOLIDATED INCOME STATEMENT	01/01/2016–31/12/2016	01/01/2015–31/12/2015
Rental revenue	92,117	43,344
Net rental income	55,570	23,680
EBIT	**83,159**	**58,740**
Financial result	-43,207	-25,728
EBT	**39,962**	**33,012**
Net profit/loss for the period	**27,649**	**28,873**
Net profit/loss for the period per share (undiluted / diluted, in EUR)	**0.48 / 0.39**	**1.09 / 0.71**
FFO before minority interests / FFO before minority interests considering real estat sales	**8,095 / 13,019**	**n.a.**
FFO after minority interests / FO after minority interests considering real estat sales	**2,679 / 7,502**	**n.a.**

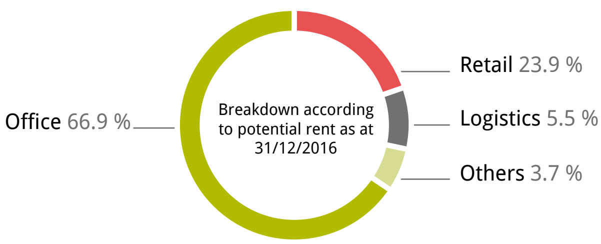
CONSOLIDATED BALANCE SHEET	31/12/2016	31/12/2015
Total assets	1,094,006	1,032,945
Investment properties	981,274	915,089
Non-current assets held for sale	24,291	13,005
Total portfolio	1,005,565	928,094
Financial liabilities	662,643	655,239
Cash and cash equivalents	31,289	28,467
Net financial liabilities	631,354	626,772
% of total portfolio (LTV)	62.8	67.5
Equity according to the consolidated balance sheet	308,637	264,902
Equity ratio in %	28.2	25.6
Equity attributable to equity holders of the parent company (NAV)	271,945	230,697
EPRA NAV (undiluted / diluted)	300,459 / 312,506	256,267 / 271,585
EPRA NAV per share (undiluted / diluted, in EUR)	5.54 / 4.60	5.20 / 4.25

Competitive strengths

PROPERTY PORTFOLIO



FOCUS ON THREE ASSET CLASSES



OPERATING STRATEGIES

1 Aktive Portfolio

- Increase rental cash flow and reduce vacancy
- Extend WALT
- Streamline portfolio by selling non-core assets

2 Operating Efficiency

- Generate economies of scale through in-house asset, property and facility management
- Execute targeted capex programs
- Optimize operating cost structures

3 Optimization of Financing Structure

- Restructure existing debt
- Reduce average cost of debt to < 4%
- Improve LTV towards 50 % (mid-term)

4 Further Accretive Acquisitions

- Direct investments (via asset- and/or share deal)
- Indirect investments (via the purchase of shares in closed-end real estate funds)

Operating strategies will drive growth in both FFO and NAV

INVESTMENT HIGHLIGHTS

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

1. Well diversified EUR 1bn commercial real estate portfolio in Germany
2. Clear focus on secondary locations which offer more attractive economics and lower volatility
3. Efficient, fully integrated and scalable asset management platform to create shareholder value
4. Experienced management team with proven track record
5. Execution of four major operating strategies in order to create shareholder value: Active portfolio management, optimization of operating efficiency and financing structure and further accretive acquisitions
6. Short-to-medium term value upside to be unlocked by optimizing financing structure and vacancy reduction
7. Strong pipeline for further growth

DEMIRE at a glance

„After successfully integrating the properties acquired in 2015 and early 2016 and consolidation in 2016, our aim continues to be the future expansion of our portfolio“.
Hon-Prof Andreas Steyer, CEO of the DEMIRE Group“

Hon.-Prof. Andreas Steyer,
CEO of the DEMIRE Group

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Disclaimer:

The report is published in German and as an English translation. In the event of any conflict or inconsistency between the English and the German versions, the German original shall prevail.

Foreword of the Executive Board

Ladies and Gentlemen,

The focus during the 2016 fiscal year was the integration and optimal management of the real estate acquired as part of the Company's major growth step in the previous year. The refinancing and repayments made during the year were a further successful step on the way to improving DEMIRE's financial results going forward. During the fiscal year, we redeemed a high-yield SME-bond in its entirety and reduced one of our key ratios, the LTV ratio (loan-to-value), representing the net financial debt ratio in relation to real estate assets, from its level of 67.5 % at the end of 2015 to 62.8 % as at December 31, 2016. By the year-end reporting date, we had also reduced the average interest rate for the DEMIRE Group's financial debt from 5.2 % to 4.4 % p.a. thereby meeting our 2016 target range of 4.0 % to 4.5 % p.a. The bond was repaid using our operating cash flow and the funds raised from our 10 % cash capital increase in August 2016. The remaining net proceeds from the capital increase further strengthened DEMIRE AG's financial position and will be used to finance future real estate acquisitions.

Another milestone in improving our financing structures was achieved in February 2017 with the early renewal of a promissory note, originally due in 2019, at much more favourable terms. The interest rate was reduced from 5 % p.a. to 4 % p.a. with retroactive effect as of January 1, 2017, with the option for a further reduction to 3.5 %, without paying a prepayment penalty. The decline in the interest rate resulted in a reduction in the DEMIRE Group's average interest rate on its financial debt to 4.1 % p.a., thereby increasing the FFO annually by EUR 1.45 million starting in 2017.

In the 2016 fiscal year, rental income increased significantly from EUR 33.3 million to EUR 76.4 million. This rise was essentially the result of the real estate acquisitions made in 2015 and early 2016. The net profit for the period, however, decreased by around 4 % from EUR 28.9 million to EUR 27.6 million, mainly due to lower fair value adjustments, higher growth-related administrative expenses and higher deferred tax expenses. The net profit for the period attributable to the shareholders of the parent company decreased from EUR 28.1 million to EUR 24.7 million.

In the 2016 financial year, the adjusted net profit for the period (FFO) before minority interests amounted to EUR 8.1 million and EUR 13.0 million when taking into account real estate sales. After minorities, the FFO amounted to EUR 2.7 million and EUR 7.5 million taking into account real estate sales. Thus, the FFO forecast before minorities of EUR 19.1 million and after minorities of EUR 13.9 million for the year 2016 was not achieved.

The main reason for the deviation from the forecast is that, contrary to the Executive Board's expectations, the planned reductions in administrative costs could not yet be achieved. Another reason was the inability to offset taxes from certain subsidiaries with DEMIRE's loss carryforwards as planned. Unexpectedly high costs for leasehold improvements were also incurred, which led, however, to a reduction in vacant space and an increase in rental income.

The basic net asset value according to EPRA (EPRA NAV) rose from EUR 256.3 million as at December 31, 2015 to EUR 300.5 million at the end of 2016. Due to the increase in the number of shares from the cash capital increase in August 2016, the EPRA NAV was EUR 5.54 per share as at December 31, 2016 compared to EUR 5.20 per share at previous year's end.

Based on the improvements made in portfolio management and the significantly stronger financial position achieved in the 2016 fiscal year, DEMIRE is well equipped to meet its medium- and long-term strategic goals and financial targets. In the years ahead, for example, the Group's efficient in-house property, asset and facility management will generate additional economies of scale and further optimise the portfolio. The measures initiated in 2016 to insource the activities of the Group's central divisions will also lead to future cost savings.

DEMIRE's shares have been listed in the Prime Standard since July 2016. This step has already substantially raised our visibility on the capital market, sparking higher interest from investors. Our goal is to continue to increase our presence on the capital market.

After successfully repositioning the Group and making important structural improvements, DEMIRE is now embarking on a new phase of corporate development. With this in mind, some changes have occurred in the Company's governing bodies and shareholder structure. Günther Walcher, who has held DEMIRE's shares for many years, resigned at the beginning of 2017 from DEMIRE's Supervisory Board following the restructuring, repositioning and successful expansion of the Company's business activities. Dr Peter Maser also resigned from the DEMIRE AG Supervisory Board. Since the turn of the year 2016/2017, Wecken & Cie. owns 26.53 % of the Company's share capital making it DEMIRE's largest investor. In February 2017, the Supervisory Board was completed again through the addition of Mr Frank Hölzle and Mr Thomas Wetzel. In early March 2017, the Executive Board welcomed Mr Ralf Kind, a finance expert, following the departure of Mr Frank Schaich in late October 2016.

The new composition of the Supervisory and Executive Boards provides DEMIRE with an excellent management base for entering its next phase of development. The Company will now pursue its growth strategy with full force. Profitable growth and strategic investments in properties in „secondary locations" in Germany are set to go hand in hand with further reductions in the debt ratio and average interest rate as well as a decline in the Group's cost ratio. The Executive Board continues to expect steady rental income in the 2017 fiscal year and will announce a new FFO forecast for the 2017 fiscal year after updating its corporate planning. We would like to take this opportunity to thank our business partners and shareholders for their trust and support. We would also like to thank DEMIRE's employees who are driving the Company forward with their high motivation. We look forward to the challenges and opportunities in the current year and welcome you to join us on our continued journey.

Frankfurt am Main, April 27, 2017

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board
(CEO)

Dipl.-Kfm. (FH) Markus Drews
Executive Board Member
(COO)

Dipl. Betriebsw. (FH) Ralf Kind
Executive Board Member
(CFO)

MANAGEMENT BOARD VITA

Andreas Steyer (CEO)

- In total 25 years of experience in national and international real estate markets
- Previously head of real estate and spokesman for the management board of VB Real Estate Services GmbH of Östereichischen Volksbanken AG
- Among other positions Mr Steyer worked as Partner at Arthur Andersen, Ernst & Young and CEO of Deka Immobilien GmbH
- Responsible for transactions totaling more than EUR 10bn

Markus Drews (COO)

- In total more than 20 years of professional real estate experience
- Previous functions include Head of Real Estate at Colonia Real Estate AG
- Responsible for transactions totaling EUR 3bn and assets under management of EUR 3bn

Ralf Kind (CFO)

- 19 years of experience in international real estate and capital markets
- Previously Co-Founder and CEO of Arbireo Capital AG and Managing Partner of Dr. Lübke & Kelber GmbH
- Barclays Capital, Head of Barclays Real Estate Investment Banking Team for DACH Region
- Previous functions include Principal Consultant at PwC Unternehmensberatung

Report of the Supervisory Board

Dear Shareholders,

In the 2016 fiscal year, the Supervisory Board performed the tasks and exercised the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its rules of business procedure.

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

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

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

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

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

During the reporting year, there were no conflicts of interest on the part of the members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information to the Annual General Meeting. One member of the Executive Board holds a Supervisory Board mandate at a financial advisory company with which a framework contract was concluded in 2015. There were no orders awarded to this company in the year 2016 and the framework contract was terminated at the beginning of April 2017.

Composition of the Supervisory Board

The term of office of the Supervisory Board members Prof Dr Hermann Anton Wagner, Dr Peter Maser and Mr Günther Walcher ended at the end of the Annual General Meeting on June 30, 2016, which passed resolutions on the discharge of the members of the Supervisory Board for the 2015 financial year. All three members were reappointed to the Supervisory Board until the Annual General Meeting that decides on the discharge of the members of the Supervisory Board for the fiscal year ending on December 31, 2020. Prof Dr Hermann Anton Wagner was once again appointed Chairman of the Supervisory Board.

Members of the Supervisory Board in Fiscal Year 2016

- Prof Dr Hermann Anton Wagner (since April 17, 2013, Chairman since October 23, 2013)
- Dr Peter Maser (since January 12, 2015, Deputy Chairman from March 6, 2015 to February 13, 2017)
- Günther Walcher (from October 23, 2013 to January 23, 2017)

Changes in the Supervisory Board

After the resignation of Mr Günther Walcher as a member of the Supervisory Board effective at the close of January 23, 2017 and Dr Peter Maser at the close of February 13, 2017, DEMIRE was successful in winning both Mr Frank Hölzle and Dr Thomas Wetzel as new Supervisory Board members. By decision of the District Court of Frankfurt am Main on February 14, 2017, both were appointed as members of the Supervisory Board. The appointment of the two new Supervisory Board members Frank Hölzle and Dr Thomas Wetzel will initially be limited until the next Annual General Meeting to be held on June 29, 2017. DEMIRE intends to propose to the shareholders the confirmation of Mr Hölzle and Dr Wetzel as members of the Supervisory Board until June 2021.

Supervisory Board committees

The Supervisory Board consisted of three members in the 2016 fiscal year. The Supervisory Board did not form any committees since this is impractical with only three members.

Work of the plenum during the reporting year

The Supervisory Board held six meetings during the 2016 fiscal year on March 1, 2016, April 29, 2016, June 30, 2016, August 24, 2016, November 15, 2016 and December 13, 2016. The Supervisory Board also discussed and resolved current issues in numerous telephone conferences.

On April 29, 2016, the Supervisory Board together with the Executive Board discussed DEMIRE Deutsche Mittelstand Real Estate AG's Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act for the 2016 fiscal year with the recommendations of the „Government Commission German Corporate Governance Code" in the version of May 5, 2015, published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette as well as any divergences from these recommendations. The Declaration of Conformity was subsequently published on the Company's website (www.demire.ag/en/company/corporate-governance).

At the meeting on April 29, 2016, the Supervisory Board dealt extensively with the financial statements and consolidated financial statements for the 2015 fiscal year, including the combined management report for the Company and the Group.

The auditor participated in this meeting and presented the key findings of the audit. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was chosen as the auditor by the Annual General Meeting on August 30, 2015, and was mandated by the Supervisory Board.

On May 13, 2016, the auditor confirmed that it had audited the annual financial statements for the 2015 financial year and the combined management report for the Company and the Group and furnished an unqualified audit opinion.

The Supervisory Board subjected the annual and consolidated financial statements and the consolidated management report for the Company and the Group to a separate review and adopted 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 May 13, 2016, thereby adopting the annual financial statements of the Company.

Work of the plenum after the end of the fiscal year

At its constituent meeting on February 17, 2017, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG elected Mr Frank Hölzle as Deputy Chairman of the Supervisory Board. At the same meeting, the Supervisory Board appointed Mr Ralf Kind as CFO of the Company.

In its meeting on March 28, 2017, and by telephone on April 4, 2017, the Supervisory Board dealt in detail with the course of business and projects for the current fiscal year. In the conference call on April 12, 2017, the Executive Board contract with Mr Hon-Prof Andreas Steyer was terminated prematurely by mutual agreement. In a further telephone call on April 13, 2017, the decision for the early publication of the funds from operations (FFO) for the 2016 fiscal year was made together with the Executive Board.

In a telephone call on April 25, 2017, the Supervisory Board also dealt extensively with the annual and consolidated financial statements for the 2016 fiscal year, including the combined management report for the Company and the Group. The auditor took part in this telephone call and presented the key findings of his audit to date. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed as the auditor by the Annual General Meeting on June 30, 2016 and was mandated by the Supervisory Board.

On April 26, 2017, the Supervisory Board and the Executive Board discussed DEMIRE Deutsche Mittelstand Real Estate AG's Declaration of Conformity based on the recommendations of the "Government Commission for the German Corporate Governance Code" in the version of February 7, 2017 for the 2017 fiscal year pursuant to Section 161 of the German Stock Corporation Act published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette; the Corporate Governance Report; and the Statement on Corporate Governance pursuant to Section 289a of the German Commercial Code. The Declaration of Conformity and the Statement on Corporate Governance were subsequently published on the Company's website (www.demire.ag/en/company/corporate-governance).

The Supervisory Board approved the annual and consolidated financial statements and the combined management report on April 27, 2017, thereby adopting the Company's financial statements.

Matters of the Executive Board

Effective February 1, 2016, Mr Frank Schaich was appointed as a new member of the Executive Board for a period of three years. On October 31, 2016, he resigned from the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG at his own request and in good faith with the Supervisory Board and remained a member of Executive Board of Fair Value REIT-AG until March 31, 2017.

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

On April 12, 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that Hon-Prof Andreas Steyer will leave the Company's Executive Board effective June 30, 2017. His Executive Board contract, which runs until March 31, 2019, was terminated prematurely by mutual agreement with the Supervisory Board. Markus Drews will be the new Speaker of the Executive Board (CEO) starting July 1, 2017.

Integration and consolidation

After the successful growth of the previous year, DEMIRE Deutsche Mittelstand Real Estate AG focused in the reporting year on the integration of the real estate acquired in 2015 and the beginning of 2016 and optimising operations, which included the sale of non-core properties. A further focus was the improvement of financial results in the coming years through refinancing and repayments, such as the repayment of the high-yield SME bond from operating cash flow and EUR 10 million of the proceeds from the 10% cash capital increase executed in August with the approval of the Supervisory Board. The remaining net proceeds from the capital increase were used to strengthen the Company's financial position. These measures have been reflected positively via a substantial improvement in the Company's key financial figures, for example, through a reduction in the average interest rate on the financial debt of the DEMIRE Group in 2016 from 5.2 % to 4.4 % p.a. A further reduction to 4.1 % in the first quarter of 2017 could be achieved by the early renewal of a promissory note originally due in 2019 at much more favourable terms. At the same time, in 2016, the DEMIRE Group also came closer to its long-term strategic goal of involving shareholders in the Company's success in the future through an attractive dividend policy.

A major step has also been taken in terms of the Company's image. Since July 2016, DEMIRE's shares have been listed in the Prime Standard. This listing has already significantly increased DEMIRE's visibility on the capital market and the interest of participants.

After successfully repositioning the Company, completing important structural improvements and with a new line-up of supervisory and management boards, DEMIRE is now facing a new chapter in the Company development.

A word of thanks from the Supervisory Board

The Supervisory Board would like to thank the Group's employees and the Executive Board members Hon.-Prof. Andreas Steyer and Mr Markus Drews, as well as Mr Frank Schaich during his term on the Executive Board, for their extraordinary commitment and constructive collaboration during the 2016 fiscal year. At the same time, we would like to wish our new Executive Board member, Mr Ralf Kind, all the best in his new role at DEMIRE.

In mid-2017, Mr Hon-Prof Andreas Steyer will move on to pursue new professional challenges. We sincerely regret his departure and thank him, also on behalf of the entire DEMIRE team, for his successful, value-enhancing work for DEMIRE. We wish Hon-Prof Andreas Steyer all the best in his future endeavours outside the Company.

This report was discussed in detail and adopted at the Supervisory Board telephone call on April 26, 2017.

Frankfurt, April 2017

Prof. Dr. Hermann Anton Wagner
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT PURSUANT TO ARTICLE 3.10 DCGK AND 2016 STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289 A 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 Group's management principles and the development of the Group transparent should serve to build, maintain and strengthen the trust of the shareholders, business partners, customers, capital market participants and employees. The Executive Board and the Supervisory Board work closely together for the Company's benefit and to ensure that the Company is managed and controlled responsibly through good corporate governance.

Organisation and control

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

During the 2016 fiscal year, the Group's organisational structure continued to evolve in step with the strategic realignment initiated in 2013 to transition the Group into an investor and holder of German commercial real estate. The management of the core portfolio is the responsibility of the Group's in-house Property, Asset and Facility Management division. Administrative duties such as risk management, finance and controlling, financing, legal, IT and compliance are carried out by the Central Functions/Others segment. This segment also oversees the disposal of the remaining legacy portfolio holdings, which are mainly in Eastern Europe and the Black Sea region.

The Executive Board manages the individual real estate investments in a cash flow-oriented manner and manages the Group on a comprehensive budget which considers these individual budgets. The development of the properties' individual budgets compared to budget targets is subject to the Executive Board's routine strategy and reporting discussions with the relevant operational managers.

Composition and work methods of the Executive and Supervisory Boards

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

Management and control structures

The Executive Board

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

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

Name	Company	Role
Hon.-Prof. Andreas Steyer	Fair Value REIT-AG, Gräfelfing	General Member of the Supervisory Board since March 1, 2016
	Deutsche Zinshaus GmbH, Frankfurt am Main	General Member of the Advisory Board
	Königstein Capital GmbH, München	General Member of the Advisory Board until December 31, 2016
Markus Drews	Fair Value REIT-AG, Gräfelfing	Deputy Chairman of the Supervisory Board since March 1, 2016
	BF Direkt AG, Stuttgart	General Member of the Supervisory Board since April 21, 2016

At the time of his appointment as a member of the Company's Executive Board, Mr. Ralf Kind held no positions in statutory supervisory boards or comparable supervisory bodies of domestic or foreign business enterprises.

The remuneration of the members of the Executive Board is explained in section **IV. REMUNERATION REPORT** 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, sets their total compensation and monitors 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 who are elected by the DEMIRE Annual General Meeting. The chairman of the Supervisory Board coordinates the work of the Supervisory Board. The Supervisory Board has not formed any committees.

Name	Unternehmen	Funktion
Prof. Dr. Hermann Anton Wagner	Aareal Bank AG, Wiesbaden	General Member of the Supervisory Board
	btu consultingpartner Holding AG, Oberursel (Taunus)	Deputy Chairman of the Supervisory Board
	PEH Wertpapier AG, Frankfurt am Main	Deputy Chairman of the Supervisory Board
	SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt am Main	Deputy Chairman of the Supervisory Board
Frank Hölzle	Westgrund AG, Berlin	Chairman of the Supervisory Board
(since February 14, 2017)	clickworker GmbH, Essen	Chairman of the Advisory Board
	Mindlab Solutions GmbH, Stuttgart	Chairman of the Advisory Board
	mobileObjects AG, Büren	Chairman of Supervisory Board
	rankingCoach GmbH, Cologne	Chairman of the Advisory Board
	SIC Invent AG, Basel/Switzerland	Member of the Board of Directors
	Rebuy GmbH, Berlin	Member of the Advisory Board
Dr. Thomas Wetzel	Brandenberger + Ruosch AG, Dietlikon/ Switzerland	President of the Board of Directors
(since February 14, 2017)	EBV Immobilien AG, Urdorf/ Switzerland	President of the Board of Directors
	Energie 360° AG, Zurich/ Switzerland	Vice President of the Board of Directors
	Immobilien ETHZF AG, Zurich/ Switzerland	Member of the Board of Directors
	VERIT Investment Management AG, Zurich/ Switzerland	President of the Board of Directors
	Swiss Foundation for Anesthesia Research, Zurich/ Switzerland	Member of the Foundation Council
Dr. Peter Maser	BF.direkt AG, Stuttgart	Chairman of the Supervisory Board
(until February 13, 2017)	Volksbank Stuttgart eG, Stuttgart	Deputy Chairman of the Supervisory Board
	Verlagsgruppe Ebner Ulm GmbH & KG, Ulm	General Member of the Board of Directors
	European American Investment Bank AG, Vienna/ Austria	Deputy Chairman of the Supervisory Board
Günther Walcher	SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt am Main	General Member of the Supervisory Board
(until January 23, 2017)		

Further details about the work of the Supervisory Board are available in the Supervisory Board's report, which is part of the annual report. The remuneration of the members of the Supervisory Board is explained in section **IV. REMUNERATION REPORT** of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

Shares of DEMIRE Deutsche Mittelstand Real Estate AG owned by members of governing bodies and major shareholders

DEMIRE Deutsche Mittelstand Real Estate GmbH had 54,246,944 shares outstanding as at December 31, 2016.

The following are the shares and stock options owned by members of governing bodies at the end of the 2016 fiscal year: Hon.-Prof. Andreas Steyer held 43,000 of the Company's shares, equivalent to an interest of 0.08 % of the Company's outstanding shares. He also held 28,571 convertible bonds. The two Executive Board members Andreas Steyer and Markus Drews each held 400,000 stock options granted under the stock option programme resolved at the Annual General Meeting on March 6, 2015.

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

Shares owned by major shareholders at the end of the 2016 fiscal year include: Wecken & Cie. with 14,393,157 shares in the Company, equivalent to a 26.53 % interest in the Company's outstanding shares. Obotritia Capital KGAA with 6,452,630 shares in the Company, equivalent to an 11.89 % interest in the Company's outstanding shares.

The remaining 61.58 % of the shares were in the hands of both institutional and private investors. None of these shareholders held an interest over/equal to 5 %. This information is based on voting rights notifications by shareholders pursuant to the German Securities Trading Act (WpHG) and information provided by members of the Company's governing bodies.

Shareholders and the Annual General Meeting

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

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

Accounting and auditing of financial statements

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

The following agreements have been made with the auditor:

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

Transparency
Timely, consistent and comprehensive information is a top priority at DEMIRE. We, therefore, provide comprehensive information on the Company's development in the context of our investor relations activities. Reports on the Group's situation, development and especially its financial results are included in the annual report, three-month and nine-month interim statements and half-year financial report. The Group also informs the public through press releases and ad-hoc announcements pursuant to Section 15 of the German Securities Trading Act (WpHG) and 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 the Internet at www.demire.ag/en/investor-relations. The Company's financial calendar is also available on the website and lists the scheduled financial reporting dates and key publication dates as well as the date for the Annual General Meeting. Our Articles of Association, all declarations of conformity and documentation for corporate governance are available on our website at www.demire.ag/en/company/corporate-governance.

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.

STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289A HGB
DEMIRE Deutsche Mittelstand Real Estate AG submits a Statement on Corporate Governance pursuant to Item 3.10 of the German Corporate Governance Code and Section 289a HGB. The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG that is contained in this statement and is also available to shareholders on the Company's website www.demire.ag/en/home under the section „Company“.

Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG

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 February 7, 2017, announced by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, with the following exceptions:

- Article 3.8: A deductible for D&O insurance was agreed for the Executive Board but is not planned for the Supervisory Board. It is the Company's opinion that an agreement for such a deductible for Supervisory Board members would significantly reduce the appeal of a position on the Company's Supervisory Board and thereby have a negative impact on the chances of attracting adequate candidates for a position on the Company's Supervisory Board.

- Article 4.1.3: The Executive Board has set up an appropriate compliance management system, which is being further developed on an ongoing basis. Information from employees and third parties can be given to the Compliance Officer in confidence. The Compliance Officer's contact details are published on the Company's website.

- Article 4.2.3: The existing variable remuneration components of the members of the Executive Board were agreed upon before the publication and entry into force of the Code in the version of February 7, 2017. The Company intends to agree to variable remuneration components of the Executive Board members in the future in accordance with the current Code.

- Article 5.3.2: The Supervisory Board does not form committees since it consists of only three members. For this reason, the Supervisory Board assumes all of the duties of the Audit Committee.

- Article 5.4.1:
    - The Supervisory Board will define concrete targets for its composition, develop an expertise profile for the overall body and, according to its own discretion, define the appropriate number of independent shareholder representatives on the Board and provide the names of these members.

    - At the Annual General Meeting on June 29, 2017, the proposal to elect the Supervisory Board members, who for now have been appointed judicially by the District Court of Frankfurt/Main on February 14, 2017, will include curriculum vitae for the proposed members providing information on their relevant knowledge, skills and experience. This information will be supplemented by an overview of these proposed members' main activities in addition to the Supervisory Board mandate at DEMIRE Deutsche Mittelstand Real Estate and will be updated and published annually for all members of the Supervisory Board on the Company's website.

- Neither an age limit nor a limit for the regular length of membership have been established for members of the Supervisory Board. In the Company's opinion age is not an appropriate criterion to be used for the election of Supervisory Board members.

- Article 7.1.2: 1. The Company will continue to comply with the publication deadlines required by law until further notice.

This declaration has been made available to shareholders on the Company's homepage at www.demire.ag/en/home. The Declaration of Conformity dated February 1, 2017 and based on the version of the Code of May 5, 2015 for Fair Value REIT-AG, which is included in the Company's consolidated financial statements, is published on the Fair Value REIT-AG website at www.fvreit.de/en/investor-relations/corporate-governance.

Information on corporate practices

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

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

Responsible and sustainable management is part of DEMIRE's corporate culture and everyday business. It is important to us to meet our ethical and legal responsibilities as a company. Only in this way, can we be perceived by tenants, business partners, authorities and the public as a reliable partner with integrity in the real estate sector. This is the reason we have been setting up a compliance programme in the Company and have instituted a DEMIRE Code of Conduct at the beginning of 2017.

Compliance Programme

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

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

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

Our employees' knowledge of the Code of Conduct's principles is deepened through regular training courses. The supervisors and the compliance officer are always available to answer questions about the correct behaviour.

The implementation of the compliance programme and adherence to the code of conduct are reviewed regularly.

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

The target percentage of women until June 30, 2017 was set at zero on September 2015 for the Supervisory Board, Executive Board and the first management level below the Executive Board, which corresponded to the status at that time and did not represent a deterioration. Since January 1, 2016, the position of the Compliance Officer with a direct reporting line to the Executive Board has been held by a woman, which corresponds to a share of female representation at the first management level of 14.3% as at 31 December 2016. Due to the Company's flat hierarchies, it was not necessary to define a target for the second management level below the Executive Board.

Disclosure of conflicts of interest

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

One member of the Executive Board holds a Supervisory Board mandate at a financial advisory company with which a framework contract was concluded in 2015. There were no orders awarded to this company in the year 2016, and the framework contract was terminated at the beginning of April 2017.

D&O insurance

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

Frankfurt, April 26, 2017
DEMIRE Deutsche Mittelstand Real Estate AG

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board (CEO)

Dipl.-Kfm. (FH) Markus Drews
Executive Board Member (COO)

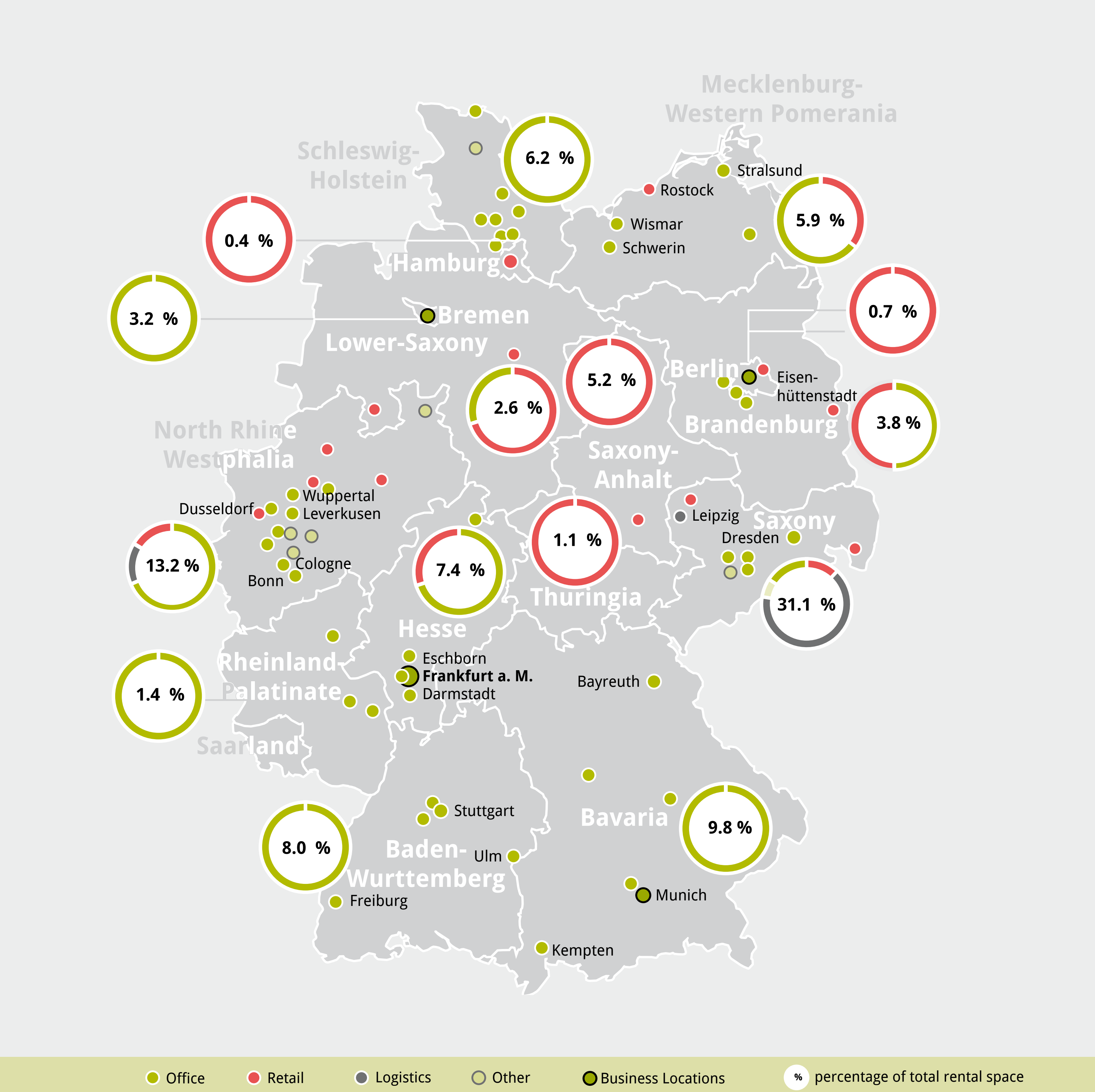
Dipl. Betriebsw. (FH) Ralf Kind
Executive Board Member (CFO)

Prof. Dr. Hermann Anton Wagner
Chairman of the Supervisory Board

First in Secondary Locations

BROADLY DIVERSIFIED PORTFOLIO WITH FOCUS ON SAXONY AND NORTH RHINE-WESTPHALIA

REAL ESTATE HOLDINGS AND COMPANY LOCATIONS (SELECTED EXAMPLES)



OVERVIEW OF CORE REAL ESTATE PORTFOLIO

Status as at: Year-end 2016	Properties Number	Market value in EUR million	Total rental space in m²	thereof office in m²	thereof retail in m²	thereof logistics in m²	thereof others in m²	Net rent, excl. utilities in EURk	Vacancy rate in %
Baden-Wuerttemberg	5	117.4	85,668	85,066	0	0	601	8,097	10.5
Bavaria	23	94.4	104,694	93,885	0	0	10,808	7,414	7.9
Berlin	1	5.2	7,136	0	7,136	0	0	466	12.1
Brandenburg	11	29.9	40,182	32,028	1,275	0	6,880	3,206	2.8
Bremen	10	38.9	34,774	34,774	0	0	0	2,759	15.2
Hamburg	1	7.8	3,973	0	3,973	0	0	529	0.0
Hesse	13	126.0	79,047	48,720	21,449	0	8,877	8,175	15.5
Mecklenburg-Western Pomerania	11	109.4	62,543	38,629	20,886	0	3,028	7,768	6.4
Lower Saxony	15	16.1	27,354	5,895	14,818	0	6,642	1,533	0.7
North Rhine-Westphalia	25	190.4	141,329	94,325	15,147	0	31,857	13,849	5.8
Rhineland Palatinate	5	10.4	15,279	12,345	0	0	2,934	799	14.6
Saxony	30	137.0	332,815	55,213	22,426	217,968	37,208	9,962	29.7
Saxony-Anhalt	5	58.3	55,878	0	54,584	0	1,293	4,201	19.6
Schleswig-Holstein	14	61.9	66,086	60,277	0	0	5,809	5,073	1.2
Thuringa	5	2.5	12,136	0	5,504	0	6,634	308	33.9
Germany	**174**	**1,005.6**	**1,068,896**	**561,158**	**167,199**	**217,968**	**122,571**	**74,141**	**11.6**
TOP 20 properties	**20**	**651.1**	**637,204**	**314,224**	**105,012**	**217,968**	**0**	**45,294**	**13.3**

PROPERTY LOCATIONS (AS OF 31/12/2016)

Asset Class	GAV (EURm)	% of total	TLA (,000 sqm)	GAV / sqm (EUR)	GRI p. a. [(1)] (mEUR)	GRI (EUR/ sqm)	GRI yield in %	EPRA[(2)] Vac. (%)	WALT[(3)]
Office	673.2	66.9	561.1	1.2	49.3	7.95	7.3	7.9	5.3
Retail	240.9	23.9	167.2	1.4	17.0	10.10	7.0	16.3	6.1
Logistic	53.8	5.5	218.0	0.3	3.7	2.14	6.8	33.8	2.0
Other	37.7	3.7	122.6	0.3	4.2	4.16	11.2	31.3	4.2
Total	1,005.6	100	1,068.9	0.9	74.1	6.98	7.4	11.6	5.3

[(1)] Annualized contractual rent excl. service charges [(2)] Based on potential rent p. a. [(3)] Weighted average lease term based on GRI

TOP 10 PROPERTIES (AS OF 31/12/2016)(1)

#	Street & number	City	Asset Class	GAV (EUR m)	% of total 2	TLA ('000 sqm)	GAV / sqm (EUR)	GRI p.a. (EURm)3	GRI (EUR/ sqm) 3	EPRA Vac4 in %	WALT
1	Bonner Talweg 100	Bonn	Office	77.7	7.7	38.4	2.0	5.4	11.70	0.0	8.2
2	Kröpeliner Str. 26-28	Rostock	Retail	64.9	6.4	19.3	3.4	4.4	19.30	2.1	4.9
3	Zeitblomstr.	Ulm	Office	68.9	6.2	47.5	1.3	4.3	7.69	1.9	7.6
4	Spohrstr. 2,4	Kassel	Retail	58.0	5.8	21.4	2.9	3.5	14.65	7.7	8.6
5	Am alten Flughafen 1	Leipzig	Logistic	53.8	5.5	218.0	0.3	3.7	2.14	33.8	2.0
6	Berliner Allee 1	Freiburg	Office	37.1	3.7	22.7	1.6	2.6	9.54	0.0	4.2
7	Bajuwarenstraße 4	Regensburg	Office	30.9	3.1	79.2	1.0	2.5	6.96	0.0	4.2
8	Wiesenstr. 70	Düsseldorf	Office	29.9	3.0	24.3	1.2	1.9	10.14	27.8	5.4
9	Frankfurter Str. 29 - 35	Eschborn	Office	29.4	2.9	18.8	1.6	2.0	8.86	0.0	8.1
10	Gutenbergplatz 1	Leipzig	Office	25.2	2.5	23.2	1.1	1.5	6.35	15.3	4.4
Subtotal				**416.8**	**41.4**	**512.8**	**0.9**	**31.8**			
Others				588.8	58.6	556.1	1.0	42.3			
Total				**1,005.6**	**100.0**	**1,068.9**	**0.9**	**74.1**	**6.98**	**11.6**	**5.3**

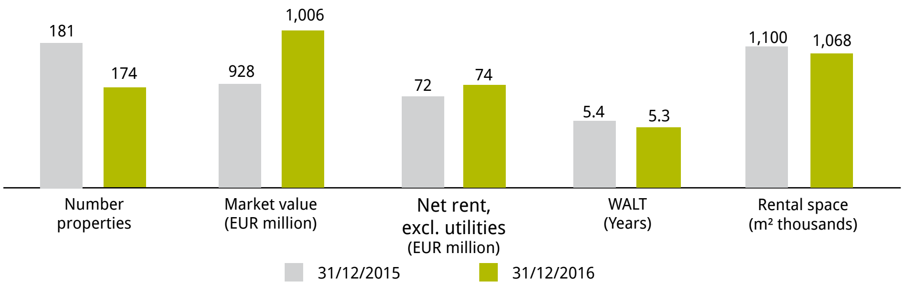
TOP 10 TENANTS (AS OF 31/12/2016)

#	Tenant	Asset Class	GRI p.a. (EUR m) (3)	% of total (2)
1	GMG (Telekom)	Office	22.3	30.1
2	Deutsche Post	Office	2.0	2.7
3	BIMA	Office	1.9	2.6
4	Sparkasse	Office	1.8	2.4
5	HPI Germany	Office	1.4	1.9
6	RIMC	Office	1.3	1.8
7	BKK	Office	1.2	1.6
8	BfA Schwerin	Office	1.2	1.6
9	Momox	Logistic	1.2	1.6
10	Comdirect Bank AG	Office	1.1	1.5
Subtotal			**35.4**	**47.8**
Others			38.7	52.2
Total			**74.1**	**100.0**

(1) Based on GAV (2) Differences due to rounding (3) Annualisierte Vertragsmiete Annualized contractual rent excl. service charges

BROAD BASE OF HIGH CREDIT QUALITY TENANTS WITH LONG-LEASE CINTRACTS IN PLACE

REAL ESTATE PORTFOLIO



TOP 20 PROPERTIES - SHORT PORTRAIT

OFFICE BUILDING

Federal state:	North Rhine-Westfalia
Location:	Bonn
Use:	Office
Market value:	approx. EUR 77.7 million
Rental space:	aprox. 38,400 m²
Net rent:	approx. EURk 5,401
Vacancy rate:	0.0 %

ROSTOCKER HOF (RETAIL PROPERTY)

Federal state:	Mecklenburg-Western Pomerania
Location:	Rostock
Use:	Retail
Market value:	approx. EUR 64.9 million
Rental space:	approx. 19,300 m²
Net rent:	approx. EURk 4,381
Vacancy rate:	approx. 2.1 %

OFFICE BUILDING

Federal state:	Baden-Wuerttemberg
Location:	Ulm
Use:	Office
Market value:	approx. EUR 64.0 million
Rental space:	approx. 47,500 m²
Net rent:	approx. EURk 4,255
Vacancy rate:	approx. 1.9 %

KURFÜRSTENGALERIE (RETAIL PROPERTY)

Federal state:	Hesse
Location:	Kassel
Use:	Retail, Office
Market value:	approx. EUR 58.0 million
Rental space:	approx. 21,500 m²
Net rent:	approx. EURk 3,521
Vacancy rate:	approx. 7.7 %

LOGISTICS PARK LEIPZIG

Federal state:	Saxony
Location:	Leipzig
Use:	Logistics, Office
Market value:	approx. EUR 53.8 million
Rental space:	approx. 218,000 m²
Net rent:	approx. EURk 3,741
Vacancy rate:	approx. 33.9 %

OFFICE BUILDING

Federal state:	Baden-Wuerttemberg
Location:	Freiburg
Use:	Office
Market value:	approx. EUR 37.1 million
Rental space:	approx. 22,700 m²
Net rent:	approx. EURk 2,621
Vacancy rate:	0.0 %

OFFICE BUILDING

Federal state:	Bavaria
Location:	Regensburg
Use:	Office
Market value:	approx. EUR 30.9 million
Rental space:	approx. 29,200 m²
Net rent:	approx. EURk 2,467
Vacancy rate:	0.0 %

OFFICE BUILDING

Federal state:	North Rhine-Westfalia
Location:	Düsseldorf
Use:	Office
Market value:	approx. EUR 29.9 million
Rental space:	approx. 24,300 m²
Net rent:	approx. EURk 1,917
Vacancy rate:	approx. 27.8 %

OFFICE BUILDING

Federal state:	Hesse
Location:	Eschborn
Use:	Office
Market value:	approx. EUR 29.4 million
Rental space:	approx. 18,800 m²
Net rent:	approx. EURk 2,000
Vacancy rate:	0.0 %

GUTENBERGGALERIE (RETAIL PROPERTY)

Federal state:	Saxony
Location:	Leipzig
Use:	Retail, Office
Market value:	approx. EUR 25.2 million
Rental space:	approx. 23,200 m²
Net rent:	approx. EURk 1,549
Vacancy rate:	approx. 15.3 %

LERCHENBERG CENTER (RETAIL PROPERTY)

Federal state:	Saxony-Anhalt
Location:	Wittenberg
Use:	Retail
Market value:	approx. EUR 21.6 million
Rental space:	approx. 14,700 m²
Net rent:	approx. EURk 1,664
Vacancy rate:	approx. 5.8 %

CITY CENTER (RETAIL PROPERTY)

Federal state:	Brandenburg
Location:	Eisenhüttenstadt
Use:	Retail
Market value:	approx. EUR 25.1 million
Rental space:	approx. 30,500 m²
Net rent:	approx. EURk 1,536
Vacancy rate:	approx. 60,7 %

OFFICE BUILDING

Federal state:	Hesse
Location:	Darmstadt
Use:	Office
Market value:	approx. EUR 20.8 million
Rental space:	approx. 14,400 m²
Net rent:	approx. EURk 1,330
Vacancy rate:	0.0 %

OFFICE BUILDING

Federal state:	Schleswig-Holstein
Location:	Flensburg
Use:	Office
Market value:	approx. EUR 16.4 million
Rental space:	approx. 23,800 m²
Net rent:	approx. EURk 1,642
Vacancy rate:	0.0 %

OFFICE BUILDING

Federal state:	Bavaria
Location:	Unterschleißheim
Use:	Office
Market value:	approx. EUR 17.1 million
Rental space:	approx. 15,700 m²
Net rent:	approx. EURk 960
Vacancy rate:	approx. 34.8 %

OFFICE BUILDING

Federal state:	Schleswig-Holstein
Location:	Neumünster
Use:	Office
Market value:	approx. EUR 15.2 million
Rental space:	approx. 11,800 m²
Net rent:	approx. EURk 1,046
Vacancy rate:	0.0 %

OFFICE BUILDING

Federal state:	Brandenburg
Location:	Stahnsdorf (Berlin)
Use:	Office
Market value:	approx. EUR 14.9 million
Rental space:	approx. 17,100 m²
Net rent:	approx. EURk 1,845
Vacancy rate:	0.0 %

OFFICE BUILDING

Federal state:	Bavaria
Location:	Kempten
Use:	Office
Market value:	approx. EUR 15.0 million
Rental space:	approx. 16,800 m²
Net rent:	approx. EURk 1,010
Vacancy rate:	approx. 1.8 %

HUMBOLD CENTER (RETAIL PROPERTY)

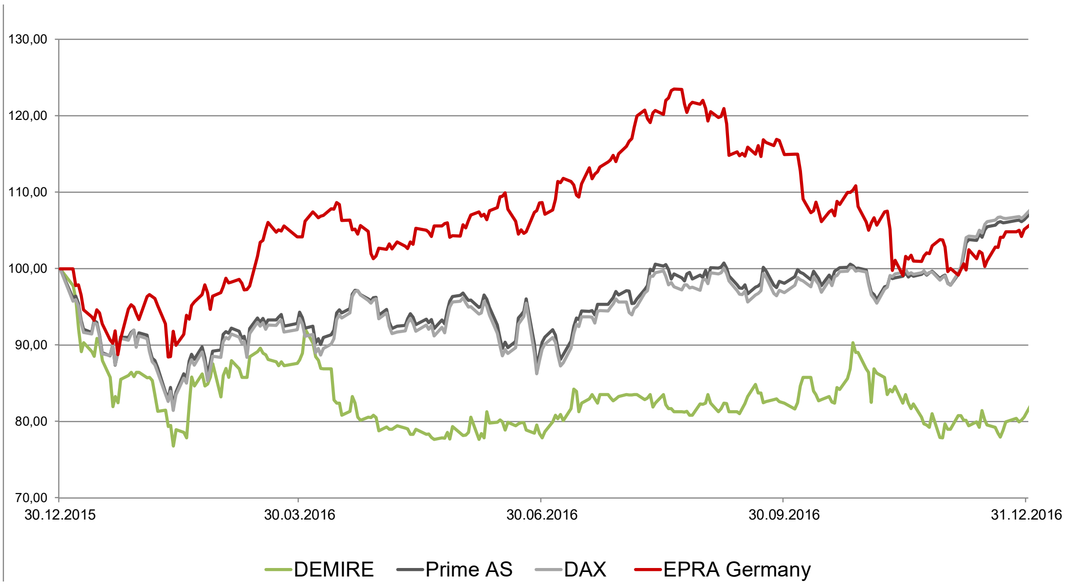
Federal state:	Saxonia
Location:	Zittau
Use:	Retail
Market value:	approx. EUR 18.6 million
Rental space:	approx. 19,000 m²
Net rent:	approx. EURk 1,264
Vacancy rate:	0.0 %

OFFICE BUILDING

Federal state:	Schleswig-Holstein
Location:	Quickborn
Use:	Office
Market value:	approx. EUR 15.6 million
Rental space:	approx. 10,600 m²
Net rent:	approx. EURk 1,143
Vacancy rate:	0.0 %

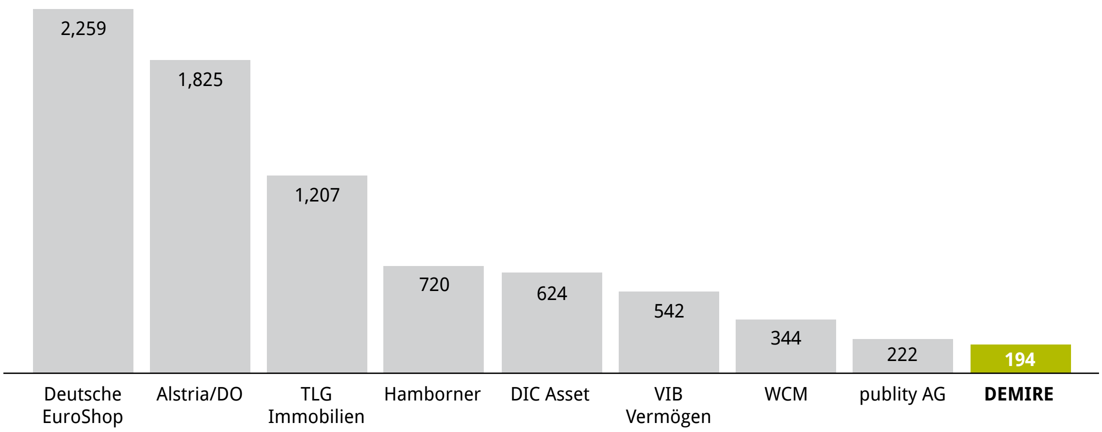
DEMIRE ON THE CAPITAL MARKET

PERFORMANCE OF DEMIRE SHARES VS. INDICES 2016



Source: German Stock Exchange

MARKET CAPITALISATION OF PEER GROUP (IN EUR MILLION, YEAR-END 2016)



Source: German Sock Exchange, own analysis

DEMIRE on the capital market

DEMIRE's cash capital increase announced on August 11, 2016, could be placed entirely by way of a private placement, mostly with institutional investors. With the entry of the capital increase in the commercial register on August 31, 2016, DEMIRE's share capital increased by a total of EUR 4,930,722.00 or 4,930,722 shares.

The increase in share capital also resulted from the exercise of conversion rights into 23,937 shares from the 2013/2018 convertible bond in 2016. As at the December 31, 2015 reporting date, a total of 10,637,763 convertible bonds from this bond issue were still outstanding. In addition, the 3,000,000 shares with a value of EUR 15 million from the 2015/2018 mandatory convertible bond can also be converted prior to their maturity.

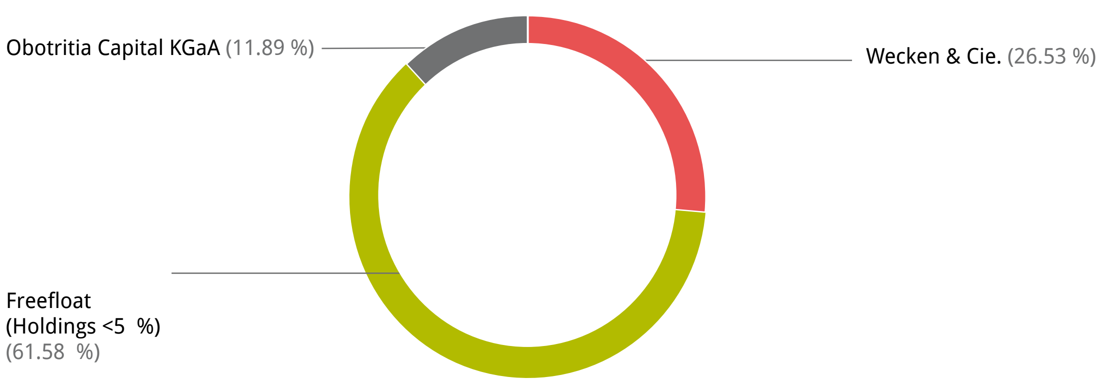
Shareholder structure: Free float of over 60 percent

As in the previous reporting period, DEMIRE's shareholder structure changed significantly in the 2016 fiscal year. Wecken & Cie. increased its interest to over 25 % by purchasing blocks of shares from former individual shareholders.
As at December 31, 2016, DEMIRE's largest single shareholders with an interest of over 10 % include:

- Wecken & Cie. with 26.53 %
- Obotritia Capital KGaA, including investment entities, with 11.89 %

At the end of 2016, a total of 61.58 % of DEMIRE's shares were in free float (< 5 %).

DEMIRE SHARHOLDER STRUCTURE AS OF JANUARY 03, 2017



Source: German Securities Trading Act messages, own anlaysis

Net asset value (NAV)

The „best practice" recommendations of the European Public Real Estate Association (EPRA) represent generally accepted recommendations for supplementing the IFRS reporting of real estate companies by providing a transparent calculation of the net asset value. The development of the EPRA NAV (basic) is shown in the following table. The EPRA NAV (basic) based on 54.25 million shares as at the balance sheet date amounted to EUR 5.54 per share. The EPRA NAV (diluted) based on 67.89 million shares as at the balance sheet date amounted to EUR 4.60 per share.

NET ASSET VALUE (NAV) IN EURK	31/12/2016	31/12/2015
NAV for the period	**271,945**	**230,697**
Market value from derivate financial instruments	-1,778	0
Deferred Taxes	35,030	25,570
Goodwill from deferred taxes	-4,738	0
Undiluted EPRA NAV	**300,459**	**256,267**
Shares in millions	**54.25**	**49.29**
Undiluted EPRA NAV per share EUR	**5.54**	**5.20**
Diluted EPRA NAV	**312,506**	**271,585**
Shares in millions	**67.89**	**63.95**
Diluted EPRA NAV per share EUR	**4.60**	**4.25**

Authorised and conditional capital

To be able to continue growing in the future and take advantage of the available acquisition opportunities in a flexible manner, it is in the interest of all shareholders that a sufficient amount of authorised and conditional capital is provided for in the Company's Articles of Association. For this reason, DEMIRE's Annual General Meeting in June 2016 resolved the proposed creation of new capital. At the end of 2016, DEMIRE's authorised capital amounted to a total of EUR 24.6 million and conditional capital was available in the amount of EUR 19.7 million.

SHARE	31/12/2016	31/12/2015
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol / Ticker	DMRE	DMRE
Stock Exchange	Frankfurt Stock Exchange (FSE); XETRA	Frankfurt Stock Exchange (FSE); XETRA
Market segment	Prime Standard	General Standard
Share capital	EUR 54,246,944.00	EUR 49,292,285.00
Number of shares	54,246,944	49,292,285
Ø daily trading volume 01/01/2016–31/12/2016	25,319	28,278
Market capitalisation	EUR 193.66 million	EUR 218.32 million
Freefloat	61.58 %	49.90 %

Conversions

In the 2016 fiscal year, a total of 23,937 shares were issued based on conversion rights. This is the equivalent of a 0.04 % interest in the Company's share capital at the end of 2016. As of the December 31, 2016 reporting date, a total of 10,637,763 convertible bonds from the 2013/2018 bond were still pending conversion. Additionally, the 3,000,000 shares (with a value of 15,000,000) can be converted from the 2015/2018 mandatory convertible bonds during their remaining term.

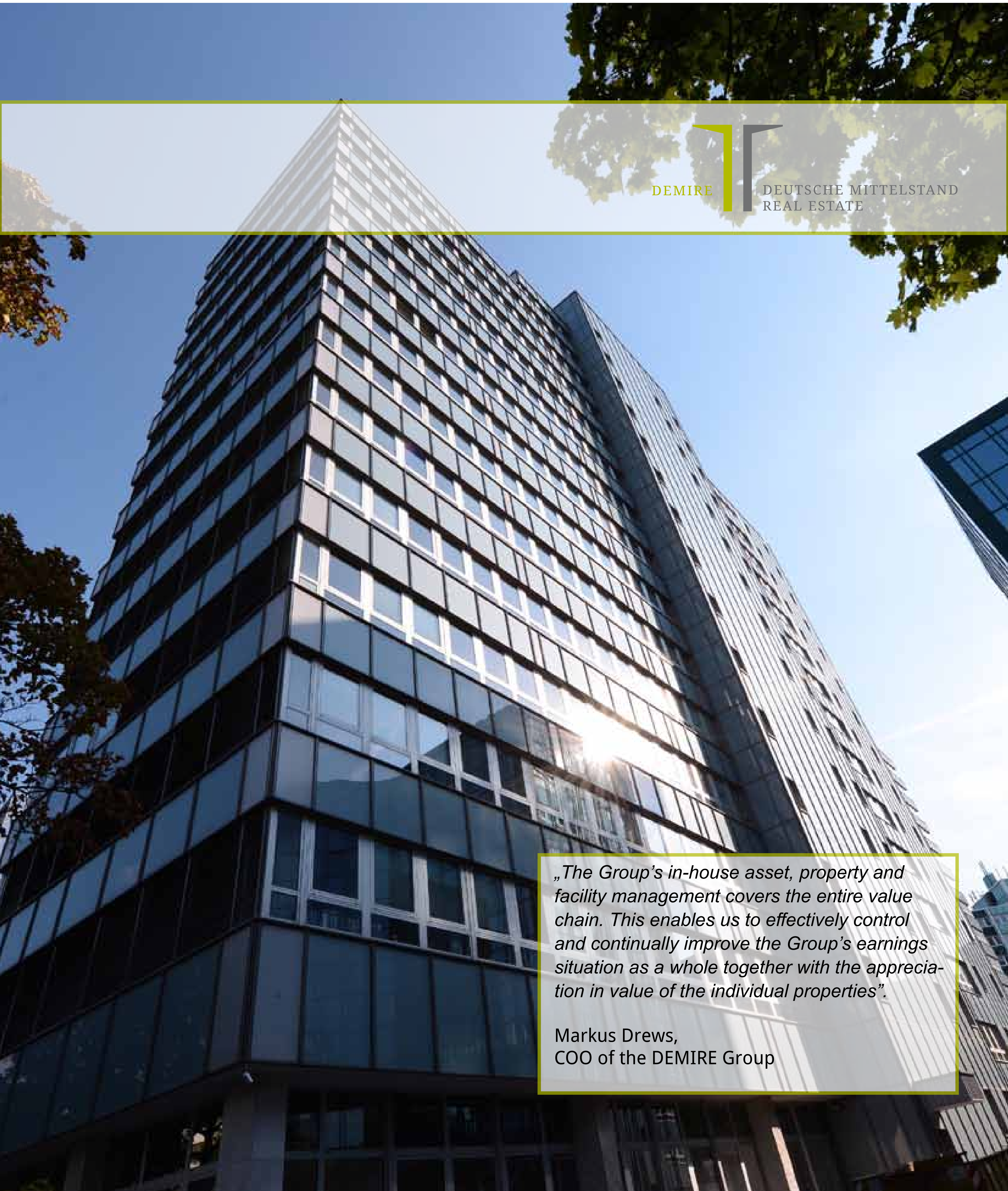
„With an equity ratio of 28.2 %, our capital base provides a solid foundation for further growth. Over the medium term, our LTV ratio is expected to amount to 50 %".

Ralf Kind,
CFO of the DEMIRE Group

MANDATORY CONVERTIBLE BOND 2015/2018	
Name	DEMIRE Pflicht-Wandelanleihe 2015/2018
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Type of security	Convertible bond
Volume	EUR 15,000,000
Interest rate (coupon)	2.75 %
Interest payments	quarterly on March 22, June 22, September 22, December 22
Repayment	May 22, 2018
Redemption rate	100 %
Denomination	EUR 100,000
Paying Agent	Bankhaus Gebr. Martin Aktiengesellschaft, Göppingen
ISIN	DE000A13R863
Market segment	Frankfurt Stock Exchange

CORPORATE BOND 2014/2019	
Name	DEMIRE BOND 2014/2019
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Type of security	Bearer bond
Volume	EUR 100,000,000
Interest rate (coupon)	7.5 %
Interest payments	half-yearly March 16 and September 16
Repayment	September 16, 2019
Redemption rate	100 %
Denomination	EUR 1,000
Paying Agent	Bankhaus Gebr. Martin Aktiengesellschaft, Göppingen
ISIN	DE000A12T135
Market segment	Frankfurt Stock Exchange

CONVERTIBLE BOND 2013/2018	
Name	DEMIRE DT.MTS.RE WDL13/18
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Type of security	Convertible bond
Volume	EUR 11,300,000
Interest rate (coupon)	6 %
Interest payments	quarterly in arrears
Repayment	December 30, 2018
Redemption rate	100 %
Denomination	EUR 1
Conversion rate	EUR 1
Paying Agent	Bankhaus Gebr. Martin Aktiengesellschaft, Göppingen
ISIN	DE000A1YDDY4
Market segment	Frankfurt Stock Exchange



„The Group's in-house asset, property and facility management covers the entire value chain. This enables us to effectively control and continually improve the Group's earnings situation as a whole together with the apprecia-tion in value of the individual properties".

Markus Drews,
COO of the DEMIRE Group

Combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, for the fiscal year of January 1, 2016 to December 31, 2016

The following presents the combined Management Report for DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, („the Company") and the Group („DEMIRE" or the „DEMIRE Group") for the 2016 fiscal year from January 1 to December 31, 2016. 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 principles of 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 (1).

I. GROUP PRINCIPLES

1. Business model

DEMIRE Deutsche Mittelstand Real Estate AG is a public stock corporation under German law, headquartered in Frankfurt/Main, Germany, with no other branch offices. With the entry in the commercial register on December 23, 2016, the Company's main office address was changed to 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 Düsseldorf stock exchanges.

DEMIRE focuses solely on the German commercial real estate market and is active as an investor and property holder in the segment for secondary locations where activities include the acquisition, management and rental of commercial properties. The aim is to achieve value appreciation through active portfolio management and the Company's in-house asset, property and facility management. In some cases this may involve the sale of properties when they are no longer a strategic fit based on the business model or their full value appreciation potential has been reached as a result of active portfolio management.

Following the takeover of Fair Value REIT-AG at the end of 2015, DEMIRE's business activities and its segment reporting are organised under three segments: 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 part of the Group prior to the takeover of Fair Value REIT-AG. The main assets are the commercial properties in Germany. This segment also includes the in-house asset, property and facility management activities, which were established in 2015 and expanded since that time to ensure that existing real estate portfolios generate the best possible returns. Another strategically important segment is „Fair Value REIT", which comprises the activities of the acquired company. The segment „Corporate Functions/Others" contains the Group's administrative and general tasks such as risk management, finance, controlling, financing, legal, IT and compliance. This segment also contains the effects of the Investments segment, which was still shown separately in 2015 and includes the legacy portfolio currently being sold and is only of minor importance for the DEMIRE Group.

2. Strategy and Objectives

Strategy

Since the Company's realignment in 2013, the DEMIRE Group's objective has been to become one of the leading holders of commercial real estate in Germany listed on the stock exchange. On the road to becoming „first in secondary locations", the Company believes it has since made considerable progress by acquiring individual commercial properties and real estate portfolios and, above all, as a result of its acquisition of 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 intends to hold or acquire only 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 management. The Company prefers prime locations in medium-sized cities and up-and-coming areas bordering metropolitan centres throughout Germany. This is also designed to take regional differentiation into account. To diversify the risk of the real estate holdings, DEMIRE seeks to build a total portfolio, structured exclusively around office, retail and logistics properties. A very marketable volume of EUR 10 million to EUR 50 million is envisioned for each investment.

DEMIRE believes it can best achieve a balanced risk-opportunity ratio through a combination of investment strategies known as value-added and core-plus. The value-added strategy focuses on acquiring undervalued properties that are then repositioned after their development and, if necessary, renovation or revitalisation. When this leads to a gradual improvement in cash flows, the value of the property enjoys a sustained appreciation in value. The assets, however, must already generate positive cash flow in order to be considered for investment.

The aim of the core plus approach is to select properties with good to very good tenant structures, with the expectation that these properties typically can achieve relatively high positive cash flow from the outset. Appreciation in value is often achieved with these types of properties only when the existing leases expire, and the landlord can re-lease the property at more advantageous conditions.

Objectives

Along the lines of the strategic direction already described, DEMIRE's target over the medium term is to expand the existing portfolio to a level of EUR 2 billion in carrying amount. In this process, DEMIRE is aiming to achieve a ratio of net debt to the sum of the existing real estate (loan-to-value or LTV) of approximately 50 %. Another important objective is to improve the cost ratio. Achieving these operational objectives will basically enable the Company to give shareholders an opportunity to participate in the Company's success through dividends. As at December 31, 2016, the carrying amount of the existing real estate was EUR 1,005.6 million with an LTV of 62.8 %.

3. Control system

To achieve the targets DEMIRE has set itself in line with the strategic direction described, the Company has designated operating cash flow (funds from operations - FFO) as its key performance indicator. To increase FFO, the Company's in-house asset, property and facility management is tasked with improving the cash flow of the existing real estate portfolio over time. On an operating level, the trend in occupancy rates, actual net rents per square metre excluding utilities, ongoing maintenance and operating costs, allocable ancillary costs, delinquent rents and marketing costs 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 already described. For more information, please see the comments in the notes under „Investment Properties".

At the level of the holding company, income and cash flows are aggregated and assessed quarterly. 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 (loan-to-value (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 is carried out to achieve an ongoing improvement in the financial result.

4. Research and development

Given that DEMIRE's business activities are focussed on holding and managing real estate, the Company does not conduct any research and development activities.

II. ECONOMIC REPORT

1. Macroeconomic and industry environment

1.1. Macroeconomic environment

According to the Federal Statistical Office, the German economy grew by 1.9 % in 2016. The Institute for the World Economy (IfW) attributes a majority of this growth to the development of domestic factors such as construction and private consumption. The economy's positive performance in 2016 was also driven by the positive development of the labour market, the still relatively low oil price and the European Central Bank's monetary policy fuelling low interest rates and favourable financing conditions.

1.2 Sector environment

Due to low interest rates, investments in financial assets are not very attractive. Investors are therefore increasingly investing in real estate as a store of value. This demand has led to rising real estate prices. In the case of commercial property, the trend in rising prices has been supported by the limited increase in supply in recent years.

1.2.1. Transaction volumes for commercial real estate

German commercial real estate remained a popular investment for investors in 2016. According to an analysis by the property consulting firm Jones Lang LaSalle (JLL), the volume of transactions reached

EUR 52.9 billion last year. Although the volume was better than expected as a result of a strong fourth quarter, it was still below the previous year's figure of EUR 55.1 billion. This marked the third highest volume over the past 10 years. Office property slightly increased its share of the transaction volume among the asset classes to 45 %. This contrasts with the drop in the share of retail real estate from 31 % to 24 %. The share of the logistics property asset class remained roughly the same year-on-year at 9 % (previous year: 7 %).

1.2.2. The market for office property

The year 2016 was another year in which favourable economic conditions and, especially, a solid trend in the German labour market contributed to continued dynamic demand for office properties. According to JLL, the transaction volumes rose by 9 % year-on-year to 3.9 million m². The average vacancy rate in the JLL-defined Big Seven locations of Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart declined year-on-year from 6.4 % to just 5.5 % despite a higher volume of new space becoming available. As a result, the demand for office space in 2016 in Germany's A locations increased even further. According to JLL, the scarcity of available office space in the large cities also led to increasing demand and rising rents in secondary locations. In addition to the Big Seven locations, DIP-Deutsche Immobilien-Partner (DIP) also monitors other office locations in secondary locations. In the 15 locations examined, the vacancy rate fell from 6.6 % to 5.8 %. While space turnover for large locations increased, it declined slightly for medium-sized locations. In the past twelve months, the average weighted peak rent in the German office markets analysed by DIP rose by 6.6 % from EUR 25.30/m² to their current level of EUR 27.00/m². Catella Research attributes the strong rise in rents for B locations in 2016 to the healthy economic situation that penetrates „deeply into the regions". The Germany 21 survey and regional office market index published by Corpus Sireo and empirica, show a higher increase in office rents in secondary locations in the second half of 2016 than in A locations. While in the B cities the average rental supply rose by 1.8 %, the increase in the A locations was only 0.2 %. According to a separate analysis, the IVD real estate association sees a stable increase in office rents at locations of any size.

1.2.3. The market for retail property

The environment for the retail real estate asset class also remained solid in 2016. Retail sales in Germany rose by 2.4 % to 2.6 % last year according to an estimate by the Federal Statistical Office. The share of the retail real estate asset class in 2016, however, declined significantly amid an overall decline in the real estate transaction market. According to JLL, transactions in retail real estate amounted to only EUR 12 billion after EUR 18 billion in 2015. However, when viewing this performance, it is important to note that the market in 2015 had doubled compared to the prior year.

According to calculations by JLL, a total of 487,000 m² of retail space was leased in Germany in 2016, which is 7 % less than in 2015. According to the retail market report of BNP Paribas Real Estate, one reason for this decline is the further rise in online retailing combined with the increasing digitisation of living areas. The B retail locations are among the winners of these trends according to an extensive evaluation by the real estate association IVD. In contrast to the previous year (-0.5 %), the shop rents at these locations increased by 1.7 %. IVD believes the main reason for this increase is the switch from A to B locations.

1.2.4. The market for logistics property

The IfW and the German Logistics Association (Bundesvereinigung Logistik) continue to believe that the logistics industry is in good shape. The market for logistics and industrial space in Germany is small compared to the market for office and retail real estate. According to JLL, this market's share of transaction volume for commercial real estate in 2016 was about 9 %. While this represented an increase of 2 % compared to the previous year, the volume remained roughly at the 2015 level due to the overall decline in transaction volumes.

1.2.5 Effect of commercial property development on DEMIRE

The overall economic and real estate environment supported the DEMIRE Group's business model in 2016. The strategic focus on secondary locations in Germany helped the DEMIRE Group benefit from the increasing demand in these locations.

2. Business performance

During the 2015 fiscal year, the DEMIRE Group almost tripled its real estate portfolio as a result of a number of portfolio and individual purchases of commercial real estate in secondary locations in Germany and through the takeover of 77.7 % of the voting shares in Fair Value REIT-AG. Furthermore, the Group's total assets and annual contractual rents from the German commercial real estate portfolio as at December 31, 2015 nearly tripled. During the reporting year, the Company's main focus was the integration of the real estate portfolios acquired in 2015 and early 2016 as well as an improvement in the financial result going forward through repayments and refinancing. DEMIRE also reduced the legacy portfolio in Eastern Europe, which stemmed from the time prior to the business model's reorientation towards holdings in German commercial real estate.

In doing so, the high-yield HFS bond was repaid during the fiscal year, which further reduced the loan-to-value ratio (LTV) since the middle of the year. The repayment was made using operating cash flow and EUR 10 million from the 10 % cash capital increase executed in August. The remaining net proceeds from the capital increase will be used to finance property acquisitions and strengthen the Company's financial position.

Chronological business development

January 2016

On January 13, 2016, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG concluded the agreement already been signed in July 2015 for the acquisition of a 94.9 % interest in Kurfürster Immobilien GmbH, Leipzig. Centrally located in the inner city of the third largest city in Hesse, Kassel, the property is mainly used for retail purposes and has a total area of approx. 21,000 m². The property is one of Kassel's largest parking lots with around 600 parking spaces. The contracted net rent of the commercial property completed in 1991 as Kassel's first shopping mall amounted to approximately EUR 3.9 million p.a., excluding utilities, as at the deal's closing date. In addition to retailers, tenants include a hotel, casino, offices and medical practices. Through this transaction, DEMIRE further increased its commitment to retail real estate, the third asset class next to office and logistics real estate.

Under a purchase contract dated January 29, 2016, the property at Willy-Meyer-Str. 3-5 in Tornesch was sold by Fair Value REIT. The sale price of EUR 0.7 million was 10 % higher than the assessed market value of EUR 0.6 million on December 31, 2015 and was paid in full on March 16, 2016.

On February 9, 2016, due to the change in control on December 21, 2015 at Fair Value REIT-AG, creditors requested the payment of the early redemption amount of 103 % of the nominal value plus accrued interest on the effective date (February 19, 2016) in accordance with the terms of the convertible bond with a total nominal value of EUR 8.46 million and an interest coupon of 4.5 % p.a. issued by Fair Value REIT-AG on January on February 19, 2016. The repayment was financed by two loans: a bullet loan from CapitalBank – GRAWE Group AG, Graz, to Fair Value REIT-AG maturing in three years on February 15, 2019 in the amount of EUR 7.0 million less a processing fee of 1 % at a variable interest rate of 3-month EURIBOR plus a margin of 400 basis points, and a minimum interest rate of 4.0 % per annum, which is approximately 25 % secured by a mortgage and the pledge of interests in subsidiaries and other assets; and a mortgage-secured loan from Stadt-Sparkasse Langenfeld to Fair Value REIT-AG of EUR 2.0 million maturing on March 30, 2020, with an interest coupon of 1.69 % p.a. to be repaid initially at a rate of 3 % p.a.

February 2016

Effective February 1, 2016, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG appointed Mr Frank Schaich, sole Executive Board member of Fair Value REIT-AG, as a member of the Executive Board (CFO) of DEMIRE Deutsche Mittelstand Real Estate AG for three years until January 31, 2019. For the duration of the appointment, a management service agreement with Mr Schaich was concluded subject to the dilatory condition of termination of the existing employment contract at Fair Value REIT-AG. On March 1, 2016, the Supervisory Board of Fair Value REIT-AG extended the Executive Board appointment of Mr Schaich until January 31, 2019 and terminated the existing employment contract by mutual agreement as of February 29, 2016.

In mid-February 2016, DEMIRE Deutsche Mittelstand Real Estate AG took over the business of F. Krüger Immobilien GmbH in Bremen as part of an asset deal. The Group's in-house property management was further strengthened by a business transfer to DEMIRE Immobilien Management GmbH (DIM), a wholly-owned subsidiary of DEMIRE. All employees were taken over by DIM and since that time have been working at DIM's new location in Bremen.

March 2016

Under a purchase contract dated March 4, 2016, a subsidiary of Fair Value REIT sold the nursing home property in Radevormwald at its carrying amount of EUR 11.1 million. The transfer of ownership, benefits and obligations took place against the payment of the purchase price on March 31, 2016.

In the first quarter of 2016, the remaining bonds of the 2014/2019 corporate bond of a nominal EUR 14.4 million were placed with investors.

April 2016

At the beginning of April 2016, DEMIRE AG entered into a contract with Südwestbank AG for a one-year credit line until March 30, 2017 in the amount of EUR 5.0 million less a processing fee of 3 % at a variable interest rate of 3-month EURIBOR plus a margin of 250 basis points and a minimum interest rate of 2.5 % p.a. The credit line can be drawn on variably and may be prolonged annually. At the end of April 2016, DEMIRE AG signed a contract with Baader Bank AG for a one-year credit line until April 30, 2017 in the amount of EUR 5.0 million at a fixed interest rate of 5.0 % p.a. that can be drawn on variably and may be prolonged annually. When the credit lines were utilised both were secured by pledging interests in subsidiaries and account balances.

Under a purchase contract dated April 14, 2016, Fair Value REIT-AG sold the property in Bornhöved at its carrying amount of EUR 0.5 million. The transfer of ownership, benefits and obligations took place on September 1, 2016 against the payment of the purchase price.

June 2016

In view of the sharp increase in share capital in 2015, new authorised and conditional capital was created at the Annual General Meeting on June 30, 2016. Also in this meeting, shareholders confirmed all of the Supervisory Board members' election to the Supervisory Board. The annual Supervisory Board remuneration was set at EUR 30,000.00 per member as of the 2017 fiscal year. At the constituent meeting of the Supervisory Board after the Annual General Meeting, Prof Dr Wagner was reelected as chairman of the Supervisory Board and Dr Peter Maser was reelected as deputy chairman.

July 2016

Under a purchase contract dated July 11, 2016 Fair Value REIT-AG sold its property at Röntgenstraße 118-120 in Neumünster at the property's carrying amount of EUR 0.2 million. The transfer of ownership, benefits and obligations took place on September 1, 2016. In July 2016, DEMIRE also sold two Austrian subsidiaries and an investment in a Polish company where the transfer of ownership occurred only at the end of November. This transaction was essentially earning-neutral. In addition, two companies were merged in the Netherlands, which marked another successful step in streamlining the legacy portfolio.

Since July 15, 2016, the shares of DEMIRE Deutsche Mittelstand Real Estate AG have been trading in the Prime Standard, which is the segment of the regulated market of Deutsche Börse in Frankfurt am Main with the most stringent transparency requirements.

August 2016

The cash capital increase of DEMIRE Deutsche Mittelstand Real Estate AG resolved on August 11, 2016 was executed as a private placement and placed mostly with institutional investors. With the entry of the cash capital increase in the commercial register on August 31, 2016, DEMIRE's share capital increased by EUR 4,930,722.00. Shareholder subscription rights were excluded. The new shares are entitled to a dividend as of January 1, 2016. By the end of August, DEMIRE's share capital amounted to a total of EUR 54,242,444.00, which includes the issue of subscription shares from the exercise of conversion rights during the year.

At the end of August, a partial sale of the property in Ulm was executed for EUR 0.5 million, which contributed EUR 0.4 million to earnings. The transfer of ownership took place in the fourth quarter of 2016.

September 2016

On September 22, 2016, a subsidiary of Fair Value REIT entered into a sales agreement for the property at Lippestr. 2 in Lippetal-Herzfeld. The price equalled the property's carrying amount of EUR 1.8 million and the transfer of benefits and obligations took place at the beginning of October 2016. Fair Value REIT also sold the properties in Ahaus-Wüllen for a total price of EUR 5.5 million on 15 September 2016. These properties were disposed of with the transfer of the benefits and obligations to the purchaser on October 18, 2016.

October 2016

On October 31, 2016, Mr Frank Schaich resigned from his Executive Board position at DEMIRE Deutsche Mittelstand Real Estate AG at his own request and on mutually amicable terms with the Supervisory Board effective at the close of October 31, 2016. He initially remained on the Executive Board of Fair Value REIT-AG, Gräfelfing near Munich, but ended this mandate at the end of March 31, 2017 and on this date left the DEMIRE Group.

November 2016

In mid-November, a partial sale of the property in Kempten for EUR 1.0 million took place contributing EUR 0.1 million to earnings. The transfer of ownership occurred in the first quarter 2017.

December 2016

DEMIRE sold a portfolio containing a total of 84 non-strategic properties and portions of a property in Darmstadt for a price of EUR 21.6 million. These were properties each valued under EURk 500 and located in mostly decentralised locations rented to the Deutsche Post DHL Group. The real estate in Darmstadt is currently rented to Deutsche Telekom AG. The total proceeds from the sale were more than EUR 3 million, or 16 %, above current market values. At the beginning of December, a property in Hanover was also sold.

In mid-December 2016, DEMIRE Deutsche Mittelstand Real Estate AG moved its offices from Frankfurt/Main to Langen located in the greater Frankfurt area. The new rental property is located at Robert-Bosch-Straße 11, which belongs to a subsidiary of the Fair Value REIT subgroup.

In December, DEMIRE Deutsche Mittelstand Real Estate AG sold its 24.78 % interest in SQUADRA Immobilien GmbH & Co, KGaA, which owns the Blue Towers in Frankfurt am Main via a subsidiary, for strategic reasons because of the plan to develop this property into residential towers. A gain of EUR 4.5 million was achieved on the selling price of EUR 7.2 million.

Under a purchase contract dated December 21, 2016, a subsidiary of Fair Value REIT sold the properties in Krefeld located at Gutenbergstraße 152 and St. Töniser Straße 12, at their carrying amount of EUR 3.6 million. The transfer of ownership, benefits and obligations took place on February 7, 2017, after the full payment of the purchase price on February 6, 2017.

At the end of December, Mr Klaus R. Wecken increased his interest in the DEMIRE's capital to 26.53 % and, at the beginning of January 2017, expressed his intention to obtain further voting rights and influence the appointments made to administrative, management and supervisory bodies of DEMIRE.

3. Net assets, financial position, and results of operations

3.1. Results of operations

DEMIRE's nearly tripled its holdings in commercial real estate in the 2015 fiscal year. The contribution of these holdings to the earnings is fully visible for the first time in the results of operations for the 2016 fiscal year. The main reason for the lower earnings compared to 2015 was the exceptionally high level of general and administrative expenses and other operating expenses, which offset the rise in profits from rentals. Last year, expenses were particularly affected by costs for additional reporting obligations in the context of the capital increases, the acquisition of the interest in Fair Value REIT-AG and the streamlining of the legacy portfolio.

CONSOLIDATED STATEMENT OF INCOME (SELECTED INFORMATION IN EURK)	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Change	%
Net rents	76,371	33,320	43,051	129.2
Income from ancillary rental costs	15,746	10,024	5,772	57.1
Operating expenses to generate rental income *	-33,547	-19,664	-13,883	70.6
Profit/loss from the rental of real estate	**58,570**	**23,680**	**34,890**	**147.3**
Profit/loss from the sale of real estate companies	3,961	285	3,676	1289.8
Profit/loss from the sale of real estate	963	458	505	110.3
Profit/loss from investments accounted for using the equity method	-359	-500	141	-28.2
Other operating income and other effects *	41,906	51,414	-9,508	-18.5
General and administrative expenses	-14,505	-11,332	-3,173	28.0
Other operating expenses	-7,367	-5,265	-2,102	39.9
Earnings before interest and taxes	**83,169**	**58,740**	**24,429**	**41.6**
Financial result	-43,207	-25,728	-17,479	67.9
Profit/loss before taxes	**39,962**	**33,012**	**6,950**	**21.1**
Income taxes	-12,313	-4,139	-8,174	197.5
Net profit/loss for the period	**27,649**	**28,873**	**-1,224**	**-4.2**
of which, attributable to parent company shareholders	24,670	28,117	-3,447	-12.3
Basic earnings per share (EUR)	0.48	1.09	-0.61	-56
Weighted average number of shares outstanding (in thousands)	51,364	25,889		
Diluted earnings per share (EUR)	0.39	0.71	-0.32	-45
Weighted average number of shares outstanding, diluted (in thousands)	65,002	40,551		

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

With a profit of EUR 58.6 million in the 2016 fiscal year, the DEMIRE Group generated profit from the rental of real estate that was almost 2.5 times higher than the level generated in fiscal year 2015 (EUR 23.7 million). This rise was driven by the tremendous expansion of the commercial real estate portfolio, the purchase of the Kurfürstengalerie in Kassel in January 2016 and the acquisition of a 77.7 % interest in Fair Value REIT-AG in the 2015 fiscal year that were all reflected for a full twelve months for the first time in the 2016 fiscal year. An opposite but smaller effect on earnings resulted from the disposal of eight other property holdings in the course of the fiscal year.

The income from allocated ancillary costs in the amount of EUR 15.7 million (2015 fiscal year: EUR 10.0 million) includes the advance payments of tenants for operating costs. Ancillary rental costs were recognised as expenses to generate rental income and amounted to EUR 33.5 million in the reporting year (previous year: EUR 19.7 million). Of the operating expenses, an amount of EUR 19.6 million (previous year: EUR 12.6 million) is generally allocable and can be passed on to tenants. Operating expenses of EUR 13.9 million (previous year: EUR 7.0 million) are not allocable, of which expenses of EUR 1.3 million (previous year: EUR 0.3) relate to the personnel-related costs of the Company's in-house property management company.

Profits from the sale of real estate and real estate companies amounted to EUR 4.9 million in the 2016 fiscal year compared to EUR 0.7 million in the prior year. These profits include mainly the profit from the disposal of a 24.78 % interest in SQUADRA Immobilien GmbH & Co. KGaA as the parent company of the SQUADRA Group and the Austrian subsidiaries.

Profit/loss from investments accounted for using the equity method improved to EUR -0.4 million in the 2016 fiscal year (2015 fiscal year: EUR -0.5 million). This position contains the current pro rata profit/loss from the SQUADRA Group.

The DEMIRE Group's other operating income and other effects in the 2016 fiscal year amounted to EUR 41.9 million compared to EUR 51.4 million in the 2015 fiscal year. This figure concerns primarily the fair value adjustments of EUR 38.4 million in 2016 (2015 fiscal year: EUR 18.5 million) from the Kurfürstengalerie property (EUR 9.7 million), the T6 Portfolio from Germavest S.à.r.l. (EUR 8.3 million), the Logistikpark property in Leipzig (EUR 6.2 million) and three properties in Cologne and Leverkusen (EUR 4.0 million). The prior year's other operating income and other effects included fair value adjustments as well as a profit of EUR 33.2 million from the below-market value purchase of interests in Germavest. Profit was further affected by an amount of EUR -2.1 million (2015 fiscal year: EUR -2.8 million) from impairments of receivables mainly resulting from an impairment loss on the receivables from OXELTON (EUR -1.1 million).

The DEMIRE Group's general and administrative expenses totalled EUR 14.5 million in the 2016 fiscal year (2015 fiscal year: EUR 11.3 million). The increase was partly due to higher growth-related personnel costs due to, for example, staff increase and the temporary expansion in the Executive Board to three members, (EUR 3.9 million compared to EUR 2.3 million in the previous year) and higher investment in advertising and investor relations. These expenses were partly offset by lower consultancy fees for the preparation and implementation of the acquisition during the year (EUR 3.8 million compared to EUR 4.7 million in fiscal year 2015) and lower accounting and audit costs (EUR 2.5 million compared to EUR 3.5 million in the previous year).

Other operating expenses in the 2016 fiscal year amounted to a total of EUR 7.4 million compared to EUR 5.3 million in the 2015 fiscal year. This rise is mainly the result of operating costs from previous years in the amount of EUR 1.9 million and brokerage commissions of EUR 0.8 million (2015 fiscal year: EUR 0.0 million). Items that were slightly lower included non-deductible sales taxes (EUR 1.0 million compared to EUR 1.1 million), charges and incidental costs for monetary transactions (EUR 0.4 million compared to EUR 0.5 million), expenses for one ordinary annual general meeting in 2016 after one ordinary and two extraordinary annual general meetings in 2015 and share sponsorship and related bank services (EUR 0.5 million compared to EUR 0.8 million in the previous year).

Earnings before interest and taxes (EBIT) amounted to EUR 83.2 million and was around 42 % above the EBIT in the 2015 fiscal year (EUR 58.7 million).

The financial result closed on balance with an expense of EUR 43.2 million (2015 fiscal year: expense of EUR 25.7 million). The financial expenses included increasing financing costs and, in some cases, financing costs that were incurred for the entire twelve-month period for the first time, particularly the financial liabilities of Fair Value REIT and the Signal Capital loans received as part of the acquisition of the Germavest S.à.r.l. interests and EUR 5.2 million attributable to the minority shareholders of the funds held by Fair Value REIT-AG.

On this basis, profit/loss before taxes increased to EUR 40.0 million, or 21 % compared to the prior year (EUR 33.0 million). Income taxes totalled EUR 12.3 million following EUR 4.1 million in the 2015 fiscal year due to deferred taxes on amongst others tax differences and Fair Value adjustments.

As a result, net profit/loss for the period (profit after taxes) reached EUR 27.6 million and was 4 % below the net profit of EUR 28.9 million in the 2015 fiscal year.

3.2. Segment reporting

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

After the strategic realignment in 2013, the Group was divided into the segments Investments, Asset Management, Core Portfolio and Corporate Functions. Following the acquisition of Fair Value REIT-AG, DEMIRE's business activities and segment reporting are divided into three areas: Core Portfolio, Fair Value REIT and Corporate Functions/Others.

The Core Portfolio segment consists of the newly established and acquired domestic and foreign subsidiaries focussed on commercial real estate for the entrepreneurial Mittelstand in Germany. The primary aim with these investment properties is their sustainable management. These properties are held for rental income generation and value appreciation. The Company's in-house asset, property and facility management activities, which were further expanded in 2016, were also allocated to the Core Portfolio segment.

The Corporate Functions/Others segment mainly contains DEMIRE Deutsche Mittelstand Real Estate AG's activities in areas, such as risk management, finance and controlling, financing, legal, IT and compliance, that are related to its function as the Group holding and service provider for the subsidiaries. This segment also contains the effects of the Investments segment, which was still shown separately in 2015 and includes the legacy portfolio currently being sold and is only of minor strategic importance for the DEMIRE Group.

Jan. 1 – Dec. 31, 2016 TEURK	Core portfolio	Fair Value REIT	Corporate Functions/ Others	Total segments
Segment revenues	107,016	50,207	8,295	165,518
Segment expenses	-37,522	-34,063	-10,764	-82,349
EBIT by segment	69,494	16,144	-2,469	83,169
Net profit/loss for the period	**41,593**	**4,235**	**-18,179**	**27,649**
December 31, 2016				
Segment assets	741,379	329,596	23,031	1,094,006
Real estate holdings	715,023	290,542	0	1,005,565
Segment liabilities	421,775	210,740	152,854	785,369

Jan. 1 – Dec. 31, 2015 EURK	Investments	Core portfolio	Fair Value REIT	Corporate Functions/ Others	Total segments
Segment revenues	4,607	98,362	0	2,057	105,026
Segment expenses	-8,626	-28,119	0	-9,541	-46,286
EBIT by segment	-4,019	70,243	0	-7,484	58,740
Net profit/loss for the period	**-5,760**	**52,466**	**0**	**-17,832**	**28,873**
December 31, 2015					
Segment assets	5,319	651,165	337,261	39,200	1,032,945
Real estate holdings	0	628,550	299,544	0	928,094
Segment liabilities	282	414,896	217,803	135,062	768,043

A segment analysis illustrates the vital importance of the Core Portfolio segment, which was greatly expanded in the 2015 fiscal year to reflect the Company's strategic realignment. We will continue to expand this segment in the years ahead. Therefore, the Investments segment, which was reported separately until the 2015 fiscal year, was combined in 2016 with the Corporate Functions/Others segment. The reporting for the 2015 fiscal year was adjusted accordingly. Because the first-time consolidation of Fair Value REIT took place as at December 31, 2015, there was no impact on earnings in 2015.

The DEMIRE Group's segment revenues increased 58 % during the 2016 fiscal year reaching a total of EUR 165.5 million (2015 fiscal year: EUR 105.0 million). This rise stems largely from the Core Portfolio segment, which ended the 2016 fiscal year at EUR 107.0 million compared to EUR 98.4 million in the 2015 fiscal year, and from the revenue contribution from the Fair Value REIT segment for the first time in the amount of EUR 50.2 million. This rise was derived from the rental income that resulted from the portfolio's expansion in 2015 and early 2016, the fair value adjustments during the reporting period that were recognised through profit or loss in the amount of EUR 38.4 million (2015 fiscal year: EUR 18.5 million and profits in the amount of EUR 33.2 million originating from purchases below market value).

Segment expenses increased accordingly from EUR 46.3 million in the 2015 fiscal year to EUR 82.3 million in 2016 fiscal year. This was mainly due to a rise in expenses in the Core Portfolio segment to EUR 37.5 million in 2016 (2015 fiscal year: EUR 28.1 million) as a result of the portfolio's expansion and the first-time consolidation of Fair Value REIT through profit or loss, which resulted in expenses of EUR 34.1 million. Costs in the Corporate Functions/Others segment in the 2016 fiscal year mainly consisted of legal and consulting fees, staff costs from the growth-driven rise in employees and the appointment of a third member to the Executive Board, which totalled EUR 10.8 million compared to EUR 18.2 million in the previous year (including expenses for the Investments segment). In the 2015 fiscal year, expenses consisted mainly of legal and consultancy fees, accounting and auditing costs relating to the capital increases and the takeover of the interest in Fair Value REIT-AG. In 2015, the impairment losses on the loan against OXELTON in the amount of EUR 3.1 million as well as the reversal of the currency reserve in the amount of EUR 3.8 million had a negative impact on the former Investments segment. Positive effects in 2015 resulted from the debt relief of EUR 1.2 million and the higher revaluation of the interest in OXELTON in the amount of EUR 0.6 million.

EBIT by segment in 2016 was EUR 83.2 million, or more than 40 % higher than in the previous year (2015 fiscal year: EUR 58.7 million). The Core Portfolio segment contributed EUR 69.5 million (2015 fiscal year: EUR 70.2 million). This amount included mainly fair value adjustments of EUR 36.6 million (2015 fiscal year: EUR 18.5 million and profits originating from acquisitions below market value of EUR 33.2 million). The Fair Value REIT segment generated EBIT of EUR 16.1 million. The Corporate Functions/Others segment ended the year with a significantly higher EBIT of EUR -2.5 million after a sharply negative EBIT in the 2015 fiscal year of EUR -11.5 million (including expenses of the former Investments segment), due to the above-mentioned extraordinary expenses associated with the company's growth.

The net profit/loss for the period of the Core Portfolio segment amounted to EUR 41.6 million compared to EUR 52.5 million in the previous fiscal year. The profit was negatively affected by pro rata net interest result of EUR -19.0 million (2015 fiscal year: EUR -13.2 million) and income taxes of EUR -8.9 million (2015 fiscal year: EUR -4.6 million). The Fair Value REIT segment accounted for EUR 4.2 million of the Group's net profit for the period (2015 fiscal year: EUR 0.0 million), which included net interest expenses of EUR -8.2 million (2015 fiscal year: EUR 0.0 million), and income taxes from deferred taxes of EUR -3.7 million (2015 fiscal year: EUR 0.0 million). The Corporate Functions/Others segment generated a net loss of EUR -18.2 million compared to EUR -23.6 million in the previous year (including the Investments segment). The main contributing factor next to organisational expenses was a net interest expenses of EUR -16.0 million (2015 fiscal year: EUR -12.5 million) (including the Investments segment) and income taxes of EUR 0.3 million (2015 fiscal year: EUR 0.4 million) (including the Investments segment). The main contributors in the prior year were impairment losses on a loan against OXELTON in the amount of EUR 3.1 million as well as the reversal of the currency reserve in the amount of EUR 3.8 million. Positive effects resulted from debt relief of EUR 1.2 million and the revaluation of the interest in OXELTON in the amount of EUR 0.6 million.

The segment liabilities include minority interests in the subsidiaries of Fair Value REIT, which are not reported as equity under IFRS.

Adjusted Group earnings (FFO)

The operating result (FFO) of the DEMIRE Group, adjusted for measurement effects, other gains and one-time effects as well as non-periodic income and expenses, amounted to EUR 8.1 million before minorities in the 2016 fiscal year and EUR 2.7 million after minorities. The main adjustments included fair value adjustments in accordance with IAS 40, effects from the sale of real estate companies and individual properties, effects from the settlement of ancillary costs for previous years, one-time administrative costs as part of the insourcing of group functions, as well as deferred tax expenses. The plan to offset taxes at the level of certain subsidiaries with tax loss carryforwards from DEMIRE could not be implemented. FFO before minorities amounted to EUR 13.0 million and EUR 7.5 million after minorities when including the result from the sale of non-strategic properties acquired by DEMIRE as part of a portfolio acquisition and the sale of properties that reached their full value appreciation potential as a result of the Company's property and facility management.

ADJUSTED GROUP EARNINGS (FFO)		Jan. 1 – Dec. 31, 2016 Adjustment for special items				
	According to consolidated income statement	Effects from acquisitions, disposals and measurement	Others	Adjusted consolidated income statement	Effects from disposals	Adjusted consolidated income statement (incl. disposals)
Rental income	76,371			76,371		76,371
Income from utility and service charges	15,746			15,746		15,746
Operating expenses to generate rental income	-33,547		1,898	-31,649		-31,649
Profit/loss from the rental of real estate	**58,570**	**0**	**1,898**	**60,468**	**0**	**60,468**
Profit/loss from the sale of real estate companies	3,961	-3,961		0	3,961	3,961
Profit/loss from the sale of real estate	963	-963		0	963	963
Profit/loss from investments accounted for using the equity method	-359		359	0		0
Other operating income and other effects	41,906	-38,414	-1,582	1,910		1,910
General and administrative expenses	-14,505		2,644	-11,861		-11,861
Other operating expenses	-7,367		3,940	-3,427		-3,427
Earnings before interest and taxes	**83,169**	**-43,338**	**7,259**	**47,090**	**4,924**	**52,014**
Net financial expenses	-37,987	898	947	-36,142		-36,142
Non-controlling shareholders	-5,220		5,220	0		0
Financial result	**-43,207**	**898**	**6,167**	**-36,142**	**0**	**-36,142**
Profit/loss before taxes	**39,962**	**-42,440**	**13,426**	**10,948**	**4,924**	**15,872**
Income taxes	-12,313	5,659	3,801	-2,853		-2,853
Net profit/loss for the period	**27,649**	**-36,781**	**17,227**	**8,095**	**4,924**	**13,019**
Interests of non-controlling shareholders	-2,979	1,711	-4,148	-5,416	-101	-5,517
Net profit/loss for the period attributable to parent company shareholders	**24,670**	**-35,070**	**13,079**	**2,679**	**4,823**	**7,502**
Basic earnings per share*	0.48	-0.68	0.25	0.05	0.10	0.15

* Weighted average number of shares in the reporting period: 51.36 million

3.3. Net assets and capital structure

Overview of real estate holdings

After DEMIRE's strong growth in the 2015 fiscal year, the Kurfürstengalerie in Kassel was acquired in January 2016 and the real estate portfolio was strategically fine-tuned through the sale of individual properties. At the end of the reporting period, the Group owned 174 commercial properties with rentable building space of almost 1.1 million m². Except for one property in the real estate inventory, most of the properties are located in Germany on the outskirts of major cities and mainly in the catchment areas of economically strong metropolitan regions.

The market value calculated for the real estate holdings (investment properties and non-current assets held for sale) based on expert opinions totalled EUR 1,005.6 million (December 31, 2015: EUR 928.1 million) as at the balance sheet date. Based on the weighted residual term of the rental agreements for these properties of 5.3 years (December 31, 2015: 5.4 years), the contractual rents totalled EUR 74.1 million as at the balance sheet date (December 31, 2015: EUR 72.2 million). This corresponds to a yield-weighted occupancy rate of 88.4 % (December 31, 2015: 87.2 %) of the potential rent at full occupancy of EUR 83.9 million (December 31, 2015: EUR 82.7 million).

Measured in terms of potential rent at full occupancy, office properties, at about 63.4 % (December 31, 2015: 65.6 %) made up the largest share of the portfolio at the end of 2016. Around 22.8 % of the potential rent can be achieved with retail use (December 31, 2015: 19.8 %), approximately 8.2 % with logistic properties (December 31, 2015: 8.7 %) and 5.6 % through other uses (December 31, 2015: 5.9 %).

Selected information from the consolidated balance sheet

CONSOLIDATED BALANCE SHEET - ASSETS (SELECTED INFORMATION IN EURK)	December 31, 2016	December 31, 2015	Change	%
Assets				
Total non-current assets	1,001,486	948,597	52,889	6
Total current assets	68,229	71,343	-3,114	-4
Assets, held for sale	24,291	13,005	11,286	87
Total assets	**1,094,006**	**1,032,945**	**61,061**	**6**

The total assets of the DEMIRE Group as at December 31, 2016, increased slightly by 6 % to EUR 1,094.0 million (December 31, 2015: EUR 1,032.9 million). This rise resulted mainly from the purchase of the Kurfürstengalerie in Kassel with EUR 47.5 million and from appreciations of the portfolio.

As at December 31, 2016, non-current assets increased by EUR 52.9 million to EUR 1,001.5 million (December 31, 2015: EUR 948.6 million). At EUR 66.2 million, investment property accounted for most of the increase, EUR 38.4 million of which resulted from fair value adjustments.

As at December 31, 2016, the DEMIRE Group's current assets decreased by EUR 3.1 million to EUR 68.2 million (December 31, 2015: EUR 71.3 million).

The largest item within current assets is trade accounts receivable and other receivables, which rose by EUR 9.2 million to EUR 23.6 million as at December 31, 2016 (December 31, 2015: EUR 14.4 million). Of the total of EUR 23.6 million, purchase price receivables for sold real estate amounted to EUR 10.6 million. This figure includes purchase price receivables in the amount of EUR 2.0 million from the disposal of the Ukrainian companies, a total of EUR 1.4 million from the sale of a property by Fair Value REIT and the interest in SQUADRA in the amount of EUR 7.2 million. At the same time, financial receivables and other financial assets fell by EUR 15.7 million with a decline of EUR 14.4 million resulting from the reassignment against the seller of the shares in Germavest Real Estate S.à.r.l. of 2014/2019 corporate bonds that was used to partially finance the purchase price as part of the acquisition on October 30, 2015. Prior to December 31, 2015, the corporate bonds had been assigned against purchase price payments in cash using funds from the Signal Capital loan.

The second largest item within current assets was cash and cash equivalents, which rose by EUR 2.8 million to EUR 31.3 million (December 31, 2015: EUR 28.5 million) and consists of cash on hand and credit balances with credit institutions.

Assets held for sale as at December 31, 2016 in the amount of EUR 24.3 million (December 31, 2015: EUR 13.0 million) include all properties belonging to Condor Objektgesellschaft Yellow GmbH, the properties in Hohenstein-Ernstthal and Bad Doberan, the partial properties in Ulm and Darmstadt as well as the retail properties in Krefeld, Hanover and Bad Hersfeld.

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (SELECTED INFORMATION IN EURK)	December 31, 2016	December 31, 2015	Change	%
Equity and liabilities				
Equity				
Equity attributable to parent company shareholders	271.945	230.697	41.248	18
Interests of non-controlling shareholders	36.692	34.205	2.486	7
Total equity	**308.637**	**264.902**	**43.734**	**17**
Liabilities				
Total non-current liabilities	719.340	696.746	22.594	3
Total current liabilities	66.029	71.297	-5.267	-7
Total liabilities	**785.369**	**768.043**	**17.327**	**2**
Total equity and liabilities	**1.094.006**	**1.032.945**	**61.061**	**6**

The Group's equity rose by approximately EUR 43.7 million to EUR 308.6 million as at December 31, 2016 (December 31, 2015: EUR 264.9 million).

The cash capital increase in August 2016 resulted in a rise in equity of EUR 17.0 million and EUR 0.1 million resulted from the conversion of 23,937 convertible bonds. Costs associated with equity raising measures of EUR 1.1 million were directly offset against reserves. At EUR 27.6 million, the increase in the Group's equity resulted from the profit for the period.

The equity ratio as at December 31, 2016 amounted to 28.2 % after 25.6 % on the same date in the prior year. It should be noted that the interests in the amount of EUR 62.8 million of non-controlling shareholders in the Fair Value REIT-AG subsidiaries were reported under non-current liabilities according to IFRS.

Under the corresponding accounting under REITG and the inclusion of the minority interests of the Fair Value REIT subgroup, the Group's equity as at December 31, 2016 would increase to EUR 371.4 million (December 31, 2015: EUR 326.1 million) and amount to 33.9 % (December 31, 2015: 31.6 %) of the Group's total assets.

As at December 31, 2016, the non-current liabilities of the DEMIRE Group rose to EUR 719.3 million (December 31, 2015: EUR 696.7 million). The largest portion was non-current financial liabilities, which amounted to EUR 620.6 million (December 31, 2015: EUR 608.8 million). Fair Value REIT also recognised non-controlling interests of third parties in the subsidiaries in the amount of EUR 62.8 million as non-current liabilities.

The DEMIRE Group's current liabilities decreased from EUR 71.3 million as at December 31, 2015 to EUR 66.0 million as at December 31, 2016 and consisted mainly of current financial liabilities amounting to EUR 42.0 million (December 31, 2015: EUR 46.4 million).

The total financial liabilities of EUR 662.6 million (December 31, 2015: EUR 655.2 million) consisted of bonds in the amount of EUR 108.6 million and liabilities to credit institutions totalling EUR 483.4 million (December 31 2015: EUR 207.1 million). Variable interest agreements for borrowed capital existed in the amount of EUR 51.2 million as at the balance sheet date. The average interest rate on financial liabilities was reduced from 5.15 % p.a. as at December 31, 2015 to 4.4 % p.a. as at the end of the reporting year.

As at December 31, 2016, trade payables and other liabilities decreased to EUR 17.4 million (December 31, 2015: EUR 19.9 million). Of this, EUR 10.7 million were trade payables (December 31, 2015: EUR 9.2 million) and EUR 6.7 million (December 31, 2015: EUR 10.7 million) were other liabilities.

The DEMIRE Group's total liabilities of EUR 785.4 million as at December 31, 2016 were slightly above the previous year's figure (December 31, 2015: EUR 768.0 million).

3.4. Net Asset Value („NAV“)

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

NET ASSET VALUE (NAV) ACCORDING TO EPRA IN EURK	December 31, 2016	December 31, 2015	Change	%
Equity	271,945	230,697	41,248	17,9
Fair value of derivative financial instruments	-1,778	0	-1,778	n,a,
Deferred taxes	35,030	25,570	9,460	37,0
Goodwill resulting from deferred taxes	-4,738	0	-4,738	n,a,
EPRA NAV (basic)	**300,459**	**256,267**	**44,192**	**17,2**
Number of shares outstanding (thousands) (basic)	54,247	49,292		
EPRA NAV per share (EUR) (basic)	**5,54**	**5,20**	**0,34**	**6,5**
EPRA NAV (diluted)	**312,506**	**271,586**	**40,566**	**14,9**
Number of shares outstanding (thousands) (diluted)	67,885	63,945		
EPRA NAV per share (EUR) (diluted)	**4.60**	**4.25**	**0.35**	**8.3**

3.5. Loan-to-value ratio (LTV)

The DEMIRE Group’s loan-to-value (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. This ratio developed as follows:

LOAN-TO-VALUE (LTV) EUR MILLION	December 31, 2016	December 31, 2015
Financial liabilities	662.6	655.2
Cash and cash equivalents	31.3	28.5
Net debt	**631.3**	**626.8**
Fair value of investment properties and non-current assets held for sale	**1,005.6**	**928.1**
LTV in %	**62.8%**	**67.5%**

The improvement in the LTV compared to the previous year was due to loan repayments from better operating cash flows as well as the increase in the value of real estate holdings as a result of the Group’s in-house asset, property and facility management.

The maturities of the existing loan agreements are spread over time. In the next two years, refinancing and follow-up financing will be incurred only to a minor extent. In 2019, there will be a higher refinancing requirement of EUR 198.4 million. The liquidity requirement for follow-up financing and repayments (excluding convertible bonds) will be as follows:

MATURITIES	2017	2018	2019	2020	Ab 2021
EUR million	58.9	56.2	198.4	115.8	216.7

At the end of February 2017, DEMIRE Deutsche Mittelstand Real Estate AG prolonged the 2019 promissory note at Deutsche Bank in the amount of EUR 148 million until 2022 at better conditions.

3.6. Financial position and liquidity

Financial management

The financial management of the DEMIRE Group is executed in accordance with the guidelines adopted by the Executive Board. This applies to both the liquidity management and financing. Centralised liquidity analysis helps to optimise cash flows. The primary goal is securing liquidity for the entire Group and maintaining the Group's financial independence. In doing so, the focus is on long-term and stable financing solutions that sustainably and positively support the Group's business development. Except for the financing of Logistikpark Leipzig, all financial obligations and the related credit clauses (financial covenants) were met in the reporting period. Financial covenants are customary and require compliance with financial ratios, such as the loan-to-value ratio (LTV), interest service coverage ratio (ISRC) and the debt service coverage ratio (DSCR). Due to the non-fulfilment of covenants during the year for the financing of Logistikpark Leipzig, payments were made to pledged credit balances as additional collateral pursuant to the loan agreement. Therefore, the Executive Board assumes that this credit line will continue to be available in the future as non-current financial liabilities.

Providing the Supervisory Board with regular information on the financial situation is an integral part of DEMIRE's risk management system. The principles and objectives of capital management and control are presented in the notes to the consolidated financial statement.

Selected information from the consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS (SELECTED INFORMATION IN EURK)	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Change	%
Cash flow from operating activities	35,352	10,815	24,537	227
Cash flow from investing activities	5,726	-29,165	34,891	-120
Cash flow from financing activities	-38,256	42,420	-80,676	-190
Net change in cash and cash equivalents	**2,822**	**24,070**	**-21,248**	**-88**
Cash and cash equivalents at the end of the period	**31,289**	**28,467**	**2,822**	**10**

Cash flow development reflects the investments made to expand the real estate holdings in 2015. A detailed consolidated statement of cash flows is presented in the notes.

Cash flow from operating activities in the 2016 fiscal year in the amount of EUR 35.4 million was EUR 24.5 million higher than its level of EUR 10.8 million in the previous fiscal year. On the one hand, this reflects the fact that the real estate acquired in 2015 and 2016 has contributed rental income for a full 12 months for the first time and, on the other hand, the increase in administrative costs from increasing the staff and expanding the Group's structures.

Interest income received was EUR 0.4 million in the 2016 fiscal year (2015 fiscal year: EUR 0.2 million). Of the income taxes recognised on the net profit for the period, an amount of EUR 1.3 million (2015 fiscal year: EUR -0.2 million) was paid, mainly by Germavest S.à.r.l.

Cash flow from investing activities totalled EUR 5.7 million in the reporting year compared to EUR -29.2 million in fiscal year 2015. Investments in property, plant and equipment amounted to EUR 11.9 million. Liquid funds of EUR 4.4 million (2015 fiscal year: EUR 35.6 million) were used for the acquisition of investment properties; namely, the purchase of the Kurfürstengalerie in Kassel. Proceeds from the sale of interests in subsidiaries, investments and real estate holdings amounted to EUR 22.0 million.

Cash flow from financing activities in the 2016 fiscal year amounted to EUR -38.3 million compared to EUR 42.4 million in 2015. The company generated net proceeds of EUR 15.9 million from the cash capital increase at the end of August 2016 after deducting EUR 1.1 million in costs and EUR 12.9 million from the issue of the remaining corporate bonds. Proceeds from the assumption of liabilities amounted to EUR 48.0 million (2015 fiscal year: EUR 54.7 million). These proceeds and the operating cash flow were used to pay interest of EUR 33.5 million (2015 fiscal year: EUR 21.3 million) and redeem financial liabilities of EUR 81.5 million (2015 fiscal year: EUR 36.7 million), particularly the HFS bond.

The net change in cash and cash equivalents amounted to EUR 2.8 million (2015 fiscal year: EUR 24.1 million). Cash and cash equivalents at the end of the reporting period rose to EUR 31.3 million after EUR 28.5 million at the end of the previous fiscal year.

The DEMIRE Group was always in a position to fully meet its payment obligations at all times during the reporting period.

4. Employees

As part of the Group's growth, particularly through the establishment and continued development of in-house property, asset and facility management activities, the DEMIRE Group quantitatively and qualitatively strengthened its activities in the 2016 fiscal year by adding experienced professionals. Additional important strategic and organisational functions were taken out of the hands of external service providers and brought back into the Company. The Company's flat hierarchies offer motivated and dedicated employees a wide range of challenging activities requiring accountability. Quick decision-making and direct, open communication at all levels promote constructive cooperation.

DEMIRE's market- and performance-based compensation system helps keep managers and employees focussed on achieving corporate and divisional objectives and gives them the opportunity to participate in the Company's performance on the capital market. Remuneration is reviewed and adjusted within the Company regularly.

As at December 31, 2016, the Group employed 77 staff members, excluding the members of the Executive Board (December 31, 2015: 54), in the consolidated and non-consolidated group companies.

5. Comparison of forecasts with actual business development

The integration of the real estate acquired in 2015 and early 2016 and the improvement in the future financial result through redemptions and refinancing took priority over continued strong growth in 2016. DEMIRE repaid the high-yield HFS bond during the fiscal year, which reduced the loan-to-value ratio (LTV) since mid-year from 66.1 % to 62.8 % of the property portfolio. With the full repayment of the HFS bond, DEMIRE has further reduced the average interest rate on financial liabilities to 4.4 % p.a. and reached the target corridor projected for the end of 2016 of 4.0 % to 4.5 % p.a.

In 2016, the expectations concerning the occupancy rate and the reduction in operating costs were achieved as targeted. This led to a corresponding increase in the value of the portfolio. At the same time, DEMIRE separated itself from non-core properties and is fully concentrated on strategically aligned properties. During the reporting year, the legacy portfolio was sold off and streamlined as much as possible generating a positive earnings effect, even though the goal of a complete sale has not yet been fully achieved.

In the 2016 financial year, the adjusted net profit for the period (FFO) before minority interests amounted to EUR 8.1 million and EUR 13.0 million when taking into account real estate sales. After minorities, FFO amounted to EUR 2.7 million and EUR 7.5 million when taking into account real estate sales. Thus, the FFO forecast before minorities of EUR 19.1 million and after minorities of EUR 13.9 million for the year 2016 was not achieved.

The main reason for the deviation from the forecast is that, contrary to the Executive Board's expectations, the planned reductions in administrative costs could not yet be achieved. Another reason was the inability to offset taxes from certain subsidiaries with DEMIRE's loss carryforwards as planned. Unexpectedly high costs for leasehold improvements were also incurred, which led, however, to a reduction in vacant space and an increase in contracted rental income.

DEMIRE made it a top priority to secure liquidity because the level of cash flow generated from operations would not be sufficient enough to fund the targeted growth. Various measures for raising equity and debt were used to achieve this aim and even operating cash flow was increased successfully as a result of the growth in rentals.

The targeted continued improvement in net asset value was also achieved. In absolute figures, the basic or diluted NAV according to EPRA continued to grow and increased by around 6.5 %, or 8.3 % per share.

6. General statement concerning the Group's business performance and financial position

In just three years since the Group's realignment and focus on the German commercial real estate market in the summer of 2013, DEMIRE has succeeded in building a property portfolio with a market value of roughly EUR 1.0 billion, thereby creating the basis for profitable business development going forward. Taking into account the acquisition of Kurfürsten-Galerie in Kassel in January 2016 and the sale of individual, non-strategic real estate, the DEMIRE Group's contractual annual rental income from investment properties has grown to roughly EUR 76.4 million allowing DEMIRE to strengthen its position as one of the leading holders of commercial real estate in Germany while at the same time continuing to streamline the legacy portfolio. The sale of interests and properties contained in the legacy portfolio has led to a positive contribution to the Group's profit/loss.

The profit/loss was burdened by interest charges from financial liabilities assumed at high interest rates during the Company's start-up phase. In the reporting year, the groundwork has already been laid to significantly reduce average interest from 2017 on through more favourable refinancing.

An investment in the Company's future was also made in terms of organisation, for example, through insourcing jobs. Although this resulted in high general administrative expenses in the reporting year, it will lead to savings in the years to come.

III. CHANGES IN THE COMPOSITION OF THE GOVERNING BODIES

The terms of office of the Supervisory Board members Prof Dr Hermann Anton Wagner, Dr Peter Maser and Mr Günther Walcher ended at the end of the Annual General Meeting on June 30, 2016 that resolved on the discharge of the Supervisory Board members for the 2015 fiscal year. All three members are reappointed to the Supervisory Board until the Annual General Meeting that decides on the discharge of the members of the Supervisory Board for the fiscal year ending on December 31, 2020. Prof Dr Hermann Anton Wagner was reappointed as the Chairman of the Supervisory Board.

After Mr Günther Walcher and Dr Peter Maser in connection with changes in the shareholder's structure, resigned as members of the Supervisory Board effective January 23, 2017, and February 13, 2017, respectively, DEMIRE was able to win Mr Frank Hölzle and Dr Thomas Wetzel as new Supervisory Board members. Both were appointed members of the Supervisory Board by order of the District Court of Frankfurt/Main on February 14, 2017. The appointment of Frank Hölzle and Dr Thomas Wetzel as Supervisory Board members will initially be limited until the next Annual General Meeting on June 29, 2017. DEMIRE intends to propose to the shareholders that Mr Hölzle and Dr Wetzel be confirmed as members of the Supervisory Board until June 2021.

Effective February 1, 2016, Mr Frank Schaich was appointed as a new member of the Company's Executive Board for a period of three years until January 31, 2019. At the same time, Mr Schaich remained the sole Executive Board member of Fair Value REIT-AG. On October 31, 2016, Mr Schaich resigned from his position on the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG at his own request and on mutually amicable terms with the Supervisory Board. He remained on the Executive Board of Fair Value REIT-AG until March 31, 2017.

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

On April 12, 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that Mr Hon.-Prof Andreas Steyer will leave the Company's Executive Board effective June 30, 2017 to pursue new challenges. His Executive Board contract, which runs until March 31, 2019, was terminated prematurely by mutual agreement with the Supervisory Board. Mr Markus Drews will be the new Speaker of the Executive Board (CEO) starting July 1, 2017.

IV. REMUNERATION REPORT

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

1. 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 are based on the responsibilities and performance of the Executive Board member, the position of the Company, as well as the sustainability of the Company's 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 and the remuneration of senior management and the overall workforce, and also the development over time. The Supervisory Board establishes the definition of who is to be included in the categories of senior management and relevant workforce. The total remuneration of Executive Board members consists primarily of a fixed remuneration component as well as a variable remuneration component with short- and long-term incentive components (performance bonus). Remuneration can be adjusted as at January 1 of each calendar year.

In addition, Executive Board members Hon.-Prof. Steyer und Mr Drews also each received 400,000 stock options in April 2015 under the 2015 stock option programme that was resolved at the Annual General Meeting on March 6, 2015. By introducing this stock option programme, the Executive Board members who shape and implement the corporate strategy and who are, therefore, largely responsible for the Company's development, have an opportunity to share in the risks and rewards of DEMIRE. For the details on the stock option programme, please refer to the notes. An identical package of 400,000 virtual stock options based on the existing stock option programme was agreed for the third member of the Executive Board, Mr Frank Schaich, who was appointed effective as at February 1, 2016. This package was taken into consideration monetarily with his departure from DEMIRE's Executive Board effective October 31, 2016.

In the event that the majority of the Company's voting rights are acquired by a third party, the members of the Executive Board have a special right of termination. 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 founding or purchasing 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 German 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. Remuneration in excess of the amount intended for the remaining term of the employment contract will not be granted.

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

Existing employment contracts

(1) Herr Hon.-Prof. Andreas Steyer

The fixed component of remuneration is paid out monthly in the form of a basic salary. The Executive Board member has a fixed-term employment contract.

On December 2, 2015, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG extended the contract of Hon.-Prof. Andreas Steyer by three years thereby extending his Executive Board contract, which expired at the end of February 2016, as amended through February 2019.

The contract will extend automatically by the length of the period Hon.-Prof. Andreas Steyer has been reappointed as an Executive Board member of the Company. In addition to a basic annual salary of EUR 250,000.00, he receives an annual performance bonus of up to 50 % of his annual basic salary.

(2) Herr Markus Drews

On December 2, 2015, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG renewed the contract with Markus Drews. The contract is extended by the term for which the Executive Board member has been reappointed as a member of the Executive Board. In addition to the annual basic salary of EUR 230,000.00, he receives a performance and success-based bonus of up to EUR 125,000.00 per year. On February 17, 2017, the Supervisory Board extended the Executive Board contract of Markus Drews, COO, for a further three years until the end of 2020. His annual basic salary rose to EUR 250,000.00 effective March 1, 2017.

(3) Herr Ralf Kind

On February 17, 2017, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG concluded a contract with Mr Kind as a new member of the Executive Board as of March 1, 2017 for a period of three years. In addition to the annual basic salary of EUR 230,000.00, which increases to EUR 250,000.00 on July 1, 2017, he receives a performance and success-based bonus of up to EUR 125,000.00 per year as well as a payment dependent on the Company's share price performance according to a virtual stock option plan.

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

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

The employment relationship terminates no later than the end of the month in which the respective Executive Board member has reached the end of 65 or 67 years of age.

Terminated employment contracts

Mr Frank Schaich

On January 29, 2016, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG concluded a contract with Mr Frank Schaich as a new member of the Executive Board for a period of three years starting on February 1, 2016. In addition to the annual basic salary of EUR 230,000.00, Mr Schaich received a performance and success-based bonus of up to EUR 125,000.00 per year. In accordance with the termination agreement of October 31, 2016, Mr Schaich's contractual claims until the end of March 31, 2017, were fully met and the bonus for the entire term of the agreement from March 1, 2016 to March 31, 2017 was fully paid. He was also granted a lump-sum payment to a private health and long-term care insurance for one year. The virtual stock option rights were compensated by an amount of EUR 120,000.00 and paid in March 2017. Mr Schaich also received a compensation payment equal to half of the most recent contractual benefits for a period of six months, which will be paid out in six equal instalments from April 2017 to October 2017, offsetting other remuneration received by Mr Schaich during this period. The contributions to the pension plan granted to Mr Schaich will be paid by DEMIRE, and a company car will be available in accordance with the Executive Board contract until March 31, 2018.

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

BENEFITS GRANTED EUR	Hon.-Prof Andreas Steyer Speaker of the Executive Board, since March 5, 2013			
	FY 2015	FY 2016	FY 2016 (Min)	FY 2016 (Max)
Basic salary	226,250.04	249,999.96	249,999.96	249,999.96
Fringe benefits	18,993.56	17,326.74	17,326.74	17,326.74
Total	**245,243.60**	**267,326.70**	**267,326.70**	**267,326.70**
One-year variable remuneration	81,667.00	125,000.00	0.00	125,000.00
Multi-year variable remuneration	107,500.00	0.00	0.00	0.00
Stock options	221,940.00	237,618.00	237,618.00	237,618.00
Total	**656,350.60**	**629,944.70**	**504,944.70**	**629,944.70**
Pension expenses	3,754.24	0.00	0.00	0.00
Total remuneration	**660,104.84**	**629,944.70**	**504,944.70**	**629,944.70**

BENEFITS GRANTED EUR	Markus Drews Member, since December 1, 2014			
	FY 2015	FY 2016	FY 2016 (Min)	FY 2016 (Max)
Basic salary	180,000.00	230,000.04	230,000.04	230,000.04
Fringe benefits	32,686.75	31,561.00	31,561.00	31,561.00
Total	**212,686.75**	**261,561.04**	**261,561.04**	**261,561.04**
One-year variable remuneration	100,000.00	125,000.00	0.00	125,000.00
Multi-year variable remuneration	24,000.00	0.00	0.00	0.00
Stock options	221,940.00	237,618.00	237,618.00	237,618.00
Total	**558,626.75**	**624,179.04**	**499,179.04**	**624,179.04**
Pension expenses	2,036.53	2,568.00	2,568.00	2,568.00
Total remuneration	**560,663,.28**	**626,747.04**	**501,747.04**	**626,747.04**

BENEFITS GRANTED EUR	Frank Schaich Member, from February 1 to October 31, 2016			
	FY 2015	FY 2016	FY 2016 (Min)	FY 2016 (Max)
Basic salary	0.00	153,333.36	153,333.36	153,333.36
Fringe benefits	0.00	6,951.00	6,951.00	6,951.00
Total	**0.00**	**160,284.36**	**160,284.36**	**160,284.36**
One-year variable remuneration	0.00	31,250.00	31,250.00	31,250.00
Multi-year variable remuneration	0.00	0.00	0.00	0.00
Stock options	0.00	0.00	0.00	0.00
Total	**0.00**	**191,534.36**	**191,534.36**	**191,534.36**
Pension expenses	0.00	0.00	0.00	0.00
Compensation granted in the context of resignation from DEMIRE AG's Executive Board	0.00	222,133.07	222,133.07	222,133.07
Total remuneration	**0.00**	**413,667.43**	**413,667.43**	**413,667.43**

Value of benefits paid in the fiscal year (in EUR)

BENEFITS EUR	Hon.-Prof Andreas Steyer Speaker of the Executive Board, since March 5, 2013	
	FY 2015	FY 2016
Basic salary	226,250.04	249,999.96
Fringe benefits	18,993.56	17,326.74
Total	**245,243.60**	**267,326.70**
One-year variable remuneration	0.00	125,000.00
Multi-year variable remuneration	140,833.00	0.00
Total	**386,076.60**	**392,326.70**
Pension expenses	3,754.24	0.00
Total remuneration	**389,830.84**	**392,326.70**

BENEFITS GRANTED EUR	Markus Drews Member, since December 1, 2014	
	FY 2015	FY 2016
Basic salary	180,000.00	230,000.04
Fringe benefits	32,686.75	31,561.00
Total	**212,686.75**	**261,561.04**
One-year variable remuneration	0.00	125,000.00
Multi-year variable remuneration	24,000.00	0.00
Total	**236,686.75**	**386,561.04**
Pension expenses	2,036.53	2,568.00
Total remuneration	**238,723.28**	**389,129.04**

BENEFITS GRANTED EUR	Frank Schaich Member, from February 1 to October 31, 2016	
	FY 2015	FY 2016
Basic salary	0.00	153,333.36
Fringe benefits	0.00	6,951.00
Total	**0.00**	**160,284.36**
One-year variable remuneration	0.00	0.00
Multi-year variable remuneration	0.00	0.00
Total	**0.00**	**160,284.36**
Pension expenses	0.00	0.00
Compensation paid in the context of resignation from DEMIRE AG's Executive Board	0.00	0.00
Total remuneration	**0.00**	**160,284.36**

2. Remuneration of the Supervisory Board

The amount of Supervisory Board remuneration is determined by the Annual General Meeting and is governed by Section 16 („Compensation“) in the Articles of Association. The last agreed levels of remuneration remain valid until the Annual General Meeting resolves a revision of these levels. Each member of the Supervisory Board receives a fixed salary payable annually of EUR 45,000.00. The Supervisory Board's chairman receives three times the level of base salary and the deputy chairman receives twice the level of base salary. Supervisory Board members, who were not in office for a complete fiscal year, receive compensation in accordance with the duration of their membership. The fixed, annual level of remuneration payable as of the 2017 fiscal year was adjusted to EUR 30,000.00 in the reporting year based on a resolution of the Annual General Meeting on June 30, 2016.

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

For more information, please refer to the relevant comments in the notes.

V. REPORT ON OPPORTUNITIES, RISKS AND OUTLOOK

1. Opportunities report

1.1. Macroeconomic and sector opportunities

The macroeconomic and industry environment is currently favourable for DEMIRE and continues to offer good opportunities for building a value-enhancing real estate portfolio. Germany is exhibiting robust and sound economic development and, as a result, demand for commercial space remains steady. DEMIRE intends to take full advantage of the favourable environment to further increase its enterprise value by carefully and professionally selecting new properties and employing active property, asset and facility management with respect to its existing properties. From Great Britain's decision in June 2016 to withdraw from the European Union (the Brexit vote), we see opportunities for our portfolio rather than risks. As part of Britain's exit process, international corporations headquartered in the UK could seek alternatives in EU countries on the mainland. In this respect, Germany with the seat of the European Central Bank in Frankfurt am Main offers good opportunities.

1.2. Business opportunities

The strong growth experienced in recent years, particularly from the takeover of the majority interest in Fair Value REIT-AG at the end of 2015, has given DEMIRE the necessary size to conclude framework agreements with national utility suppliers for basic utilities and lower its costs through volume purchases and better service conditions. The Company's greater size will have the added advantage that the costs of the daily property management activities will decline thanks to the in-house management of properties through the asset, property and facility management division.

The gradual insourcing of property management and group functions as well as the streamlining and harmonisation of the processes and IT structure that accompany this process also result in economies of scale for Company. With property management, the allocable costs can be reduced, which improves the direct relationship with these tenants. If this leads to an increase in lease terms and a higher probability of lease renewal, then turnover and vacancy rates will decline.

Moreover, the increased demand, especially for commercial space in the regions where DEMIRE holds real estate, also offers opportunities for new leases of existing vacancies.

1.3. Financial opportunities

DEMIRE intends to use the low interest rate environment to refinance the existing liabilities that have comparably high interest rates at more favourable terms and thereby further reduce the average interest on debt.

At the same time, opportunities to finance real estate acquisitions continue to be good and, in the Company's opinion, will remain so for the foreseeable future.

1.4. Summarised assessment of DEMIRE's opportunities

DEMIRE has created the essential foundation to be sustainably successful as one of the leading holders of German commercial real estate with a balanced risk-reward profile and attractive cash flows. DEMIRE intends to offer shareholders not only an opportunity for medium-term value appreciation but also steady dividends. The Executive Board believes the chances are strong that DEMIRE will increase its business volume and profits in the years to come.

2. Risk report

The decision in 2013 to shift the Company's focus towards German commercial real estate has been successfully implemented over the past two fiscal years through 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.

2.1. Risk management system

The objective of the risk management system is to ensure the Company's lasting viability, monitor the compliance of the risk strategy derived from the corporate strategy, control of the Company through the appropriate or necessary actions and 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.

The focus of risk management is securing liquidity, identifying and limiting risks from acquisitions, divestitures and management of the existing portfolio. The risks identified are quantified as best as possible. Given the DEMIRE Group's flat organisational structure, the Executive Board is directly involved in all major decisions and also monitors whether the measures agreed are implemented and adhered to limit risk. 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.

The Supervisory Board is regularly informed 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.

2.2. Risks

The text below gives an overview of the major risks for the DEMIRE Group. For risk quantification, particularly with respect to the impact of interest rate changes, please refer to the sensitivity analysis in the notes to the consolidated financial statements under the sections „Investment Properties" and „Financial Instruments".

2.2.1. Macroeconomic, market and sector risks

The DEMIRE Group's portfolio is exposed to a variety of macroeconomic, market and industry-related risks:

DEMIRE Group's main business activity of German commercial real estate is exposed to general the risk of declines in value. The broad diversification of activities in the past two years through acquisitions of commercial real estate in almost all German states has helped lead to a situation where changes in a specific location have only a small impact on the overall portfolio. The macroeconomic environment, the level of interest rates and positive general business expectations all indicate that the German market is currently in a positive state overall.

2.2.2. Financial risk

2.2.2.1. Liquidity risk

Liquidity management serves to guarantee 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 the parent company. At the level of the respective property holding companies, liquidity is affected by revenues from real estate less management, administrative and financing costs and at the company level, by proceeds from Group companies in the form of dividends, profit distributions and withdrawals.

There is basically a risk that there may be a time during the year when the Company does not have access to sufficient liquidity to meet its current obligations at all times.

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

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

According to the Management Board there is currently no risk that the Company does not have sufficient access to liquidity. As at the reporting date, however, the funds available and the cash flows planned for the year 2017 are sufficient for the current needs of the ongoing operations.

2.2.2.2. Risks resulting from covenants

There is a risk that the income from and market values of the real estate will be reduced. This could include the deterioration of the loan-to-value ratio („LTV"), debt service coverage ratio („DSCR"), interest service coverage ratio („ISCR") and capital adequacy. As a result, DEMIRE could be confronted with the need to provide additional collateral, redemption payments or deposits on pledged credit balances as further credit security or, ultimately, with the extraordinary termination of financing.

2.2.2.3. Interest rate risk

To finance its German commercial real estate, the DEMIRE Group uses debt financing. This financing consists of both variable and fixed-interest loans as well as listed instruments that contain options to convert the instruments into shares in the Company.

In the case of variable interest loans, an increase in interest rates places additional pressure on the Group. As at the balance sheet date, there were fixed-interest rate agreements in the amount of EUR 611.4 million and variable interest rate agreements of around EUR 51.2 million. In order to reduce the risk of interest rate increases for the financial liabilities bearing variable interest rates, interest rate hedges were concluded in the form of interest derivates, which at the balance sheet date amounted to EUR 32.7 million.

Because low interest rates generally cause transaction prices for real estate to rise, the interest rate level also has an impact on the purchase prices of newly acquired real estate. Interest rates also play an important role in the appraisal of investment properties.

The evaluation of interest rate policy is carried out at regular intervals and in close coordination with the Supervisory Board.

2.2.2.4. 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.

2.2.3. 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.

2.2.3.1. Rental and property management risks

There are risks of rent reductions, delinquent rents and space vacancies. In addition, index-based rent increases may not always be made for the full amount, be delayed or not enforced at all. Furthermore, in addition to revenue shortfalls, rental-related costs may arise (e.g. tenant incentives, expansion costs, payments of moving expenses, or rent-free periods).

There is also the risk that unexpected costs may arise for maintenance and repair work or adjustments to the property to meet current requirements.

At the time of preparing this report, no material rental risks existed based on the tenant structure that could have a direct effect on the Group's profitability.

2.2.3.2. Valuation risk

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

During subsequent valuations of investment properties in the course of quarterly, half-year or annual financial statements, negative changes may occur to the fair values of the respective properties as a result of possible changes in the internal and external parameters used in the valuation report. This would then result in impairments, which could have an effect on the consolidated profit/loss and, in some cases, a significantly negative effect. This would not, however, have a direct impact on the Group's liquidity.

2.2.4. Other risks

2.2.4.1. Legal risk

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

Other legal risks can generally arise from a variety of conflicts, such as those in relation to rentals or personnel matters.¬ Rental disputes are also a part of the everyday life of real estate companies, which must be handled professionally.

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

2.2.4.2. Tax risk

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

Restrictions that are relevant to DEMIRE include restrictions on what is referred to as the interest barrier as well as those for minimum taxation and extended trade tax deductions for property holdings.

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 the 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 property trading and non-property-related services in return for payment
- Compliance with the free float ratio of a minimum 15 %
- Compliance with the maximum direct interest of less than 10 % of the shares or voting rights
- Minimum equity of 45 % of the value of immovable assets
- A proportion of immovable assets of at least 75 % of total assets
- At least 75 % of gross income must be derived from immovable assets
- Distribution of at least 90 % of the net profit under commercial law by the end of the following fiscal year

As a REIT, Fair Value REIT-AG is exempt from corporate and trade taxes. If Fair Value REIT-AG does not consistently meet these requirements, this may result in penalties and, in the case of repeated infringement, the possible loss of tax exemptions and the withdrawal of its status as a German REIT. This could eventually lead to tax payments and considerable liquidity outflows. If the REIT status was lost, this could also lead to damage claims from shareholders of Fair Value REIT-AG.

2.2.4.3. Personnel risk

The DEMIRE Group could lose Executive Board members or employees and may not be in a position to replace them with sufficiently qualified personnel.

2.2.4.4. IT risk

The IT systems of DEMIRE, its subsidiaries and their service providers may lose important data irretrievably or may be the victim of unauthorised access from outside parties. Both of these events could cause business disruptions and costs and may ultimately lead to financial losses.

2.2.5. General acquisition and integration risk

Each purchase is audited in detail by DEMIRE using external specialists for legal, commercial and technical due diligence. Nevertheless, it cannot be ruled out that objectives associated with an acquisition, such as synergies, may not be realised, only partially realised or realised at a later date. Actual developments may, therefore, differ from the estimates made at the time of acquisition.

2.3. Internal control and risk management system in the financial reporting process

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

Their purpose is to achieve the following:

- 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, prepares the consolidated financial statements. Before this process, the bookkeeping and preparation of the Group companies' annual financial statements are carried out mostly by external specialists.

The required monthly reports and the preparation of the annual financial statements are fully and promptly communicated and internally monitored. Each process is based on a detailed timetable. 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 principle used in this process.

Other essential tools include:

- Uniform accounting policies by selecting one external service provider for the majority of Group companies
- The 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, for example, to provide an expert opinion on the market value of real estate

Together with our external 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 fiscal year 2016, 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 together our service providers:

- The identification and analysis of key risk and control areas
- Monitoring and plausibility checks to monitor the processes and their results at the level of the Executive Board and the operational units
- Preventative control measures in finance and accounting and of the operational business processes essential for accounting
- Measures to ensure the orderly, complete and timely computerised processing of accounting-related issues and data
- Measures for monitoring of accounting-related internal control and risk management system and the steps necessary to eliminate any control weaknesses

2.4. Overall assessment of the risk situation

The risk situation of the DEMIRE Group and the Company has fundamentally improved in the reporting period aided greatly by the acquisitions in 2015 and early 2016. The larger overall portfolio led to a significant strengthening of the revenue basis and cash flows. The portfolio's risk structure was positively altered by regional diversification and the first purchases of retail and logistic real estate. The Company also clearly improved its visibility on the capital market through the issue of equity and debt capital. This will make it easier and less expensive for the Company to raise capital in the future.

At the same time, the remaining risks related to the legacy portfolio have been further reduced to a comparatively low level due to the divestments of the reporting year. The Executive Board is currently not aware of any risks that could threaten the Company's continued existence. The Company is confident that it will be able to take advantage of the opportunities and challenges that present themselves going forward, without having to take on any undue high risk.

3. Report on outlook

3.1 Economic environment with some uncertainty

DEMIRE Mittelstand Real Estate AG expects the overall economic conditions in 2017 to remain favourable for companies in the real estate sector. Overall economic development in Germany appears robust in the context of a moderately growing global economy. The Institute for the World Economy (IfW) is expecting gross domestic product in Germany to grow approximately 1.7 % in the current year and 2.0 % in the following year. The IfW expects private consumption to continue to contribute significantly to the overall economic development in the current fiscal year due to the ongoing positive labour market.

Several unpredictable economic issues are causing uncertainty when it comes to the development of the global economy. These issues include a change in the U.S. presidency, Brexit, the oil price and monetary policy.

Shortly after the presidential elections in the United States, share prices were on the rise due to announced tax cuts and investment programmes. In the medium term, however, economic researchers from the IfW do not expect any major effects on the global economy from the changes in the United States. So far, the impact of the UK's Brexit decision has been lower than initially expected, especially as economic development in the country itself is robust. In the long run, it remains to be seen how exports to the UK from other countries such as Germany will affect GDP. Despite an increase in the oil price with the decision by the oil exporting countries (OPEC) to curb oil production, the IfW believes the effects on the development of the global economy are rather low, especially as the analysts are expecting the oil price to decline further due to continued excess supply. The divergence of interest rates between the US and Europe is also creating uncertainty. Although the US Federal Reserve has started to raise interest rates while the ECB continues its low interest rate policy, an increase in interest rates is still expected for Europe. Experts, however, do not expect any increases in the current year 2017.

3.2. Sector economy not setting any records

DEMIRE's business development is influenced mainly by the development of the real estate sector, especially by the commercial real estate market in which the Company operates.

After a significant increase in transaction volumes in Germany's commercial real estate market for six consecutive years, the market reached a record high of EUR 55.1 billion in 2015. In 2016, as expected, the market declined slightly by 4 % to EUR 52.9 billion. According to the analysts of Jones Lang LaSalle (JLL), the unpredictability of the economic policy environment makes it difficult to provide a reliable forecast. The impending elections this year and the potential for increased protectionism in individual countries could also affect interest rate policy. If interest rates rise, the attractiveness of other financial market products will increase. As a result, demand for real estate as a form of investment would be lower and the recent demand pressure on real estate would cease. According to JLL, however, Germany will continue to be a sought-after location for investment in commercial real estate in 2017 due to the favourable economic conditions. Real estate experts are forecasting a transaction volume in 2017 for the German commercial real estate market in the range of EUR 45 and 50 billion.

The outlook is similar when looking at the asset classes individually. For office space, JLL anticipates a drop in turnover of around 12 % for the TOP 7 locations. However, due to the record turnover in recent years, this decline does not represent a fundamental trend but rather the beginning of a normalisation. In addition, the lack of suitable areas at these locations also has an impact, which according to Deutsche Immobilien-Partner (DIP), may lead to a continued rise in top rents. The 2017 trend barometer from Ernst & Young Real Estate suggests that the focus of investment in 2017 will turn towards office property due to the expected lower interest in residential property.

Real estate experts are expecting the turnover in office space at the 15 locations analysed by DIP to be above-average in 2017. This suggests that the attractiveness of secondary sites will continue in 2017. The Ernst & Young 2017 trend barometer predicts that the lack of offers in A locations will also continue to lead to investments in secondary locations in 2017.

In the case of retail real estate, JLL forecasts a more moderate development in 2017 where even a decline in top rents would be conceivable. Based on the logistics indicator prepared by the IfW on behalf of the German Logistics Association, the logistics industry in Germany is expected to develop positively in 2017, which is likely to result in a corresponding demand for logistics properties.

3.3. Anticipated development of the most important key performance indicators

Forecasts for the German economy and the commercial real estate market continue to be positive, which in turn is also positive for DEMIRE Deutsche Mittelstand Real Estate AG's business model. Forecasts are projecting solid performance for secondary locations in Germany, which are DEMIRE's primary focus and the reason the Company expects continued positive business performance.

After the disposal of the properties already sold and thereby a continued focus on core real estate, DEMIRE expects the rental of properties from the real estate portfolio as at December 31, 2016 to lead to a continued slight rise in rental income in the 2017 fiscal year, provided no further changes. This rise should be supported by the Company's active asset-, property- and facility management, which is also anticipated to increase occupancy rates and bring about a further decline in non-allocable costs in 2017.

Based on the above rental income, DEMIRE expects a much higher positive operating cash flow for 2017 than in 2016. At the beginning of the year, cash flow from operations was still under significant pressure due to payments of expenses in connection with acquisitions and the purchase of interest in Fair Value REIT-AG in 2015.

DEMIRE intends to achieve a continued reduction in the weighted average interest rate on financial liabilities by the end of 2017 through more favourable refinancing and follow-up financing. In addition, a further reduction in the loan-to-value ratio (LTV) facing 60 % is also targeted in 2017. DEMIRE expects to successfully achieve these targets by means of refinancing, the sale of non-strategic real estate and by increasing the amount of equity underlying possible acquisitions should they take place.

If these expectations are met, the Company's net asset value (NAV) on an almost unchanged amount of shares should continue to rise with a virtually unchanged share number. It is difficult to predict to what extent this will occur since the NAV always depends on the fair value adjustments of investment properties and further parameters.

3.4. General statement on the Group's expected performance

After a slight decline in the transaction volume in 2016 after several record years, the economic and real estate environment for commercial property in Germany appears to be normalising. This means the outlook and overall environment for DEMIRE Deutsche Mittelstand Real Estate AG's business model remain positive – particularly for secondary locations in Germany, which are DEMIRE's focus. At the international level, however, unpredictability is leading to some uncertainty in assessing the political environment and, particularly, the development of interest rates.

Given this environment, DEMIRE expects stable rental incomes for the financial year 2017. The Executive Board expects the FFO before minorities to increase in 2017. The Board will publish a new FFO forecast for the 2017 fiscal year after updating the corporate planning.

DEMIRE's estimate for future developments is based on the following assumptions:

- The German economy, labour market, consumption and especially the real estate market remain robust
- Brexit has no major negative impact on the economy in Germany and the eurozone
- There is no further heightening of geopolitical tension
- Central banks do not make any significant increases in key interest rates
- The requirements of the credit institutions for transactions and refinancing do not materially tighten
- There are no unforeseen regulatory changes affecting DEMIRE's business
- The risk of rental payment defaults, e.g. through insolvency, remains low

VI. ACQUISITION-RELATED INFORMATION

1. Composition of subscribed capital

a.) On December 31, 2016

On December 31, 2016, the Company had fully paid-up subscribed capital in the amount of EUR 54,246,944.00 divided into 54,246,944 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 9,000 no-par value bearer shares were not recorded in the commercial register until the end of January 2016. The shares of DEMIRE Deutsche Mittelstand Real Estate AG have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

The increase in share capital resulted from conversions of the 2013/2018 convertible bonds and a cash capital increase in August 2016.

An increase of 23,937 shares resulted from conversions from the 2013/2018 convertible bond. The Company's capital is conditionally increased following the exercise of conversion rights from the 2013/2018 convertible bond and the issue of 23,937 new shares from Conditional Capital I/2013 by up to EUR 6,285,088.00, divided into a maximum of 6,285,088 no-par value bearer shares with a notional interest of EUR 1.00. The original number of convertible bonds was 11,300,000. Following the conversion of a further 23,937 bonds in the reporting period, the remaining number of conversions rights totalled 10,637,763. The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds that were issued based on the authorisation of the Annual General Meeting of October 23, 2013.

The Company's share capital was increased on August 31, 2016 by EUR 4,930,722.00 through a 10 % cash capital increase. The 4,930,722 new, no-par value ordinary bearer shares were largely subscribed to by institutional investors in the context of a private placement. The issue price of the new shares was EUR 3.45. The new shares are entitled to dividends as of January 1, 2016. The capital increase was recorded in the commercial register on August 31, 2016.

b) Development after December 31, 2016

Prior to the publication of the Annual Report, a total of 10,800 conversion rights were exercised creating 10,800 new, no-par value bearer shares.

2. Restrictions on voting rights and the transfer of shares

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

3. Direct or indirect interests in capital that exceed 10 % of the voting rights

a.) On December 31, 2016

On December 31, 2016, the following DEMIRE Deutsche Mittelstand Real Estate AG shareholders held interests in the Company representing more than 3 %, 5 % and 10 % of the voting rights:

Mr Klaus Wecken held a total of 26.53 % of the shares through his interest in Wecken & Cie, Basel, Switzerland.

Mr Rolf Elgeti, as general partner of Obotritia Capital KGaA, held a total of 11.89 % of the shares through interests in Jägersteig Beteiligungs GmbH, Försterweg Beteiligungs GmbH and Obotritia Beteiligungs GmbH.

On December 31, 2016, the Company was not aware of any further notifications of direct or indirect interests that exceed 3 %, 5 % and 10 % of the voting rights.

b.) Development after December 31, 2016

On April 26, 2017, Ms Sigrid Wecken notified the Company under Section 26 (1) WpHG that her voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the 5.00 % threshold on April 13, 2017, and amounted to 5.00 % (corresponding to 2,713,880 voting rights). At the time of the report's publication, the Company had received no further notifications of direct or indirect interests that exceed 3 %, 5 % and 10 % of the voting rights.

4. Holders of shares endowed with special rights conferring power of control

Such shares do not exist.

5. 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.

6. 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

6.1. Appointment and replacement of Executive Board members

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

6.2. Amendments to Articles of Association

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

7. Authorisation of the Executive Board to issue and repurchase shares

7.1. Authorised Capital

a.) On December 31, 2016

Based on the resolution of the Annual General Meeting of June 30, 2016, Authorised Capital II/2015 and III/2015 amounting to EUR 13,675,702.00 and EUR 7,069,272.00 and the related provisions of Section 6 of the Articles of Association (Authorised Capital) were cancelled. The Executive Board was authorised, with the Supervisory Board's consent, to increase the Company's share capital by up to EUR 24,653,611.00 (Authorised Capital I/2016) by issuing up to 24,653,611 new, no-par value bearer shares against contribution in cash and/or in kind once or several times in partial amounts until June 29, 2021. Shareholders are generally entitled to subscription rights. The new shares can also be subscribed for by one or several banks with the obligation to offer the new shares to shareholders. With the Supervisory Board's consent, the Executive Board is authorised to exclude shareholder subscription rights for fractional amounts, cash capital increases of up to 10 % of the share capital at an issue price that is not substantially below the stock market price, meet the obligations of option or conversion rights, issue shares to employees and execute capital increases against contribution in kind. Authorised Capital I/2016 was partly utilised in an amount of EUR 4,930,722.00 through the issue of 4,930,722 new, no-par value bearer shares via a 10 % cash capital increase on August 31, 2016.

b.) Development after December 31, 2016

There were no changes prior to the publication of the Annual Report compared to the information published on December 31, 2016.

7.2. Conditional capital

a.) On December 31, 2016

Following the exercise of conversion rights from the 2013/2018 convertible bond and the issue of 662,237 new shares from conditional capital, the Company's capital is conditionally increased in an amount of up to EUR 6,285,088.00, divided into a maximum of 6,285,088 no-par value bearer shares (Conditional Capital I/2013). The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds based on the authorisation of the Annual General Meeting of October 23, 2013. A total of 9,000 shares arising from the exercise of conversions rights were not yet recorded in the commercial register on December 31, 2016.

Based on the resolution of the Annual General Meeting on June 30, 2016, the Conditional Capital I/2015 in the amount of EUR 2,434,105.00 divided into up to 2,434,105 no-par value bearer shares was cancelled. Based on the resolution of the Annual General Meeting on June 30, 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, which will be issued based on the authorisation under Agenda Item 8 of the Company's Annual General Meeting on October 23, 2013, in the amended version pursuant to the Annual General Meeting of March 6, 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 October 23, 2013 under Agenda Item 8.

Based on the resolution of the Extraordinary General Meeting of March 6, 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 March 6, 2015 in the context of the Company's 2015 Stock Option Programme, exercise their subscription rights for shares of the Company and the Company does not meet the obligations of the subscription rights with the Company's own shares. In the 2015 fiscal year, the Executive Board was granted the maximum number of 800,000 stock options and employees were granted the maximum number of 200,000 stock options.

Based on the resolution of the Annual General Meeting of June 30, 2016, Conditional Capital III/2015 in the amount of EUR 3,919,447.00 and divided into a maximum of 3,919,447 no-par value bearer shares was cancelled. At the same meeting, Conditional Capital II/2016 of up to EUR 14,359,523.00 and divided into a maximum of 14,359,523 new, no-par value bearer shares was created. 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), which were issued or will be issued (i) based on the authorisation resolved by the Annual General Meeting of October 23, 2013 under Agenda Item 8 to grant convertible bonds and/or bonds with warrants and/or (ii) the resolved authorisation under Agenda Item 7 to issue convertible bonds and/or bonds with warrants or profit participation rights and/or profit participation bonds (or a combination of these instruments) by the Company or its direct or indirect affiliated companies and grant conversion or warrant rights to new no-par value shares of the Company or establish a conversion obligation. The issue of new shares is carried out at the exercise or conversion price to be determined in accordance with the respective authorisation resolved by the Annual General Meeting.

The conditional capital increases from Conditional Capital I/2016 and II/2016 will be carried out only to the extent that the holders or creditors of conversion or warrant 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 from the beginning of the previous fiscal year, provided they are created as a result of exercise before the start of the Company's Annual General Meeting, and otherwise from the beginning of the fiscal year in which they are 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 December 31, 2016

By the end of April 2017, a total of 10,800 convertible bonds were converted into no-par value share of DEMIRE Deutsche Mittelstand Real Estate AG.

7.3. Authorisation to issue convertible bonds or bonds with warrants

By resolution of the Annual General Meeting of October 23, 2013, the Executive Board is authorised, with the consent of the Supervisory Board, to issue bearer and/or registered convertible bonds and/or bonds with warrants on one or several occasions until September 30, 2018, for a total nominal amount of up to EUR 50,000,000.00 with or without a limitation on the duration and to offer holders or creditors of bonds option or conversion rights for new no-par value bearer shares of the Company with a notional interest in the share capital of up to EUR 25,000,000.00. The warrant 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 against cash if the option or conversion rights do not exceed 10 % of the share capital, if the issue price of the bonds is not materially below their market value and in order to grant holders of warrant and/or conversion rights with subscription rights in the case of a contribution in kind. Based on the authorisation of the Annual General Meeting and the Supervisory Board's consent, the Executive Board has issued convertible bonds in a total nominal amount of EUR 26,300,000.00 with conversion rights – subject to an adjustment because of the existing dilution protection – for up to

14,300,000 no-par value bearer shares of the Company with a notional interest in the Company's share capital of EUR 14,300,000.00. The authorisation to issue convertible bonds and/or bonds with warrants beyond the remaining, not yet utilised nominal amount of up to EUR 23,700,000.00 was cancelled with a resolution of the Annual General Meeting of August 28, 2015 and a new authorisation was resolved permitting the issue of bearer and/or registered convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments).

By resolution of the Annual General Meeting of August 28,2015 and the Supervisory Board's consent, the Executive Board was authorised to issue bearer and/or registered convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments – together referred to as „bonds“) on one or several occasions until August 27, 2020, for a total nominal amount of up to EUR 125,000,000.00 with or without a limitation on the duration and to offer holders or creditors of bonds conversion or warrant 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 according to the bond's terms and conditions.

7.4. Authority to repurchase own shares

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

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

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

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

If, after the publication of a purchase offer or the solicitation to submit offers to sell, 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, 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; the 10 % threshold for exceeding or falling below the market price is applied to this amount.

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

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

This authorisation has not yet been utilised.

8. 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.

9. Company compensation agreements with the Executive Board and employees in the event of a takeover bid

In the event a majority of the Company voting rights are purchased by a third party, Executive Board members (Hon-Prof Andreas Steyer, Mr Markus Drews and Mr Ralf Kind (Executive Board member since March 1, 2017) have the extraordinary right to terminate their contracts. If this extraordinary termination right is exercised or the contract is terminated by mutual agreement within a period of six months after the change of control, they will receive the existing contractual entitlements for the remaining term of office in the form of a one-time compensation payment based on the compensation paid in the last full calendar year before resignation, but not exceeding the amount of two years' compensation. Cash compensation will be increased by the value of the Executive Board member's rightful share options. If no other valuation date was agreed between the parties, the value of stock options at the time of the change of control applies.

VII. CORPORATE GOVERNANCE REPORT / STATEMENT ON CORPORATE GOVERNANCE

On April 26, 2017, the Company's Executive Board submitted its Statement on Corporate Governance pursuant to Section 289a HGB and also made this document generally and permanently accessible on its website www.demire.ag/en/home in the Company section under the heading Corporate Governance.

VIII. MANAGEMENT REPORT OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG

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

DEMIRE Deutsche Mittelstand Real Estate AG is the operational management unit of the DEMIRE Group. In the 2016 fiscal year it generated revenues from management services for or from the project companies. The number of employees, excluding Executive Board members, increased in the reporting year to an average of 13 (previous year: 10).

The Company's financial statements as at December 31, 2016 were prepared in accordance with the German Stock Corporation Act (AktG), the German Commercial Code (HGB) and the first-time application of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG). 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 2016 fiscal year, DEMIRE Deutsche Mittelstand Real Estate AG incurred a net loss of EUR 9.2 million.

STATEMENT OF INCOME IN EURK	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Change	%
Revenue	5,774	3,213	2,561	80
Other operating income	3,117	2,461	656	27
Staff costs	-2,562	-1,617	-945	58
Other operating expenses	-9,328	-22,058	12,730	-58
Income from investments	658	0	658	n.a.
Income from loans	12,303	6,348	5,955	94
Impairment of financial assets	-1,035	-3,957	2,922	-74
Financial result	-14,917	-6,298	-8,619	137
Expenses from transfer of losses	-3,520	-4,690	1,170	-25
Results before taxes	**-9,510**	**-26,598**	**17,088**	**-64**
Income taxes and other taxes	286	322	-36	-11
Net loss	**-9,224**	**-26,276**	**17,052**	**-65**

The Company's revenues resulted primarily from management fees in connection with transaction-related and ongoing advisory services for Group companies, which in the case of new acquisitions generally amount to 2 % of the interests' acquisition costs and 1 % of the granted loan amounts untill 2015 and have been charged to the respective companies since 2016 based on the service provided using set criteria such as real estate value, rental revenue , rentable space and others. These amounted to EUR 5.8 million in the reporting period, which was more than 80 % higher than the previous year's level of EUR 3.2 million because the acquisitions in 2015 and 2016 made contributions throughout the year.

Other operating income mainly resulted from the disposal of assets and, at EUR 3.1 million, was higher than the level in the 2015 fiscal year (EUR 2.5 million).

Staff costs had a growth-driven rise to EUR -2.6 million (2015 fiscal year: EUR -1.6 million). The rise in staff costs was a result of the increase in the Executive Board to a total of three persons in the period from February to October 2016 and the rise in the number of employees in the course of business expansion.

Other operating expenses fell by EUR 12.7 million to EUR -9.3 million. The unusually high expenses in 2015 resulted from consulting and service fees directly related to the capital increases against contribution in cash and in kind, the takeover offer made to the shareholders of Fair Value REIT-AG, ancillary financial costs related to the second tranche of the 2014/2019 corporate bond and the receipt of a loan from Signal Capital.

Income from loans of financial assets amounting to EUR 12.3 million resulted from interest income from shareholder loans granted to affiliated companies mainly in prior years to purchase properties and interests in real estate companies (2015 fiscal year: EUR 6.3 million). The financial result in the 2016 fiscal year amounted to EUR -14.9 million (2015 fiscal year: EUR -6.3 million). The debt assumed by DEMIRE AG was generally provided to the subsidiaries with a mark-up in the interest rate. The negative net balance of income from loans and interest result in 2016 of EUR -2.6 million (2015 fiscal year: EUR 0.1 million) was caused by non-periodic interest expenses and extraordinary expenses from the issue of the remaining 2014/2019 corporate bond as at December 31, 2015.

Impairments on financial assets in the fiscal year amounted to EUR -1.0 million (2015 fiscal year: EUR -4.0 million).

Based on the control and profit transfer agreements concluded between DEMIRE AG and DEMIRE Commercial Real Estate GmbH and DEMIRE AG and DEMIRE Commercial Real Estate VIER GmbH in 2014 and 2016, a loss was assumed in the 2016 fiscal year in the amount of EUR -3.5 million (2015 fiscal year: EUR -4.7 million). The lower loss assumed from DEMIRE Commercial Real Estate GmbH in the amount of EUR -3.5 million (2015 fiscal year: EUR -4.7 million) resulted from the intra-year refinancing of the high-yield HFS bond.

The result before taxes amounted to a loss of EUR 9.5 million, compared to a loss of EUR 26.6 million in the 2015 fiscal year, due to the increased acquisition-related expenses.

Net of tax refunds of around EUR 0.3 million (2015 fiscal year: EUR 0.3 million), a net loss of EUR 9.2 million was incurred in the reporting year compared to a net loss of EUR 26.3 million in the 2015 fiscal year.

Financial position

The Company's financial management is executed in accordance with the guidelines adopted by the Executive Board. The primary objective is to ensure liquidity and maintain financial independence. All financial obligations and credit clauses (financial covenants) have been upheld during the fiscal year and as at the balance sheet date. Financial covenants require the compliance with financial ratios, such as the equity ratio, the interest cover ratio (interest service cover ratio – ISRC) and the coverage of the debt service (debt service cover ratio – DSCR).

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

Liquidity position

STATEMENT OF CASH FLOWS IN EURK	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Change	%
Cash flow from operating activities	18,775	-5,149	23,924	-465
Cash flow from investing activities	-43,143	-88,243	45,100	-51
Cash flow from financing activities	23,327	93,557	-70,230	-75
Net change in cash and cash equivalents	**-1,041**	**165**	**-1,206**	**-731**
Cash and cash equivalents at the end of the period	**288**	**1,329**	**-1,041**	**-78**

Cash flow from operating activities amounted to an inflow of EUR 18.8 million compared to a cash outflow of EUR -5.1 million in the 2015 fiscal year. Higher cash outflows resulted from the payment of legal and consulting fees as well as accounting and audit fees related to capital increases against contribution in cash and in kind, the takeover offer made to the shareholders of Fair Value REIT-AG in 2015 and a growth-driven rise in staff costs.

The cash outflow from investing activities significantly declined to EUR 43.1 million (2015 fiscal year: outflow of EUR 88.2 million) as a result of fewer loans granted to affiliated companies solely for the purchase of the Kurfüstengalerie in Kassel.

In the 2016 fiscal year, the Company had cash inflows from financing activities of EUR 23.3 million (2015 fiscal year: EUR 93.6 million) consisting of a cash capital increase of EUR 17.0 million and the assumption of two bank loans that together totalled EUR 10.0 million and the repayment of financing loans of EUR 2.1 million. At EUR 0.3 million, cash and cash equivalents as at the balance sheet date were significantly below the level on December 31, 2015 (EUR 1.3 million).

Net assets

TEUR	December 31, 2016	December 31, 2015	Change	%
Assets				
Fixed assets	331,000	294,541	36,459	12
Current assets/prepaid expenses	34,972	45,924	-10,952	-24
Total assets	**365,972**	**340,465**	**25,507**	**7**
Equity and liabilities				
Equity	119,318	111,507	7,811	7
Provisions	4,602	7,391	-2,789	-38
Liabilities	242,052	221,567	20,485	9
Total equity and liabilities	**365,972**	**340,465**	**25,507**	**7**

The Company's total assets as at December 31, 2016 amounted to EUR 366.0 million. This represents an increase of EUR 25.5 million, or approximately 7 %, over the previous year's total of EUR 340.5 million.

The Group's fixed assets increased to EUR 331.0 million in the reporting year (previous year: EUR 294.5 million) as a result of the expansion of the Group's commercial real estate portfolio and mainly due to loans granted to DEMIRE Commercial Real Estate FÜNF GmbH to acquire an interest in Kurfürster Galerie GmbH. The interest in SQUADRA Immobilien GmbH & Co. KGaA and R-Quadrat Polska Alpha Sp. z. o. o., which amounted to EUR 4.5 million as at December 31, 2015, were sold during the reporting year.

Current assets including prepaid expenses declined by EUR 11.0 million from the level reported on December 31, 2015 of EUR 45.9 million to EUR 35.0 million in the reporting year. The largest item was receivables and other assets, which amounted to EUR 31.8 million following EUR 42.5 million on December 31, 2015. A large portion of this item consisted of receivables against affiliated companies from the assumption of DEMIRE AG's payments for project companies and interest receivables from loans for project financing in the amount of EUR 17.1 million (December 31, 2015: EUR 12.8 million). This balance sheet item also includes loan receivables against minority shareholders in project holding companies in the amount of EUR 12.8 million (December 31, 2015: EUR 4.5 million). As at December 31, 2015, there was a receivable against the seller of the interests in Germavest Real Estate S.à.r.l. from the retransfer of 2014/2019 corporate bonds in the amount of EUR 14.4 million that found place at the beginning of 2016.

Prepaid expenses grew by EUR 0.7 million to EUR 2.8 million (December 31, 2015: EUR 2.1 million) as a result of the increase in the 2014/2019 corporate bond, net of the reversal of deferred expenses.

On the equity and liabilities side of the balance sheet, the Company's equity increased from EUR 111.5 million as at December 31, 2015 to EUR 119.3 million as at December 31, 2016. The increase resulted from a cash capital increase totalling EUR 17.1 million and the net loss for the period of EUR 9.2 million.

The equity ratio increased slightly to 32.6 % of total assets compared to 32.7 % as at December 31, 2015. The net loss for the period increased the accumulated loss as at December 31, 2016 to EUR 142.7 million (December 31, 2015: EUR 133.5 million). The capital reserve increased from EUR 195.7 million as at December 31, 2015 to EUR 207.7 million as at December 31, 2016 as a result of a cash capital increase.

Provisions in the amount of EUR 4.6 million compared to EUR 7.4 million on December 31, 2015 mainly related to costs for the preparation and audit of the annual and consolidated financial statements, other staff costs, outstanding invoices and extraordinary expenses related to the Signal Capital loan received at the end of 2015.

As at the December 31, 2016 reporting date, the Company's liabilities increased from EUR 221.6 million to EUR 242.1 million. This increase mainly resulted from the assumption of two bank loans totalling EUR 7.9 million, which was provided to a subsidiary to repay the HFS bond and a rise in liabilities against affiliated company of around EUR 13.2 million to a total of EUR 73.0 million (December 31, 2015: EUR 59.8 million). Trade payables decline from EUR 2.4 million as at December 31, 2015 to EUR 0.7 million as at December 31, 2016.

DEMIRE AG's overall net assets, financial and income position continued to develop positively following the increase in interests in affiliated companies and the expansion of the DEMIRE Group's real estate portfolio in 2015 and early 2016.

Comparison of prior year forecasts with actual business development

The 2016 annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG are characterised by integration and consolidation. For the period from February to October 2016, the Executive Board was strengthened by Mr Frank Schaich, who was also on the Executive Board of Fair Value REIT-AG. As a result of this temporary reinforcement of the Executive Board, severance payments for Mr Schaich's departure and the increase in the number of employees, staff costs rose by more than half in the reporting year. Offsetting this development in the reporting year was the reassumption by the Company's own employees of major tasks for the holding company that were previously carried out by external service providers. This has already led to a reduction in the ongoing legal, advisory and accounting costs. In the transitional phase, however, DEMIRE was not yet able to realise all of the related potential savings. In addition, the interests in Fair Value REIT-AG were contributed into eight newly created subsidiaries, with the result that the dividend income of EUR 2.7 million was recognised by these subsidiaries and not by DEMIRE AG. This ultimately led to a negative EBIT of EUR -2.3 million and prevented the achievement of the initially forecasted break-even EBIT.

Loans to direct and indirect subsidiaries are granted at an interest rate that corresponds to the Company's own financing plus a market-based mark-up. The funds and the one-time costs related to the Signal Capital loan could not be passed on according to this rule. In addition, extraordinary expenses from the issue of the remaining 2014/2019 corporate bond as at December 31, 2015, burdened the interest result.

The refinancing of the high-yield HFS bond at significantly better terms issued by the affiliate DEMIRE Commercial Real Estate GmbH was carried out later than planned making it necessary to assume a loss of EUR -3.5 million. As a result, it was not possible to achieve the targeted break-even level for 2016 net profit/loss for the period.

Report on outlook

The Company's revenues should continue to rise slightly in the current fiscal year. The increase will also result from additional services for intermediary holding companies and project companies which are remunerated at market rates. For the 2017 fiscal year, we expect to generate revenues that are slightly above the previous year's level and to further reduce our other operating expenses. This should provide the basis for a slightly improved EBIT in the 2017 fiscal year.

We expect the interest result to remain slightly negative until the Signal Capital loan is refinanced at much more favourable terms. The refinancing of the highly-yield HFS loan at the affiliated company DEMIRE Commercial Real Estate GmbH will completely eliminate the loss to be assumed by that Company in the future under the profit and loss transfer agreement. As a result, we expect a slightly improved net profit/loss for the period in the 2017 fiscal year.

Frankfurt am Main, April 27, 2017
DEMIRE Deutsche Mittelstand Real Estate AG

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board
(CEO)

Dipl.-Kfm. (FH) Markus Drews
Executive Board Member
(COO)

Dipl. Betriebsw. (FH) Ralf Kind
Executive Board Member
(CFO)

Consolidated financial statements as at December 31, 2016

CONSOLIDATED STATEMENT OF INCOME

IN EURK	Tz.	01/01(2016 - 31/12/2016	01/01/2015– 31/12/2015
Rental income		76,371	33,320
Income from utility and service charges		15,746	10,024
Operating expenses to generate rental income		-33,547	-19,664
Profit/loss from the rental of real estate	**D.1**	**58,570**	**23,680**
Revenue from the sale of real estate companies		7,471	1,792
Net assets from real estate companies sold		-3,510	-1,507
Profit/loss from the sale of real estate companies	**D.2**	**3,961**	**285**
Revenue from the sale of real estate		21,966	2,300
Expenses relating to real estate sales		-21,003	-1,842
Profit/loss from the sale of real estate	**D.3**	**963**	**458**
Profits from investments accounted for using the equity method		0	1,861
Losses from investments accounted for using the equity method		-359	-3,830
Unrealised fair value adjustments in equity investments		0	1,469
Profit/loss from investments accounted for using the equity method	**D.4**	**-359**	**-500**
Profit/loss from fair value adjustments in investment properties	D.5	38,414	18,471
Impairment of receivables	D.6	-2,058	-2,846
Profits originating from a purchase below market value	D.7	0	33,217
Other operating income	D.8	5,550	2,572
Other operating income and other effects		**41,906**	**51,414**
General and administrative expenses	D.9	-14,505	-11,332
Other operating expenses	D.10	-7,367	-5,265
Earnings before interest and taxes		**83,169**	**58,740**
Financial income		1,153	2,145
Finance expenses		-39,134	-27,873
Interests of minority shareholders		-5,226	0
Financial result	**D.11**	**-43,207**	**-25,728**
Profit/loss before taxes		**39,962**	**33,012**
Income taxes	D.12	-12,313	-4,139
Net profit/loss for the period		**27,649**	**28,873**
Thereof attributable to:			
Non-controlling interests		**2,979**	**756**
Parent company shareholders		**24,670**	**28,117**
Basic earnings per share	D.13	0.48	1.09
Diluted earnings per share	D.13	0.39	0.71

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN EURK	01/01(2016 - 31/12/2016	01/01/2015– 31/12/2015
Net profit/loss for the period	**27,649**	**28,873**
Currency translation differences	124	3,408
Other comprehensive income	**124**	**3,408**
Total comprehensive income	**27,773**	**32,281**
Of which, attributable to:		
Non-controlling interests	**2,979**	**639**
Parent company shareholders	**24,794**	**31,642**

CONSOLIDATED BALANCE SHEET
ASSETS

EURK	Tz.	31/12/2016	31/12/2015
ASSETS			
Non-current assets			
Intangible assets	E. 1.1	7,005	6,961
Property, plant and equipment	E. 1.2	1,753	11,285
Investment properties	E. 1.3	981,274	915,089
Investments accounted for using the equity method	E. 1.4	126	3,136
Other financial assets	E. 1.5	11,328	11,045
Loans to investments accounted for using the equity method	E. 1.6	0	553
Other loans	E. 1.7	0	384
Deferred tax assets	E. 5.1	0	144
Total non-current assets		**1,001,486**	**948,597**
Current assets			
Real estate inventory	E. 2.1	2,222	2,298
Trade accounts receivable and other receivables	E. 2.2	23,614	14,387
Financial receivables and other financial assets	E. 2.3	10,293	26,020
Tax refund claims		811	171
Cash and cash equivalents	E. 2.4	31,289	28,467
Total current assets		**68,229**	**71,343**
Non-current assets held for sale	**E.3**	**24,291**	**13,005**
Total assets		**1,094,006**	**1,032,945**

EQUITY AND LIABILITIES

EURK	Tz.	31/12/2016	31/12/2015
EQUITY AND LIABILITIES			
Equity			
Subscribed capital		54,247	49,292
Reserves		217,698	181,405
Equity attributable to parent company shareholders		**271,945**	**230,697**
Non-controlling interests		36,692	34,205
Total equity	**E.4**	**308,637**	**264,902**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	E. 5.1	35,030	25,714
Minority interests	E. 5.2	62,822	61,160
Financial liabilities	E. 5.3	620,623	608,796
Other liabilities	E. 5.4	865	1,076
Total non-current liabilities		**719,340**	**696,746**
Current liabilities			
Provisions	E. 6.1	1,739	1,166
Trade payables and other liabilities	E. 6.2	17,378	19,887
Tax liabilities	E. 6.3	4,892	3,801
Financial liabilities	E. 5.3	42,020	46,443
Total current liabilities		**66,029**	**71,297**
Total liabilities		**785,369**	**768,043**
Total equity and liabilities		**1,094,006**	**1,032,945**

CONSOLIDATED STATEMENT OF CASH FLOWS

IN EURK	01/01(2016 - 31/12/2016	01/01/2015– 31/12/2015
Group profit/loss before taxes	**39,962**	**33,012**
Finance expenses	44,360	27,873
Financial income	-1,153	-2,145
Proceeds from the sale of real estate inventory	0	650
Change in trade accounts receivable and other receivables	2,186	7,633
Change in financial receivables and other financial assets	1,005	-8,234
Change in intangible assets	44	-6,883
Change in provisions	500	-1,329
Change in trade payables and other liabilities *	-4,376	6,902
Valuation gains under IAS 40	-38,414	-18,471
Gains from the sale of real estate companies	-4,923	-743
Interest proceeds	400	165
Income taxes paid	-1,318	-186
Profits originating from a purchase below market value	0	33,217
Change in reserves	594	4,462
Profit/loss from investments accounted for using the equity method	359	500
Depreciation and amortisation and impairment	2,058	2,846
Distributions to minority shareholders / dividends	-5,906	0
Other non-cash items*	-26	-2,020
Cash flow from operating activities	**35,352**	**10,815**
Payments for investments in property, plant and equipment	-11,888	-11,258
Payments for the purchase of investment properties and interests in fully consolidated companies, less net cash equivalents acquired	-4,352	-15,238
Acquisition of interests in in fully consolidated companies in the context of business combinations	0	-4.319
Proceeds from the sale of real estate	21,966	1,650
Cash flow from investing activities	**5,726**	**-29,165**
Release of equity component of convertible bond	-84	0
Payments for expenses associated with raising equity	-1,105	-1,514
Proceeds from capital increases	17,011	11,158
Proceeds from the issue of bonds	12,892	36,023
Proceeds from the issuance of financial liabilities	48,015	54,700
Interest paid on financial liabilities	-33,487	-21,255
Payments for the redemption of financial liabilities	-81,497	-36,692
Cash flow from financing activities	**-38,255**	**42,420**
Net change in cash and cash equivalents	**2,822**	**24,070**
Cash and cash equivalents at the start of the period	28,467	4,397
Cash and cash equivalents at the end of the period	**31,289**	**28,467**

**Prior year's information was adjusted for changes in classification.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IN EURK	Tz.	Share capital	Reserves						
		Subscribed capital	Capital reserves	Retained earnings incl. Group profit/loss	Reserves for treasury shares	Currency translation	Equity attributable to parent company shareholders	Non-controlling interets	Total equity
January 1, 2016	**E.3**	**49,292**	**121,120**	**60,651**	**-310**	**-57**	**230,697**	**34,205**	**264,902**
Currency translation differences		0	0	0	0	124	124	0	**124**
Total other comprehensive income		**0**	**0**	**0**	**0**	**124**	**124**	**0**	**124**
Net profit/loss for the period		0	0	24,670	0	0	24,670	2,979	**27,649**
Total comprehensive income		**0**	**0**	**24,670**	**0**	**124**	**24,794**	**2,979**	**27,773**
Capital increase (related to the conversion of convertible bonds)		24	-1	0	0	0	23	0	**23**
Stock option programme		0	594	0	0	0	594	0	**594**
Cash capital increases		4,931	12,080	0	0	0	17,011	-304	**16,707**
Costs of raising equity under capital increases		0	-1,105	0	0	0	-1,105	0	**-1,105**
Dividend payments		0	0	0	0	0	0	-782	**-782**
Change in the scope of consolidation		0	-70	-79	0	80	-69	594	**525**
December 31, 2016	**E.3**	**54,247**	**132,618**	**85,242**	**-310**	**147**	**271,945**	**36,692**	**308,637**
January 1, 2015	**E. 3**	**14,306**	**8,233**	**32,802**	**-310**	**-3,348**	**51,684**	**2,945**	**54,629**
Currency translation differences		0	0	0	0	3,291	3,291	117	**3,408**
Total other comprehensive income		**0**	**0**	**0**	**0**	**3,291**	**3,291**	**117**	**3,408**
Net profit/loss for the period		0	0	28,117	0	0	28,117	756	**28,873**
Total comprehensive income		**0**	**0**	**28,117**	**0**	**3,291**	**31,408**	**873**	**32,281**
Capital increase (related to the conversion of convertible bonds)		227	-12	0	0	0	215	0	**215**
Stock option programme		0	434	0	0	0	434	0	**434**
Mandatory convertible bond		0	14,223	0	0	0	14,223	0	**14,223**
Capital increases against contribution in kind		32,285	92,853	0	0	0	125,138	0	**125,138**
Cash capital increases		2,474	8,684	0	0	0	11,158	0	**11,158**
Costs of raising equity under capital increases		0	-3,295	0	0	0	-3,295	0	**-3,295**
Change in the scope of consolidation		0	0	-268	0	0	-268	30,387	**30,119**
December 31, 2015	**E.3**	**49,292**	**121,120**	**60,651**	**-310**	**-57**	**230,697**	**34,205**	**264,902**

Notes to the consolidated financial statements for fiscal year January 1 to December 31, 2016

(Previous year: January 1, 2015 to December 31, 2015)

A. GENERAL INFORMATION

1. Basis of preparation

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

As of December 31, 2016, 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. Upon entry in the commercial register on December 23, 2016, the Company's business address was relocated to the Robert-Bosch-Straße 11 in Langen, Germany.

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

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

The reporting currency of the consolidated financial statements of DEMIRE AG is the euro (EUR). Unless otherwise stated, all amounts are expressed in thousands of euros (EURk). For calculation 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 fiscal year ended December 31, 2016 were prepared in accordance with International Financial Reporting Standards (IFRS), as framed by the International Accounting Standard Board (IASB) and adopted by the European Union (EU), pursuant to Section 315a 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 2016 fiscal year were taken into consideration. Furthermore, all statutory disclosure and explanation requirements of the German Commercial Code (HGB) that are in addition to the provisions of the IASB, have been fulfilled, particularly those for the preparation of a group management report.

These consolidated financial statements were prepared on April 27, 2017 by the Executive Board.

2. New and amended standards and interpretations

2.1 First-time application of new and amended standards and interpretations in fiscal year 2016

The accounting policies applied in the consolidated financial statements are the same as those applied in the 2015 fiscal year except for the changes mentioned below. The following new and amended standards and interpretations that are material from DEMIRE AG's perspective were applied for the first time in the 2016 fiscal year.

First-time application of standards and interpretations in fiscal year 2016

		Endorsed on	Mandatory application for fiscal years beginning after	Effect on DEMIRE AG's consolidated financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities – Applying the Consolidation Exception (issued on December 18, 2014)	September 22, 2016	**January 1, 2016**	no effects
Amendments to IAS 16 and IAS 41	Bearer Plants (issued on June 30, 2014)	November 23, 2015	**January 1, 2016**	no effects
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (issued on May 6, 2014)	November 24, 2015	**January 1, 2016**	no effects
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (issued on May 12, 2014)	December 2, 2015	**January 1, 2016**	no effects
Annual Improvements	Annual Improvements to IFRSs 2012-2014 Cycle (issued on September 25, 2014)	December 15, 2015	**January 1, 2016**	no effects
Amendments to IAS 1	Disclosure Initiative (issued on December 18, 2014)	December 18, 2015	**January 1, 2016**	changes in presentation
Amendments to IAS 27	Equity Method in Separate Financial Statements (issued on August 12, 2014)	December 18, 2015	**January 1, 2016**	no effects
Amendments to IAS 19	Defined Benefit Plans – Employee Contributions (issued on November 21, 2013)	December 17, 2014	**February 1, 2015**	no effects
Annual Improvements	Annual Improvements to IFRSs 2010-2012 Cycle (issued on December 12, 2013)	December 17, 2014	**February 1, 2015**	additional disclosures in the notes

2.2 Standards and interpretations for future mandatory application

The amendments to IAS 1 within the scope of the „Disclosure Initiative" should allow disclosure to be reduced to only those that are material or in a simplified form in the financial statements. DEMIRE has used this as an opportunity to fundamentally revise the Group's Notes, to make them clearer, easier to read and focused on the essential information.

The following standards and interpretations were already published by the IASB but are only mandatory after December 31, 2016.

Standards and interpretations that require future mandatory application

		Endorsed on	Mandatory application for fiscal years beginning after	Effect on DEMIRE AG's consolidated financial statements
IFRS 9	Financial Instruments (issued on July 24, 2014)	November 22, 2016	**January 1, 2018**	effects are currently assessed
IFRS 15	Revenue from Contracts with Customers (issued on May 28, 2014) including amendments to IFRS 15: Effective date IFRS 15 (issued on September 11, 2015)	September 22, 2016	**January 1, 2018**	effects are currently assessed
IFRS 16	Leases (issued on January 13, 2016)	planned for Q4 2017	**January 1, 2019**	effects are currently assessed
IFRS 14	Regulatory Deferral Accounts (issued on January 30, 2014)	no endorsement	**January 1, 2016**	no effects
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on September 11, 2014)	postponed	**postponed for an indefinite period**	no effects
Amendments to IAS 12	Recognition of Deferred Tax Asstes for Unrealised Losses (issued on January 19, 2016)	planned for Q2 2017	**January 1, 2017**	effects are currently assessed
Amendments to IAS 7	Disclosure Initiative (issued on January 29, 2016)	planned for Q2 2017	**January 1, 2017**	additional disclosures in the notes
Clarifications to IFRS 15	Revenue from Contracts with Customers (issued on April 12, 2016)	planned for Q1 2017	**January 1, 2018**	effects are currently assessed
Amendments to IFRS 2	Classification and Measurement of Sharebased Payment Transactions (issued on June 20, 2016)	planned for Q3 2017	**January 1, 2018**	no effects
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on September 12, 2016)	planned for Q3 2017	**January 1, 2018**	no effects
Annual Improvements	Annual Improvements to IFRSs 2014-2016 Cycle (issued on December 8, 2016)	planned for Q3 2017	**January 1, 2018 / January 1, 2017**	no effects
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration (issued on December 8, 2016)	planned for Q3 2017	**January 1, 2018**	no effects
Amendments to IAS 40	Transfers of Investment Property (issued on December 8, 2016)	planned for Q3 2017	**January 1, 2018**	effects are currently assessed

In July 2014, the IASB published the final version of IFRS 9 „Financial Instruments", which has since been adopted by the EU. The new standard IFRS 9 will replace the current provisions of IAS 39 „Financial Instruments: Recognition and Measurement". The new rules for the accounting of financial instruments are to be applied for the first time for fiscal years beginning on or after January 1, 2018. The initial application is always to be carried out retrospectively, whereby various simplification options may be used. DEMIRE AG do not utilise the option for early application.

Furthermore, in May 2014, the IASB published IFRS 15 „Revenue from Contracts with Customers", which has since been adopted by the EU. The new standard IFRS 15 will replace the current provisions of IAS 11 „Construction Contracts", IAS 18 „Revenue" and the corresponding interpretations. The new regulations for the recognition of revenue from contracts with customers are to be applied for the first time for fiscal years beginning on or after January 1, 2018. The initial application is always to be carried out retrospectively, whereby various simplification options can be used. DEMIRE AG does not utilise the option for early application.

In addition, the IASB published IFRS 16 „Leases" in January 2016. The adoption of this standard by the EU is still pending. The new standard IFRS 16 will replace the current provisions of IAS 17 „Leases" and the related interpretations. The new rules for the accounting of leases are to be applied to fiscal years beginning on or after January 1, 2019. The initial application is always to be carried out retrospectively, whereby various simplification options can be used. Earlier application is permitted provided the new regulations of IFRS 15 are also applied. DEMIRE AG will unlikely use the early application option.

DEMIRE AG has not yet conclusively analysed the effects associated with the first-time adoption of IFRS 9, IFRS 15 and IFRS 16 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 2017 fiscal year.

3. Key discretionary decisions, judgments and assumptions

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

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

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

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

Impairment of receivables	Tz. D. 6
Income taxes	Tz. D. 12
Goodwill impairment test	Tz. E. 1.1.1
Deferred tax assets and liabilities	Tz. E. 5.1
Provisions	Tz. E. 6.1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes to the scope of consolidation in the reporting period

Companies acquired in the reporting period

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

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

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

EURK	Amounts recognised as at the acquisition date
Assets acquired	**52,679**
Liabilities assumed	38,804
Net assets at 100 %	**13,875**
of which interests on non-controlling shareholders	3
Acquisition costs	**13,872**

Disposals in the reporting period

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

Mergers in the reporting period

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

Changes to the scope of consolidation in the prior year

Business combination with Fair Value REIT-AG

Fair Value REIT-AG, Gräfelfing, was fully consolidated in the consolidated financial statements as of December 31, 2015 in accordance with the provisions of IFRS 3 for business combinations because a business operation and related business processes were acquired.

On October 14, 2015, the Executive Board of DEMIRE AG made a voluntary public takeover offer to the shareholders of Fair Value REIT-AG in which they could exchange their shares for newly created shares of DEMIRE AG. The aim of the acquisition was to create the leading commercial real estate specialist with a focus on German secondary locations and a common real estate portfolio valued at roughly EUR 1 billion.

A capital increase against contribution in kind took place at a ratio of two DEMIRE AG shares for one Fair Value REIT-AG share. The exchange took legal effect on December 21, 2015 with the entry of the capital increase in the commercial register in Frankfurt/Main. DEMIRE's takeover offer was accepted by 77.70 % of the Fair Value REIT-AG shareholders. A total of 10,963,878 Fair Value REIT-AG shares of the full total of 14,110,323 shares were tendered for exchange during the acceptance period and the additional acceptance period that extended until December 3, 2015.

On December 16, 2015, DEMIRE's Executive Board resolved to increase the share capital by an amount of EUR 21,927,756.00 to EUR 49,292,285.00 against contribution in kind by issuing 21,927,756 new no-par value bearer shares with a notional interest in the share capital of EUR 1.00 each. The contribution in kind consisted of 10,963,878 shares of Fair Value REIT-AG with a notional interest in the share capital of EUR 2.00 per share. On December 21, 2015, the increase in share capital was entered into the commercial register.

Fair Value REIT-AG is a now Gräfelfing-based, publicly traded real estate company with a focus on commercial properties in Germany. It is registered as a German stock corporation in the commercial register of the District Court of Munich under HRB 168882. The Company's fiscal year is identical to the calendar year. The target company fulfils the requirements of the REIT Act (Real Estate Investment Trust) and is thus exempt from corporate and trade taxes. On the acquisition date, the portfolio consisted of 40 properties in 8 of 16 federal states with aggregate rentable space of approx. 275,000 m^2 and annualised contractual rent totalling EURk 25,188.

The first-time consolidation of Fair Value REIT-AG took place on a subgroup basis on December 31, 2015 and was based on the share of non-controlling shareholders at that time.

The consolidation of Fair Value REIT-AG as a subgroup involved a total consideration paid of roughly EURk 93,263 (acquisition costs) for 77.70 % of the shares. The consideration paid resulted from the fair value of EUR 4.2532 per DEMIRE AG share on the closing date of the share exchange of December 21, 2015 issued in exchange for shares in Fair Value REIT-AG (21,927,756 DEMIRE AG shares).

The consideration paid (acquisition costs) was allocated to the acquired assets and liabilities at estimated market values based on a final purchase price allocation carried out by an external expert:

	EURK
Investment properties	287,794
Other non-current assets	9,387
Current assets	5,674
Cash and cash equivalents	16,028
Non-current assets, held for sale	11,750
Acquired assets	**330,633**
Non-current liabilities	-187,738
Current liabilities	-25,497
Assumed liabilities	-213,235
Net assets (100 %)	**117,398**
Interests of non-controlling shareholders	-26,179
Deferred tax assets (see explanation)	-4,739
Goodwill	6,783
Acquisition costs	**93,263**

The majority of investment properties were appraised as at December 31, 2015 by external real estate experts. DEMIRE AG has adopted these values.

In the course of determining the purchase price allocation, the following intangible assets at Fair Value REIT were identified:

Fair Value REIT's Internet domain was capitalised at EURk 25 and valued at its replacement cost. Contractual claims from partner companies were capitalised as an intangible asset and measured at EURk 150. Hidden reserves of EURk 613 were also identified with non-current financial liabilities resulting from the fair values being below their nominal values. Deferred tax liabilities resulting from the hidden reserves totalled EURk 227 at the level of Fair Value REIT and were determined using a combined corporate and trade tax rate of 31.925 % (including a 5.5 % solidarity surcharge on corporate taxes).

An amount of EURk 120 of hidden losses was identified within non-current financial debt. The higher value of the convertible bond (EURk 413) versus its market value of EURk 8,301 as at December 31, 2015 was also identified as a hidden loss, triggered by the change of control and the subsequently requested early redemption of the bond (EURk 8,714) in February 2016. Both items resulted in deferred tax assets of EURk 170.

In the context of the consolidation of the Fair Value REIT-AG and DEMIRE AG subgroups, net deferred tax liabilities of EURk 4,739 on the deemed disposal of properties held by Fair Value REIT (analogous to the „tax transparent entities") were recognised based on the tax rate of 31.925 % mentioned above. This resulted in goodwill of EURk 6,783 in DEMIRE AG's consolidated financial statements originating from the acquisition of Fair Value REIT. Deferred tax liabilities increased goodwill by EURk 4,379 from EURk 2,044 to EURk 6,783.

Contingent liabilities as defined by IAS 37, which should result in a liability at the time of first-time consolidation under IFRS 3.22, were not identified.

Transaction costs arising in the context of the share exchange amounted to EURk 3,295 and were offset against capital reserves and thus recognised directly in equity. Expenses of EURk 978 related to the business combination were recognised through profit or loss.

The valuation of interests of non-controlling shareholders was based on their share of the net assets of Fair Value REIT-AG, which at the time of its first-time consolidation amounted to EURk 26,179. In measuring the interests of non-controlling shareholders (minority interests) use of the option under IFRS 3.19 was made and the interests of non-controlling shareholders were measured using the corresponding share of the identifiable net assets.

After offsetting acquisition costs (EURk 93,263), plus minority interests (EURk 26,179), against the net assets of the acquired company (EURk 117,398), a positive difference (goodwill) was derived in the amount of EURk 2,044. The reason for the positive difference lies, among others, in the appreciation of the share price until December 21, 2015 of the DEMIRE shares given as consideration. In the context of its own growth strategy, DEMIRE sees development potential from its acquisition of Fair Value REIT in the real estate directly or indirectly held by Fair Value REIT and from the opportunity to realise synergies in the areas of administration and property and facility management.

The gross carrying amount of the trade accounts receivable acquired totalled EURk 3,266 upon the initial date of consolidation and included previous impairments of EURk 509. Thus, the fair value of trade accounts receivable amounted to EURk 2,757. The gross amount of other receivables and assets acquired totalled EURk 2,895 upon the initial date of consolidation. No impairment has been recognised on these receivables. Thus, the fair value of other receivables and assets amounted to EURk 2,895.

If Fair Value REIT had been fully consolidated as at January 1, 2015, net rental income of EURk 17,726 and profit/loss before taxes of EURk 6,585 would have been included in the consolidated statement of profit and loss.

The period of affiliation to the Group (December 21, 2015 to December 31, 2015) does not include any substantial net rental income or a significant consolidated profit/loss before taxes.

Business combination with Germavest Real Estate S.à.r.l.

DEMIRE AG acquired a 94 % interest in Germavest Real Estate S.A.R.L., Luxembourg, at a purchase price of approx. EURk 39,016 with effect from October 30, 2015. Germavest Real Estate S.à.r.l. is incorporated company under Luxembourg law and headquartered in Luxembourg. Germavest Real Estate S.à.r.l. has a commercial real estate portfolio, also known as the T6 portfolio, containing 143,788 m² of rental space as well as 2,171 underground and free-standing parking spaces in the cities of Ansbach, Bonn, Flensburg, Freiburg, Regensburg and Stahnsdorf. All six locations have long-term rental contracts with Deutsche Telekom AG until 2021 (until 2025 for the location in Bonn). At the time of first-time consolidation the net annual rent, excluding utilities and based on the properties' current full occupancy, amounted in time of inital date of consolidation to roughly EUR 14.8 million and will rise periodically based on a contractually agreed fixed annual indexation. The largest property with approximately 38,000 m² has a rental agreement with a term of 10 years.

The following table shows the individual locations and their rentable space:

LOCATION OF PROPERTY	Rental space (in m²)
Bayreuther Straße 111/Rettistraße 56, 91522 Ansbach	12,632
Bonner Talweg 100/Reuterstraße, 53113 Bonn	38,353
Eckernförder Landstraße 65, 24941 Flensburg	23,800
Berliner Allee 1, 79114 Freiburg	22,674
Bajuwarenstraße 4, 93053 Regensburg	29,219
Güterfelder Damm 87-91, 14532 Stahnsdorf	17,110
Total space	143,788

Germavest Real Estate S.à.r.l. was fully consolidated as of the balance sheet date in accordance with the provisions of IFRS 3 for business combinations because a business operation and the related business processes were acquired. The initial consolidation of Germavest Real Estate S.à.r.l. took place on October 31, 2015 based on the share of non-controlling shareholders at that time.

The consideration paid for the purchase of the 94 % interest in Germavest Real Estate S.à.r.l. amounted to EURk 39,016 (acquisition costs).

The consideration paid was allocated to the acquired assets and liabilities at estimated market values based on a final purchase price allocation carried out by an external expert:

	EURK
Investment properties	181,320
Other non-current assets	1,026
Current assets	4,359
Cash and cash equivalents	3,540
Acquired assets	**190,245**
Non-current liabilities	-104,424
thereof deferred tax liabilities	-7,848
Current liabilities	-11,998
Assumed liabilities	**-116,422**
Net assets (100 %)	**73,823**
Non-controlling interests	1,590
Badwill	33,217
Acquisition costs	**39,016**

The majority of investment properties were appraised as at December 31, 2015 by external real estate experts. The Company adopted these values as a result of its own assessment as of the acquisition date of October 31, 2015. Hidden reserves of EURk 60,425 were identified.

In the course of the purchase price allocation, the following hidden reserves and liabilities at Germavest Real Estate S.à.r.l. were identified:

- hidden losses identified included higher fair values of assumed liabilities of EURk 6,481
- contingent liabilities as defined by IAS 37, which should be recognised as liabilities at the time of first-time consolidation under IFRS 3.22, were not identified

The transaction costs of EURk 793 related to the business combination were recognised through profit or loss.

The valuation non-controlling interests was based on their share of the net assets of Germavest Real Estate S.à.r.l., which at the time of its initial consolidation amounted to EURk 1,590. In measuring the interests of non-controlling shareholders (minority interests) use was made of the option under IFRS 3.19 and the interests of non-controlling shareholders were measured using the corresponding share of the identifiable net assets.

Due to the offsetting of the consideration paid (acquisition costs) plus the interests of non-controlling interets against the net assets of the acquired company resulted in a badwill, the carrying amounts of the assets and liabilities acquired and the acquisition cost determined were subjected to another critical review. Badwill of EURk 33,217 that was determined after a prudent review was recognised immediately through profit or loss as a non-recurring effect under the line item „profits originating from a purchase below market value". This amount originates mainly from the fair value in excess of the purchase price of investment properties held by Germavest Real Estate S.à.r.l.

The gross amount of the trade accounts receivable acquired totalled EURk 12 upon initial consolidation and no previous impairments were included. Thus, the fair value of trade accounts receivable amounted to EURk 12. The gross amount of other receivables and assets acquired totalled EURk 4,278 upon initial consolidation. No impairment has been recognised on these receivables and other assets. Thus, the fair value of other receivables and assets amounted to EURk 4,278.

If Germavest Real Estate S.à.r.l. had been fully consolidated as at January 1, 2015, net rental income of EURk 15,945 and profit/loss before taxes of EURk 4,719 would have been included in the consolidated financial statements.

Net rental income of EURk 2,675 and a consolidated profit before taxes of EURk 565 were generated during the period of affiliation to the Group (November 1, 2015 to December 31, 2015).

Acquisition of real estate companies in the prior year

In the prior year, interests were acquired in the real estate project companies Glockenhofcenter Objektgesellschaft mbH, Berlin; Hanse-Center Objektgesellschaft mbH, Berlin; TGA Immobilien Erwerb 1 GmbH, Berlin; Sihlegg Investments Holding GmbH, Wollerau, Switzerland; and Logistikpark Leipzig GmbH, Leipzig. The acquisition of the real estate project companies named are accounted for as direct purchases of real estate because, in the opinion of the Company's Executive Board, these companies do not represent a full business operation pursuant to IFRS 3. B.7. The purchase of the properties contained in the real estate companies was a component of the transactions. Therefore, the acquisition costs related to the real estate companies were allocated to the individually identifiable assets and liabilities on the basis of their fair values as of the acquisition date. This does not concern a business combination as defined under IFRS 3 but rather an acquisition of aggregated assets.

In the context of the acquisition of Glockenhofcenter Objektgesellschaft mbH and Hanse-Center Objektgesellschaft mbH, DEMIRE AG increased its share capital by EUR 5,633,710 against contribution in kind. Alpine Real Estate GmbH was admitted to subscribe to the new shares and made a contribution in kind to DEMIRE consisting of 94.9 % of Alpine's interest in Hanse-Center Objektgesellschaft mbH, 94.9 % of the interest in Glockenhofcenter Objektgesellschaft mbH and a receivable against Hanse-Center Objektgesellschaft. The increase in the share capital was entered in the commercial register on January 22, 2015. The project companies, which were contributed effective February 1, 2015, possess a combined commercial real estate portfolio consisting of nearly 42,000 m² in the cities of Bremen, Berlin and Stralsund. In the context of the capital increase, each new DEMIRE AG share was assigned a value of EUR 1.75, resulting in a calculated total purchase price of EURk 9,859.

In the context of the acquisition of Sihlegg Investments Holding GmbH, DEMIRE AG increased its share capital by EUR 2,182,567 against contribution in kind. Ketom AG, Wollerau, Switzerland, was admitted to subscribe to the new shares in return for providing contribution in kind consisting of 94 % of Ketom AG's interest in Sihlegg Investments Holding GmbH and a receivable against Sihlegg Investments Holding GmbH. Sihlegg Investments Holding GmbH is the owner of the office and retail property Gutenberg Galerie in Leipzig. The interest in Sihlegg Investments Holding GmbH was acquired effective May 27, 2015. In the context of the capital increase, each new DEMIRE AG share was assigned a value of EUR 4.03, resulting in a calculated total purchase price of EURk 8,791.

Shares in TGA Immobilien Erwerb 1 GmbH, Berlin, were acquired in a two-step process on March 3, 2015 and May 21, 2015, resulting in a 94 % interest in the company. The purchase price totalled EUR 468,250. Under a property purchase agreement dated March 25, 2015, TGA Immobilien Erwerb 1 GmbH acquired a property in Schwerin. Beneficial ownership was transferred in July 2015. The purchase price of the property totalled EURk 4,800.

To acquire an interest in Logistikpark Leipzig GmbH, DEMIRE AG increased its share capital by EUR 2,541,149 against contribution in kind. M1 Beteiligungs GmbH, Berlin, was admitted to subscribe to the new shares in return for a contribution in kind consisting of a 94 % interest in Logistikpark Leipzig

GmbH. In addition to the shares, a cash component of roughly EUR 18.6 million was also agreed to as part of the purchase price. In the context of the capital increase, each new DEMIRE AG share was assigned a value of EUR 5.84, resulting in a calculated total purchase price of EURk 33,173. The entry of the capital increase into the commercial register took place on July 1, 2015. Beneficial ownership of the interest in Logistikpark Leipzig GmbH was acquired on July 17, 2015.

Based on 100 % of the assets and liabilities and taking into account the interests of non-controlling interests, the following amounts were recognised in the reporting period as at the date of initial recognition:

IN EURK	Amounts recognised as at the acquisition date
Assets acquired	**104,928**
Liabilities assumed	59,050
Net assets at 100 %	**45,878**
of which interests on non-controlling interests	2,068
Acquisition costs	**43,810**

First-time consolidation of other entities

In the previous year, companies were acquired or formed for property, asset and facility management and holding companies were acquired or formed to hold interests in real estate companies and were consolidated for the first time in the reporting year. The date of first-time consolidation for these companies is listed in the table below.

COMPANY	Interest	Date of first-time consolidation
Demire Immobilien Management GmbH	100 %	January 1, 2015
DEMIRE Commercial Real Estate DREI GmbH	100 %	June 30, 2015
DEMIRE Commercial Real Estate VIER GmbH	100 %	June 30, 2015
DEMIRE Commercial Real Estate FÜNF GmbH	100 %	June 30, 2015
DEMIRE Commercial Real Estate SECHS GmbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Erste mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Zweite mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Dritte mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Vierte mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Fünfte mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Sechste mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Siebente mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Achte mbH	100 %	December 31, 2015
FVR Beteiligungsgesellschaft Neunte mbH	100 %	December 31, 2015

Disposals in the prior year

The majority of the disposals of fully consolidated subsidiaries in the prior year concerned the legacy portfolio and include the following companies: Kappatrade Ltd. (Ukraine), Polartrade Ltd. (Ukraine), OOO Sadko Holding (Russia), OOO New Sadko Holding (Russia), MAGNAT Real Estate Project Sadko B.V. (The Netherlands), MAGNAT Real Estate New Project Sadko B.V. (The Netherlands) and Munich ASSET Vermögensverwaltung GmbH, Frankfurt am Main (Germany). The disposal of these companies had a total negative effect on earnings of EURk 500, mainly as a result of the derecognition of reserves for currency translation differences attributed to these companies. In addition, one German entity and the Dutch entities held in the legacy portfolio were merged in an effort to streamline the Group's structure.

	Date of disposal	Proceeds from disposal in EURk	Result from disposal of net assets (incl. currency translation reserve) in EURk	Gains/losses on disposal in EURk
Kappatrade Ltd., Kiew, Ukraine	08/04/2015	1,716	-1,570	146
Polartrade Ltd., Kiew, Ukraine	10/06/2015	50	-12	38
OOO Sadko Holding, Moskau, Russland	19/06/2015	0	27	27
OOO New Sadko Holding, Moskau, Russland	30/06/2015	0	14	14
MAGNAT Real Estate Project Sadko B.V., Hardinxveld Giessendamm, Niederlande	14/07/2015	0	0	0
MAGNAT Real Estate New Project Sadko B.V., Hardinxveld Giessendamm, Niederlande	14/07/2015	0	0	0
Munich ASSET Vermögensverwaltung GmbH, Frankfurt am Main, Deutschland	01/10/2015	26	34	60
Total		**1,792**	**-1,507**	**285**

Summary financial information for companies sold (amounts EURk):

	Kappatrade Ltd.	Polartrade Ltd.	OOO Sadko Holding
Aggregated assets	1,881	1,323	43
thereof cash and cash equivalents	0	0	2
Aggregated liabilities	5,407	3,864	0

	OOO New Sadko Holding	MAGNAT Real Estate Project Sadko B.V.	MAGNAT Real Estate New Project Sadko B.V.
Aggregated assets	21	0	440
thereof cash and cash equivalents	0	0	0
Aggregated liabilities	2	24	2

	Munich ASSET Vermögensverwaltung GmbH
Aggregated assets	7,539
thereof cash and cash equivalents	2
Aggregated liabilities	7,460

Disclosures according to IFRS 12

a) Disclosures relating to fully consolidated subsidiaries

Fair Value REIT-AG, now Gräfelfing, and its subsidiaries were fully consolidated for the first time in the DEMIRE AG consolidated financial statements as of December 31, 2015, as the Fair Value REIT subgroup. Only the assets and liabilities of Fair Value REIT-AG were consolidated in DEMIRE AG's consolidated financial statements. In the reporting period, dividend distributions of EURk 782 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	December 31, 2016 EURk	December 31, 2015 EURk
BALANCE SHEET		
Non-current assets	286,907	297,181
Current assets	21,237	33,452
thereof cash and cash equivalents	16,776	16,028
Non-current liabilities	184,997	187,738
thereof interests of non-controlling shareholders	61,708	61,160
Current liabilities	16,157	25,497
thereof financial liabilities	9,275	18,118
Net assets	**120,590**	**117,398**
STATEMENT OF INCOME		
Revenue	27,622	29,847
Interest income	0	11
Interest expenses	3,375	4,212
Income taxes	0	0
Other income	0	0
Net profit/loss for the period	**6,909**	**6,585**

A share in the profit for the period for the 2016 fiscal year in the amount of EURk 1,541 was attributable to non-controlling shareholders (22.3 %) of Fair Value REIT-AG.

C. ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

D. NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

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

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

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

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

1. Profit/loss from the rental of real estate

The profit/loss from the rental of real estate of EURk 58,570 (previous year: EURk 23,680) consists of the following:

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Rental income	76,371	33,320
Income from utility and service charges	15,746	10,024
Rental revenue	**92,117**	**43,344**
Allocable operating expenses to generate rental income	-19,611	-12,648
Non-allocable operating expenses to generate rental income	-13,936	-7,016
Operating expenses to generate rental income	**-33,547**	**-19,664**
Profit/loss from the rental of real estate	**58,570**	**23,680**

The increase in rental revenue to EURk 92,117 (previous year: EURk 43,344) mainly resulted from revenue from companies acquired in the reporting year and prior year, particularly Fair Value REIT-AG.

Ancillary rental costs were recognised as expenses incurred to generate rental income and amounted to EURk 33,547 in the reporting year (previous year: EURk 19,664). Of the operating expenses, an amount of EURk 19,611 (previous year: EURk 12,648) is generally allocable and can be passed on to tenants. This figure includes an amount of EURk 2,275 (previous year: EURk 2,264), that could not be passed on due to vacancy. Operating expenses of EURk 13,936 (previous year: EURk 7,016) are not allocable, of which EURk 1,320 (previous year: EURk 254) relate to staff costs at DEMIRE Immobilienmanagement GmbH.

2. Profit/loss from the sale of real estate companies

The profit/loss from the sale of real estate companies in the amount of EURk 3,961 (previous year: EURk 285) is made up of the following:

IN EURK	Date of disposal	Revenue from the sale of real estate companies	Net assets from real estate companies sold	Profit/loss from the sale of real estate companies
Magnat Tbilisi Office LLC	February 5, 2016	0	3	3
Magnat Tbilisi Residential 1 LLC	February 4, 2016	0	0	0
Magnat Asset Management GmbH	July 14, 2016	141	-99	42
Magnat Capital Markets GmbH	July 14, 2016	146	-313	-167
SQUADRA Immobilien GmbH & Co. KG (at Equity)	December 27, 2016	7,184	-2,665	4,519
R-Quadrat Polska Alpha sp.z o.o. (at Equity)	July 26, 2016	0	-436	-436
Total		**7,471**	**-3,510**	**3,961**

Summary financial information for fully consolidated companies sold:

IN EURK	Magnat Tbilisi Office LLC	Magnat Tbilisi Residential 1 LLC	Magnat Asset Management GmbH	Magnat Capital Markets GmbH
Aggregated assets	0	0	1,315	878
thereof cash and cash equivalents	0	0	141	146
Aggregated liabilities	1	0	1,118	509

3. Profit/loss from the sale of real estate

During the fiscal year, the Group generated a profit/loss from the sale of real estate in the amount of EURk 963 (previous year: EURk 458). The main properties sold were the Halle-Peissen property owned by DEMIRE Objektgesellschaft Worms GmbH, the Kempten property owned by Briarius S.a.r.l., the Ulm property owned by Armstripe S.a.r.l. and the Radevormwald property belonging to BBV 6 Geschäftsführungs-GmbH & Co. KG.

4. Profit/loss from investments accounted for using the equity method

The losses from investments accounted for using the equity method in the amount of EURk 359 (previous year: EURk 3,830) primarily concern losses incurred by SQUADRA Immobilien GmbH & Co. KGaA in the amount of EURk 356 up to the date of deconsolidation.

5. Profit/loss from fair value adjustments in investment properties
The result from the fair value adjustment on investment properties in the amount of EURk 38,414 (previous year: EURk 18,471) concerned the properties of domestic and foreign direct and indirect subsidiaries located in Germany. The largest single effect in the amount of EURk 9,683 related to Kurfürster Immobilien GmbH, Leipzig. Other significant gains resulted from the revaluation of Germavest Real Estate S.a.r.l. in the amount of EURk 8,250, Logistikpark Leipzig GmbH in the amount of EURk 6,238 and CAM Commercial Asset Management EINS GmbH in the amount of EURk 4,020.

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 led to a significant change in valuation factors in the reporting period and consequently to an increase in the properties' market values. Please refer to Note E.1.3 for details on the valuation methods applied.

6. Impairment of receivables
Impairment of receivables consists of the following:

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Trade accounts receivable and other receivables	-1,543	-1,285
Loans to investments accounted for using the equity method	-515	-1,561
Total	**-2,058**	**-2,846**

Impairment of trade accounts receivable concerned rental receivables of EURk 967 from properties located in Germany as well as EURk 576 from the legacy portfolio. The impairment of loans to investments accounted for using the equity method concerned loans to companies deconsolidated during the fiscal year.

7. Profits originating from a purchase below market value
The previous year's profit of EURk 33,217 originating from a purchase below market value resulted from the acquisition of Germavest Real Estate S.à.r.l. (T6 portfolio). The negative goodwill of EURk 33,217 was recognised immediately through profit or loss in the consolidated statement of income as a one-time effect. This negative goodwill is mainly attributable to the fair value of investment properties held by Germavest Real Estate S.à.r.l. exceeding the acquisition price.

8. Other operating income

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Other non-periodic income	2,748	389
Value-added tax refunds for prior years	507	788
Income from the disposal of property, plant and equipment	321	0
Income from facility management	309	23
Derecognition of liabilities	282	0
Benefits in kind	221	181
Income from the reversal of provisions	109	56
Reversal of impairment losses on receivables	100	38
Gains from foreign currency differences	33	343
Income from allocated expenses	16	160
Compensation for damages	0	11
Others	904	583
Total	**5,550**	**2,572**

Other non-periodic operating income mainly contains subsequent compensation for the usage of walkways and parking spaces by the city of Ulm. Furthermore, other non-periodic income inter alia contains refunds resulting from corrected settlements of prior years.

The income from facility management results from the provision of facility management services rendered by PRAEDIA GmbH, which was consolidated for the first time in the current reporting period.

9. General and administrative expenses

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Personnel costs	-3,855	-2,258
Legal and consulting fees	-3,841	-3,868
Accounting and audit costs	-2,541	-3,490
Expenses for real estate expert opinions	-589	-634
Fund management costs	-514	0
Advertising and travel expenses	-492	-378
IT costs	-446	-24
Compensation of expenses	-338	0
Costs for vehicles	-302	-40
Supervisory Board remuneration	-292	-270
Compensation of trust costs	-268	0
Expenses for investor relations	-154	-180
Expenses for facility management	-106	-17
Leasing costs	-52	-144
Others	-715	-29
Total	**-14,505**	**-11,332**

Personnel costs for staff employed by the ultimate parent company are included in general and administrative expenses. The increase in staff costs resulted from the higher number of employees at the Group due to the Company's business expansion and the recognition of expenses for share-based payments in the amount of EURk 594.

Legal and consulting fees in the amount of EURk 3,841 are mainly the result of non-recurring expenses related to capital market activities.

10. Other operating expenses

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Non-periodic expenses from operating costs of the previous years	-1,888	-80
Non-deductible input taxes	-965	-1,139
Brokerage fees	-818	0
Expenses for Annual General Meeting and investor relations	-540	-767
Fees and incidental costs of monetary transactions	-413	-526
Third-party services	-391	-679
Occupancy costs	-281	-77
Impairment of property, plant and equipment	-110	-18
Property management	-104	-144
Losses from foreign currency differences	-26	-154
Insurance fees	-59	-78
Differences from the consolidation of liabilities, expenses and income	0	-74
Legal and consulting fees	0	-58
Transaction costs for the acquisition of Germavest Real Estate S.à.r.l.	0	-793
Others	-1,772	-678
Total	**-7,367**	**-5,265**

The subsequent settlement of operating costs is customary and essentially stems from the real estate portfolios purchased in the abbreviated 2014 fiscal year.

Non-deductible input taxes resulted from legal and consulting fees that cannot be capitalised, which were utilised by DEMIRE AG, which is not entitled to a full input tax deduction.

11. Financial result

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Financial income	1,153	2,145
Financial expenses	-39,134	-27,873
Minority interests	-5,226	0
Financial result	**-43,207**	**-25,728**

Financial income in the amount of EURk 1,153 (previous year: EURk 2,145) essentially resulted from accrued interest from loans and borrowings issued by DEMIRE AG (EURk 825) as well as accrued interest (EURk 328) for the 2014/19 corporate bond held by DEMIRE AG at the beginning of the reporting period in the amount of EURk 14,375 and reissued during the first quarter of 2016.

The increase in financial expenses resulted mainly from higher financial liabilities related to company acquisitions executed at the end of the 2015 fiscal year. This relates in particular to Germavest Real Estate S.a.r.l. and Fair Value REIT-AG subgroup.

The share of profit/loss attributable to minority shareholders concerns Fair Value REIT-AG.

12. Income taxes

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Current income taxes	-2,852	-755
Deferred income taxes	-9,460	-3,384
Total income taxes	**-12,313**	**-4,139**

Current income tax expenses of EURk 2,852 (previous year: EURk 755) include corporate and trade taxes as well as capital gain taxes and were incurred almost entirely in Germany.

Deferred income taxes of EURk 9,460 (previous year: EURk 3,384) consist of deferred tax income of EURk 1,273 (previous year: EURk 2,758) and deferred tax expenses of EURk 10,733 (previous year: EURk 6,142). Deferred tax expenses essentially resulted from temporary differences in the valuation of investment properties pursuant to IAS 40. Deferred tax income essentially resulted from the offsetting of these with deferred taxes on tax loss carryforwards.

As of the balance sheet date, non-utilised tax loss carryforwards totalled EURk 42,842 (previous year: EURk 47,731) from investees included in the consolidated financial statements. Deferred tax assets on these loss carryforwards are only capitalised if it is probable that profits will be realised in the foreseeable future and can be offset against these tax loss carryforwards. In the DEMIRE Group, deferred taxes on tax loss carryforwards at the level of the same taxable entity were capitalised only to the extent that deferred tax liabilities were recognised.

Tax reconciliation statement

The tax reconciliation statement between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 28.78 % (previous year: 31.93 %). The Group tax rate of 28.78 % includes the 15 % applicable corporate tax rate, 5.5 % solidarity surcharge and 12,95 % trade tax (municipal rate for Langen: 370 %; trade tax rate 3.5 %). The calculation of the deferred taxes of domestic real estate companies is based on a tax rate of 15.83 %. These companies generate income exclusively from managing their own real estate. Only the corporate tax rate and the solidarity surcharge apply to these companies because of the option to deduct the profit from the management of own real estate from the profit under trade tax law. The calculation of deferred taxes for foreign companies acquired during the reporting period was also based on a tax rate of 15.83 % because these companies are not subject to trade taxes.

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Profit/loss before taxes	**39,962**	**33,012**
Group tax rate	**28.78 %**	**31.93 %**
Expected income taxes	**11,501**	**10,541**
Tax rate differences	-3,069	-3,626
Tax effects arising from non-deductible operating expenses	2,533	2,869
Tax effects of tax-free income	-1,247	-12,166
Tax effects arising from non-utilised losses and non-recognised temporary differences for which no deferred tax assets were capitalised	2,805	6,324
Tax effects arising from the recognition of deferred tax assets for tax loss carryforwards which were not capitalised in prior periods	-179	-53
Others	-31	250
Actual income taxes	**12,313**	**4,139**

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

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

DEMIRE did not recognise deferred tax liabilities for accumulated results of subsidiaries amounting to EURk 5,707 (previous year: EURk 1,619), since these profits are intended to be reinvested indefinitely.

Recognising deferred taxes on outside basis differences as temporary differences means that future tax effects should be reported at the time profits originate, even if a distribution of profits to the parent company and the corresponding taxation of the parent company will occur only in future periods. The Company can determine the timing of distributions and the retention of earnings from subsidiaries. Except for the mandatory distributions from Fair Value REIT-AG, dividend distributions from subsidiaries are neither planned nor foreseeable. Therefore, the recognition of deferred taxes for outside basis differences was waived with the exception of the deferred taxes recognised for Fair Value REIT. The recognition of deferred taxes for outside basis differences at the level of Fair Value REIT amounted to EURk 8,506 as at December 31, 2016 (previous year: EURk 4,739).

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

13. Earnings per share

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

	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Net profit/loss (EURk)	**27,649**	**28,873**
Net profit/loss attributable to parent company shareholders	24,670	28,117
Interest expenses from convertible bonds	860	829
Net profit/loss attributable to parent company shareholders (diluted)	25,530	28,946
Number of shares		
Number of shares outstanding as at the balance sheet date	54,247	49,292
Weighted average number of shares outstanding	51,364	25,889
Impact of conversion of convertible bonds	13,638	13,662
Share-based payments	0	1,000
Weighted average number of shares (diluted)	65,002	40,551
Earnings per share (EUR)		
Basic earnings per share (EUR)	0.48	1.09
Diluted earnings per share (EUR)	0.39	0.71

As at December 31, 2016, the company had potential ordinary shares outstanding from the 2013/2018 convertible bond, which entitle the holders of the convertible bonds to an exchange for 10,637,763 shares (previous year: 10,661,700 shares) and the holders of the 2015/2018 mandatory convertible bond to an exchange for 3,000,000 shares, and EURk 15,000 respectively (previous year: EUR 3,000,000 shares).

14. Personnel costs

IN EURK	01/01/2016 – 31/12/2016	01/01/2015 – 31/12/2015
Salaries	-4,965	-2,231
Statutory social expenses	-425	-281
Total	**-5,390**	**-2,512**

Personnel expenses of EURk 5,390 are generally recognised in general and administrative expenses and relate mainly to DEMIRE AG (EURk 3,156) and Fair Value REIT-AG (EURk 693). This item also includes personnel expenses of EURk 1,320 from DEMIRE Immobilien Management GmbH, which are reported in expenses incurred to generate rental income and not in administrative costs. Of the statutory social expenses, about half are attributable to contributions to statutory pension insurance.

In the reporting period, the staff costs for DEMIRE AG include expenses for share-based payments of EURk 594 (previous year: EURk 434).

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 3).

1.1 Intangible assets

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

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

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

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

1.1.1 Goodwill

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

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

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

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

The Group carried out the annual impairment test as at December 31, 2016. The recoverable amount of the cash-generating unit (CGU) Fair Value REIT was calculated on the basis of the calculation of a 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 (pre-tax) used for cash flow forecasts was 3.17 %. The projections for cash flows after five years are based on the average amount of cash flows for the detailed planning period. The recoverable amount determined on the basis of the value in use was then compared with the carrying amount of the CGU in order to assess its value. As a result of this analysis, management identified sufficient headroom between the value in use and the carrying amount of the CGU. No change in the material assumptions deemed possible by the management results in the carrying amount exceeding the recoverable amount. Accordingly, DEMIRE has not identified any impairment as of December 31, 2016.

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 December 31, 2016.

Discount rate – The discount rate is based on the CGU's weighted average cost of capital (WACC). The weighted average cost of capital takes into account both the cost of capital for debt and equity. The equity costs are derived from the expected return of equity investors of the Fair Value REIT subgroup. Borrowing costs were derived from the average financing costs of comparable companies. Sector-specific risk was determined by applying individual beta factors. The beta factors were determined on the basis of publicly available market data. An increase in the discount rate of 0.5 % as at December 31, 2016 would not have resulted in the need for impairment.

1.1.2 Other intangible assets

Other intangible assets mainly contain mainly computer software. A useful life of three to five years is applied to other intangible assets. Amortisation of EURk 18 (previous year: EURk 1) is reported in the statement of income in the line item „other operating expenses".

1.2 Property, plant and equipment

Office and operating equipment

Property, plant and equipment include office and operating equipment. Straight-line depreciation is based a useful life of 3 to 15 years. Depreciation is reported in the statement of income in line item „other operating expenses" (EURk 91; previous year: EURk 21).

Technical equipment

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

Advance payments

Advance payments as at December 31, 2015, related mainly to the property Kurfürstengalerie in Kassel, for which the transfer of benefits and obligations took effect on January 1, 2016.

1.3 Investment properties

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

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

Valuation of real estate held by the DEMIRE subgroup

Fair values of investment properties are determined based on discounted earnings models in accordance with the Federal Building Code (Baugesetzbuch), Property Valuation Regulation (Immobilienwertermittlungsverordnung [ImmoWertV]) and the Valuation Guidelines (Wertermittlungsrichtlinie [WertR]). The property's net present value is determined based on income and expenditures taking a risk-adjusted property yield into account.

Pursuant to IFRS 13.9, the fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants on the valuation. In principle, the fair value of the asset assumes the sale of an asset. This also applies if DEMIRE has neither the intention nor the capacity to sell the asset or transfer the liability as of the valuation date. When determining the fair value of non-financial assets, the maximum and best possible use is assumed. This requires a benefit and value maximisation of the asset, provided this is technically possible, legally permissible and financially feasible. It is immaterial whether the fair value is directly observable or determined using a valuation method.

The measurement of investment properties at fair value is to be classified to Level 3 of the valuation hierarchy according to IFRS 13.86 (valuation based on unobservable inputs). The measurement parameters, broken down by asset class, are shown in Appendix 2. DEMIRE uses the date of the event or the change in the circumstances that caused the reclassification to determine the date on which a reclassification between the different hierarchy levels has occurred.

Valuation of real estate held by the Fair Value REIT subgroup

The fair value of the investment properties of the Fair Value REIT subgroup is determined using the discounted cash flow method.

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

The determination of fair values depends on the following key, non-observable input factors (Level 3):

	December 31, 2016		December 31, 2015	
Average market rent (in EUR per m² per year)[1]	68.83		94.11	
Range of average market rents (in EUR per m²)	18.00	180.00	0.00	232.97
Rentable space as at balance sheet date (in m²)	255,821		264,887	
Vacant space as at balance sheet date (in m²)	30,637		28,713	
Value-based vacancy rate according to EPRA (in %)	9.28		10.31	
Average vacancy rate based on rentable space (in %)	11.98		10.84	
Range of average vacancy rate based on the rentable space (in %)	0.00	60.75	0.00	63.51
Weighted Average Lease Term – WALT (in years)	5.20		4.86	

[1] *The determination of average market rent was based on rentable space as at December 31, 2016.*

The basis for rental revenue planning is the rental payments contractually agreed with the tenants as well as prevailing customary local market rents for unleased space on the valuation date. The contractually agreed monthly rents per square meter on the valuation date for the various types of use compared to the previous year are shown in the table below:

CONTRACTUAL RENTS IN EUR		December 31, 2016	December 31, 2015
Office property	Min.	2.02	2.50
	Max.	25.80	25.80
	Avg.	7.34	6.10
Retail property	Min.	2.50	2.50
	Max.	90.00	90.00
	Avg.	9.65	7.97
Other property	Min.	2.00	2.00
	Max.	11.60	11.60
	Avg.	4.80	5.46
Total	Min.	2.00	2.00
	Max.	90.00	90.00
	Avg.	8.04	6.92

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:

IN EURK	2016	2015
Fair value at beginning of the fiscal year	915,089	333,070
Additions though business combinations	0	469,114
Additions (change in scope of consolidation)	37,106	81,624
Reclassifications from advance payments and real estate inventory	11,191	14,065
Additions	11,480	0
Disposals	-8,270	0
Reclassifications to non-current assets, held for sale (see Note E.3)	-23,736	-1,255
Unrealised gains from fair value measurement included in item D.5 of the statement of income	50,176	21,478
Unrealised losses from fair value measurement included in item D.5 of the statement of income	-11,762	-3,007
Fair value as at December 31	**981,274**	**915,089**

The acquisition of investment properties in the amount of EURk 37,106 and the reclassification of advance payments in the amount of EURk 11,191 resulted from the investment in the commercial real estate company Kurfürster Immobilien GmbH.

A sensitivity analysis of the DEMIRE subgroup’s key unobservable input parameters showed the following effects on the fair value of the investment properties:

CHANGE IN VALUE	Property yield		Market rent[1]	
	-0.5 %	+0.5 %	-10 %	+10 %
in EURk	48,060	-43,440	-55,930	55,670
in %	6.70	6.06	7.80	7.76

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

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

A sensitivity analysis of the Fair Value REIT subgroup’s significant unobservable input parameters showed the following effects on the fair value of the investment properties:

CHANGE IN VALUE	Property yield		Market rent[1]	
	-0.5 %	+0.5 %	-10 %	+10 %
in EURk	11,928	-14,240	-22,653	22,234
in %	4.18	4.99	7.56	6.91

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

1.4 Investments accounted for using the equity method

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

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

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

The investments in companies accounted for using the equity method amounted to EURk 126 (previous year: EURk 3,136) as at December 31, 2016. This includes the shareholding in Irao Magnat 28/2 LLC of EURk 116 (previous year: EURk 116) and a transferred profit for the year of EURk 0 (previous year: EURk 0). Also included are G+Q Effizienz GmbH, acquired in the period under review for EURk 9 with a transferred loss for the year of EURk -3 and Demire Assekuranz GmbH & Co. KG acquired in the reporting period for EURk 1 with an assumed profit for the year of EURk 0.

The investment in SQUADRA Immobilien GmbH & Co. KGaA held in the previous year in the amount of EURk 3,020 was sold during the reporting period (see Note B).

1.5 Other financial assets

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

DEMIRE classifies financial assets as either

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

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

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

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

The carrying amount of other financial assets amounts to EURk 11,328 (previous year: EURk 11,045) and essentially comprises the non-current portion of the settlement balance from the Fair Value REIT subgroup in the amount of EURk 9,822.

The amount of the settlement balance for terminated shares in BBV 9 Geschäftsführungs-GmbH & Co. KG was determined by the appointed arbitrator on November 30, 2015 and amounted to EURk 10,020.

The settlement balance was due on May 31, 2016, but will be paid according to the business plan of BBV 9 Geschäftsführungs-GmbH & Co. KG in three annual instalments of 1 %, 1 % and 98 % plus interest on arrears of 4 % p.a. as of maturity. The settlement balance is due six months after the determination. This results in a non-current receivable in the amount of EURk 9,822 and a current receivable of EURk 332. The outstanding receivable is incuring interest since June 1, 2016 at an interest rate of 4 % p.a.

1.6 Loans to investments accounted for using the equity method

Loans to investments accounted for using the equity method in the previous year amounting to EURk 553 related to a loan to R-Quadrat Polska Alpha Sp. z o.o., which was deconsolidated during the reporting period. The disposal of this loan resulted from the transfer of the loan in the course of the sale of R-Quadrat Polska Alpha Sp. z o.o.

1.7 Other loans

The main portion of other loans in the previous year amounting to EURk 384 concerned a loan granted to Magnat Asset Management GmbH, which was sold during the reporting period.

2. Current assets

2.1 Real estate inventory

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

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

Of the real estate inventory, an amount to EURk 2,222 (previous year: EURk 2,298) is attributable to developed and undeveloped properties that are intended for resale. No impairment reversals were made in the reporting period. The decrease in the carrying amount is due to currency translation effects.

2.2 Trade accounts receivable and other receivables

The following table shows the composition of trade accounts receivable and other receivables as at December 31, 2016.

IN EURK	31/12/2016 Gross	Impairment	31/12/2016 Net	31/12/2015 Gross	Impairment	31/12/2015 Net
Receivables due from the sales of the investment in SQUADRA Immobilien GmbH & Co. KG	7,184	0	7,184	0	0	0
Trade accounts receivable against third parties	7,620	2,159	5,461	8,837	4,347	4,490
Purchase price receivables from sales of legacy portfolio	2,880	860	2,020	2,914	284	2,630
Unbilled revenue from ancillary rental cost	3,188	0	3,188	1,571	0	1,571
Receivables from processing value-added tax	1,895	0	1,895	2,056	0	2,056
Purchase price receivables from BBV 02	1,361	0	1,361	0	0	0
Building cost subsidy	588	0	588	0	0	0
Receivables from settlement credit BBV 09	517	0	517	1,002	0	1,002
Deposits	369	0	369	36	0	36
Receivables due from former owner of Kurfürster Immobilien GmbH	366	0	366	0	0	0
Purchase price receivables from Erlangen property	0	0	0	1,355	0	1,355
Administrator accounts	0	0	0	151	0	151
Others	655	0	665	1,096	0	1,096
Total	**26,663**	**3,019**	**23,614**	**19,018**	**4,631**	**14,387**

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

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

Impairments as of the balance sheet date amounted to EURk 3,019 (previous year: EURk 4,631). Impairment losses are reported in the consolidated statement of income under the item „impairment of receivables".

2.3 Financial receivables and other financial assets

Financial receivables and other financial assets of EURk 10,293 (previous year: EURk 26,020) primarily consist of a loan given to Taurecon Real Estate Consulting GmbH, Berlin, amounting to EURk 2,230 and a loan given to Taurecon Beteiligungs GmbH, Berlin, amounting to EURk 2,330, which holds minority shareholdings in certain Group companies of DEMIRE. Financial receivables and other financial assets also include a call option (early termination rights of the 2014/2019 corporate bond) in the amount of EURk 2,653.

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

2.4 Cash and cash equivalents mittel

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

Cash and cash equivalents of EURk 31,289 (previous year: EURk 28,467) include cash on hand and bank balances.

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. If the sale is expected only after one year, the selling costs are measured at their present value. 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 EURk 24,291 as of the balance sheet date exclusively consist of properties held for sale. The most important properties are the property in Darmstadt (partial sale) belonging to Armstripe S.à.r.l. and all properties belonging to Condor Objektgesellschaft Yellow GmbH.

4. Equity

Subscribed capital increased by EURk 24 due to conversions of the 2013/18 convertible bonds and a capital increase in the reporting period in the amount of EURk 4,931 to a total of EURk 54,247. The 2013/18 convertible bonds are divided into 10,637,763 bearer shares (previous year: 10,661,700) with a notional par value of EUR 1.00. All shares are fully paid. Restrictions on voting rights or the transfer of shares have not been agreed. Shares of the Company with special rights conferring control powers were not issued.

The change in **capital reserves** was essentially the result of a cash capital increase of EURk 12,080 and the related costs incurred to raise equity in the amount of EURk 1,105. Capital reserves were reduced by expenses of EURk 594 from the stock option programme (see Note G. 4d).

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

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

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

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

Authorised Capital I/2016

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

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

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 October 15, 2014 for a period of five years, i.e. until October 14, 2019. The number of shares acquired under this authorisation, together with other Company shares already purchased by the Company or already owned, may not exceed 10 % of the Company's respective existing subscribed capital.

5. Non-current liabilities

5.1 Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the balance sheet under tax law and for unutilised tax loss carryforwards (liability method). In evaluating if deferred tax assets can be utilised, DEMIRE takes into account whether it is rather likely or unlikely that deferred taxes cannot be realised. The realisation of deferred tax assets depends on whether taxable income will be generated at the time of the reversal of the temporary differences from which the temporary differences can be deducted. This assessment is based on DEMIRE's tax planning. Deferred tax assets for tax loss carryforwards were recognised in the amount of EURk 4,523 (previous year: EURk 3,937).

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

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

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

IN EURK	December 31, 2016	December 31, 2015
Tax loss carryforwards	4,523	3,937
Financial liabilities	1,354	1,355
Investment properties	0	359
Interest swap	200	88
Deferred tax assets before offsetting	**6,078**	**5,739**
Offsetting	-6,078	-5,595
Deferred tax assets	**0**	**144**
Investment properties	37,683	28,229
Real estate inventory	0	6
Financial liabilities	3,425	3,074
Deferred tax liabilities before offsetting	**41,108**	**31,309**
Offsetting	-6,078	-5,595
Deferred tax liabilities	**35,030**	**25,714**

The requirements of IAS 12.74 are met with regard to the deferred tax assets arising from tax loss carryforwards in the amount of EURk 4,523 before offsetting (previous year: EURk 3,937).

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

IN EURK	01/01/2016	Statement of income	31/12/2016
Investment properties	-27,870	-9,813	-37,683
Real estate inventory	-6	6	0
Interest swaps	88	112	200
Tax loss carryforwards	3,937	586	4,523
Financial liabilities	-1,719	-352	-2,071
Total	**-25,570**	**-9,460**	**-35,030**

The item „Financial liabilities" mainly refers to deferred taxes related to the 2013/2018 convertible bond, the 2014/2019 corporate bond and the Signal Capital loan.

Tax loss carryforwards and deductible temporary differences that were not taken into account when determining deferred taxes and which are generally non-forfeitable amounted to EURk 40,990 (previous year: EURk 28,044). In the reporting year, unrecognised deferred tax assets amounting to EURk 7,980 (previous year: EURk 5,563k).

The change in deferred taxes in the 2015 fiscal year and its structure can be broken down as follows:

IN EURK	01/01/2015	Statement of income	Recognised directly in equity	31/12/2015
Investment properties	-10,385	-4,611	-12,874	-27,870
Real estate inventory	-84	78	0	-6
Interest swaps	0	88	0	88
Tax loss carryforwards	1,345	2,592	0	3,937
Others	-188	-1,531	0	-1,719
Total	**-9,312**	**-3,384**	**-12,874**	**-25,570**

5.2 Minority interests

The minority interests reported under the Group's liabilities are attributable to Fair Value REIT and relate to capital of limited partners of mainly natural persons in real estate funds in the legal form of a GmbH & Co. KG and amounted to EURk 62,822 as of the balance sheet date (previous year: EURk 61,160). The minority shareholders have the right to terminate their investment. Therefore, the interests of these shareholders in the capital of the subsidiaries is assessed as potential compensation claims in accordance with IAS 32 and recorded as a liability in the consolidated balance sheet. The measurement is carried out at fair value upon the initial recognition, which corresponds to the interest of minority shareholder in the net assets of the respective company. The reported liability, therefore, corresponds to the notional interest of the minority shareholder in the net assets of the respective subsidiary shown in the partial Group balance sheet of Fair Value REIT at their carrying amounts.

5.3 Financial liabilities

Financial liabilities are measured at their fair value at 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 the present value and on the basis of the originally determined effective interest rate. Differences to the previously recognised carrying amounts of the financial liabilities are recognised through profit or loss.

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

FINANCIAL LIABILITIES IN EURK	Nominal interest rate	Fixed interest	Variable interest	Total
2014/2019 corporate bond	7.50%	97,650	0	97,650
2013/2019 convertible bond	6.00%	10,398	0	10,398
2015/2018 mandatory convertible bond (liability component)	2.75%	549	0	549
Other financial liabilities	3.84%	502,858	51,188	554,046
Total		**611,455**	**51,188**	**662,643**

Financial liabilities as at the previous year's balance sheet date (December 31, 2015) consisted of the following:

FINANCIAL LIABILITIES IN EURK	Nominal interest rate	Fixed interest	Variable interest	Total
2014/2019 corporate bond	7.50%	98,774	0	98,774
2013/2019 convertible bond	6.00%	10,311	0	10,311
2015/2018 mandatory convertible bond (liability component)	2.75%	889	0	889
Other financial liabilities	4.83%	341,276	203,989	545,265
Total		**451,250**	**203,989**	**655,239**

Other financial liabilities mainly comprise financial liabilities to credit institutions at a weighted average nominal rate of 3.84 % (previous year: 4.83 %).

A significant portion of other financial liabilities is a promissory note from Deutsche Bank. This note was subject to a nominal interest rate of 5.00 % until the balance sheet date and was due on September 9, 2019. A prolongation in this note until 2022 was agreed retroactively to January 1, 2017 with Deutsche Bank as was a simultaneous reduction of the nominal interest rate to 4.00 %.

As of the balance sheet date, the financial liabilities were collateralised by assets in the amount of EURk 551,202 (previous year: EURk 500,727). As in the previous year, no liabilities have been encumbered with a mortgage as a guarantee for third-party liabilities.

Pursuant to the business pledging agreement dated November 13, 2014, DEMIRE AG pledged all of its interests in the subsidiary DEMIRE Condor Properties Management GmbH in the amount of EURk 28, including all related rights, to secure the loan taken out by the subsidiary DEMIRE Condor Properties Management GmbH, including accrued interest of EURk 12,567.

Pursuant to the notarised declaration of December 17, 2014, DEMIRE AG accepted all current, future and contingent claims of bond holders up to a maximum amount of EURk 33,360 for the bearer bond issued by the subsidiary DEMIRE Commercial Real Estate GmbH, Frankfurt/Main. In order to secure the claims of this bearer bond, DEMIRE AG has pledged all its interests in the subsidiary DEMIRE Commercial Real Estate GmbH in the amount of EURk 9,683.

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

The covenants concern financial ratios of the respective real estate portfolios, particularly the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and the loan-to-value (LTV). The calculation is based on the specifications set by the creditors in the loan agreement. The significant financial liabilities issued by the DEMIRE Group for which covenants were contractually agreed include the Deutsche Bank promissory note for the Condor real estate portfolio with a nominal value of EUR 148 million, the 2014/2019 corporate bond with a nominal value of EUR 100 million, the A and B notes of the T6 real estate portfolio with a current value of EUR 92.7 million, the 2013/2018 convertible bond with an issue amount of EUR 11.3 million, the 2015/2018 mandatory convertible bond with an issue amount of EUR 15 million, the Signal Capital loan with a nominal value of EUR 32 million, the LBBW loan of EUR 41.0 million for the Alpha real estate portfolio and the DGHyp loan for a nominal amount of EUR 68 million for the Logistikpark Leipzig and the Kurfürstengalerie in Kassel.

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

Excluding the financing of Logistikpark Leipzig, all financing obligations and financial covenants were complied with in the reporting period. Due to the non-fulfilment of covenants during the year for the financing of Logistikpark Leipzig, payments were made to pledged credit balances as additional collateral pursuant to the loan agreement. Therefore, the Executive Board assumes that this credit line will continue to be available in the future as non-current financial liabilities.

2014/2019 corporate bond

As at the balance sheet date of December 31, 2016, the 2014/2019 corporate bond was issued at the full nominal value of EURk 100,000.

In the 2014 fiscal year, DEMIRE AG placed a corporate bond with an issue volume of EURk 50,000. The corporate bond has a maturity of five years and is due on September 16, 2019. The bond was issued with a coupon of 7.50 % p.a., which is paid to investors in arrears semi-annually. The inclusion of the corporate bond in trading on the Open Market of the Frankfurt Stock Exchange under ISIN DE000A12T135 took place on September 16, 2014. The unsecured bond issued in a private placement is divided into 50,000 fractional bearer shares with a notional par value of EURk 1 per fractional bond.

By a resolution dated March 24, 2015, with the approval of the Supervisory Board, the DEMIRE Executive Board increased the 2014/2019 corporate bond of September 2014 by a further EURk 50,000 for a total of EURk 100,000. The following table shows the development of the 2014/2019 corporate bond:

IN EUR	Carrying amount 2014/2019 corporate bond
As at January 1, 2015	**50,000**
Partial repurchase of 2014/2019 corporate bond	-20,000
Exchange of fractional bonds of the 2014/2019 corporate bond for	-15,000
	85,000
Placements in 2015	
	100,000
As at December 31, 2015	

In December 2015, the Company placed fractional bonds with a nominal value of EURk 10,880 and exercised its call option for the same amount against the seller of the T6 portfolio. As at December 30, 2015, the put option was exercised by the seller of the T6 portfolio. The portion of the bond in the amount of EURk 14,375, which could not be placed until December 31, 2015, was repurchased by DEMIRE AG. The bonds amounting to EURk 14,375, however, were not posted to the Company's securities account until January 2016, meaning as of December 31, 2015, the 2014/2019 corporate bond had a total nominal value of EURk 100,000. After the partial redemption of the fractional bonds, the value of the bond in January 2016 amounted to EURk 85,625.

The terms and conditions of the 2014/2019 corporate bond contain provisions with regard to requirements (financial covenants) which, in the event of non-compliance, could lead to extraordinary termination by the bondholders and thus to repayment obligations on the part of the Company as well as distribution restrictions for the Company. The financial covenants concern financial ratios, specifically the loan-to-value ratio (LTV) and the Company's equity ratio. The monitoring, compliance and reporting with respect to the financial covenants is carried out by DEMIRE's management, treasury and asset management areas. If the stipulated values of the financial covenants are not met, the creditor has the right to demand additional collateral from DEMIRE. The financial liabilities 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. As of the balance sheet date, the financial covenants were complied with and, accordingly, a default did not exist.

Convertible bonds (2013/2018 CB)

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

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

The details of the convertible bonds are as follows:

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

Following the exercise of 23,937 conversion rights from the 2013/2018 convertible bond, the company's share capital was increased by 23,937 no-par value bearer shares with a notional interest of EUR 1.00 as of the reporting period.

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

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

With regard to the corresponding effects on the statement of income, we refer to Note D.11.

Mandatory convertible bond (2015/2018 MCB)

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

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

The details of the convertible bonds are as follows:

- They are divided into a maximum of 150 bearer fractional bonds, each with a nominal value of EURk 100 and carrying equal rights.

- Bondholders have the right to convert each bond in whole, but not in part, during the bond's term, into no-par value shares (no-par value shares) with a notional interest in the Company's share capital on the issue date of EUR 1.00.

- In case of the effective exercise of the conversion right, the conversion price amounts to EUR 5.00 per no-par value share, subject to adjustments due to adjustment provisions included in the terms and conditions of the bonds. The conversion ratio is calculated by dividing the bond's principal amount by the conversion price applicable on the exercise date.

- The bonds bear 2.75 % interest per annum with interest payable quarterly in arrears on the dates of March 22, June 22, September 22 and December 22 in each year during the term of the convertible bonds.

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

In DEMIRE's IFRS consolidated financial statements, the equity component of the 2015/2018 mandatory convertible bond was recognised directly in equity as an equity instrument amounting to EURk 13,899 due to the bond's terms and conditions. Additionally, deferred tax assets of EURk 324 were recognised directly in equity. The effective interest rate for the debt component of EURk 549 is 7.48 %.

5.4 Other non-current liabilities

Other long-term liabilities amounting to EURk 865 (previous year: EURk 1,076) are due from former minority shareholders of subsidiaries. These liabilities mainly concern settlement payments resulting from the retirement of partners from partnerships. In some cases, the respective subsidiary is entitled to pay out the settlement balance in three or five annual installments, with interest of 4.0 % p.a. charged on the remaining amount; in one case the interest rate is based on the 12-month EURIBOR rate. For one of the subsidiaries of Fair Value REIT-AG, it is assumed that the settlement balance is paid in pro rata installments.

6. Current liabilities

6.1 Provisions

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

DEMIRE assumes that the provisions will be fully utilised in the following 2017 fiscal year, since these are only of a short-term nature.

Provisions developed as follows during the reporting period:

IN EURK	December 31, 2015	First-time consolidation	Utilisation	Reversal	Derecog-nition	Additions	December 31, 2016
Personnel expenses	936	13	-744	-47	-134	907	931
Provisions for building maintenance	181	0	-137	-44	0	800	800
Other provisions	49	0	-32	-9	0	0	8
Total	1,166	13	-913	-100	-134	1,707	1,739

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

6.2 Trade payables and other liabilities

Liabilities are recognised at amortised cost after their initial recognition.

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

IN EURK	December 31, 2016	December 31, 2015
Trade payables	10,730	9,179
Accounting and audit costs	1,360	1,644
Liabilities to minority shareholders	1,171	1,039
Liabilities from value-added taxes	1,069	865
Purchase price liabilities	725	187
Deposits received	567	705
Personnel-related expenses	329	434
Supervisory Board compensation	317	49
Outstanding invoices	12	3,153
Interest liabilities	0	355
Others	1,098	2,277
Total	**17,378**	**19,887**

Trade payables of EURk 10,730 (previous year: EURk 9,179) are fully due to third parties as at December 31, 2016 and are payable in full at short notice.

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

Liabilities for outstanding invoices are recognised for services that have been used but an invoice has not been received as of the balance sheet date.

6.3 Tax liabilities

Current income tax liabilities of EURk 4,892 (previous year: EURk 3,801) are divided into trade taxes of EURk 1,639 (previous year: EURk 524) and corporate taxes of EURk 3,073 (previous year: EURk 3,277).

7. Leases

7.1 Operating leases – The Group as lessor

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

IN EURK	December 31, 2016	December 31, 2015
Due within one year	67,987	72,583
Due between 1 and 5 years	187,637	216,097
Due after more than five years	128,405	134,747
Total future rental income	**384,028**	**423,427**

7.2 Operating leases – The Group as lessee

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

RENTAL AND LEASE OBLIGATIONS FOR VEHICLES (EURK)	December 31, 2016	December 31, 2015
Due within one year	44	61
Due between 1 and 5 years	126	59
Total	**170**	**120**

RENTAL AND LEASE OBLIGATIONS FOR OFFICE SPACE (EURK)	December 31, 2016	December 31, 2015
Due within one year	142	96
Due between 1 and 5 years	545	376
Total	**687**	**472**

OTHER LEASE OBLIGATIONS (EURK)	December 31, 2016	December 31, 2015
Due within one year	10	0
Due between 1 and 5 years	31	0
Total	**41**	**0**

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

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

IN EURK	01/01/-31/12/2016	01/01/-31/12/2015
Vehicles	61	49
Office space	96	95
Total	**157**	**144**

8. Contingent liabilities

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

The contingent liabilities as of December 31, 2016 consist of mortgages under Section 1191 BGB in the amount of EURk 449,127 (previous year: EURk 839,990). The maximum liability for these properties is limited to the carrying amount of EURk 449,127 (previous year: EURk 640,281) recognised on the balance sheet date. In the year under review, the related mortgages in the amount of EURk 21,339 were removed from the title register.

In accordance with the notarised declaration of December 17, 2014, DEMIRE AG accepted all current, future and contingent claims of bondholders up to a maximum amount of EURk 33,360 for the bearer bond issued by the subsidiary DEMIRE Commercial Real Estate GmbH, Frankfurt/Main. In order to secure the claims from this bearer bond, DEMIRE AG has pledged all its interests in the subsidiary DEMIRE Commercial Real Estate GmbH in the amount of EURk 9,683. The declaration continues to apply following the bond's prolongation on December 15, 2015. The underlying obligations can be met by the companies concerned according to the findings of DEMIRE AG. For this reason, as at the balance sheet date, DEMIRE AG considers the likelihood to be low that the guarantee will be utilised.

Pursuant to the business pledge agreement of November 13, 2014 for the mezzanine loan granted by LSREF II Caliburn BFL Limited, Dublin, Ireland, to the subsidiary DEMIRE Condor Properties Management GmbH, the Company has pledged all of its interests in the amount of EURk 28 and all related rights to the subsidiary DEMIRE Condor Properties Management GmbH.

Under the loan agreement with Signal Credit Opportunities (Lux) Investco II S.à.r.l., dated December 30, 2015, DEMIRE AG has pledged all of the interests held in its subsidiaries DEMIRE Commercial Real Estate DREI GmbH, DEMIRE Commercial Real Estate FÜNF GmbH, Hanse-Center Objektgesellschaft mbH and Glockenhofcenter Objektgesellschaft GmbH and a bank account at Deutsche Kreditbank for all payments of the preceding companies as collateral in favour of the lender. In addition, DEMIRE AG ceded its claims to all group loans and Logistikpark Leipzig GmbH ceded its claims to all loans granted to DEMIRE AG as collateral in favour of the lender. Furthermore, the claims arising from group loans between the subsidiaries above were made subordinate to the lender's claims.

DEMIRE AG entered into a letter of guarantee in the amount of EURk 940 related to a loan granted to TGA Immobilien Erwerb 1 GmbH by Volksbank Mittweida on May 13, 2015. In accordance with the findings of DEMIRE AG, the underlying obligations under the credit agreement can be met given the solid level of net assets, financial position and results of operations of TGA Immobilien Erwerb 1 GmbH. Thus, as at the balance sheet date, the probability of utilising this guarantee was considered as low.

9. Other financial obligations

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

OBLIGATIONS FROM OUTSIDE MANAGED PROPERTIES (IN EURK)	December 31, 2016	December 31, 2015
Due within one year	66	907
Due between 1 and 5 years	0	42
Total	**0**	**949**

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

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

The purchase order commitment from commissioned maintenance amounted to EURk 1,314.

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

F. GROUP SEGMENT REPORTING

The segmentation of the data in the consolidated financial statements is based on the internal alignment according to strategic business segments pursuant to IFRS 8. The segment information provided represents the information to be reported to DEMIRE AG's Executive Board.

The Group is divided into the two business segments „Core Portfolio" and „Fair Value REIT". The focus is the sustainable management of the respective properties. These properties are held for the purpose of generating rental income and/or for value appreciation.

The „Core Portfolio“ segment contains a significant logistics property and other commercial property in Germany. These properties are accounted for within several subsidiaries who each qualify as a business segment. Due to their similar business characteristics (type of service, type and group of customers and sales methods), these subsidiaries are combined to form the reportable segment „Core Portfolio“.

The „Fair Value REIT“ segment comprises office space as well as retail and wholesale properties located in German regional centres. These properties are accounted for within a number of subsidiaries, who each qualify as a business segment. Due to their similar business characteristics (type of service, type and group of customers and sales methods), these subsidiaries are combined to form the segment reportable „Fair Value REIT“.

JANUARY 1, 2016 - DECEMBER 31, 2016 EURK	Core Portfolio	Fair Value REIT	Reconciliation / others	Group
External revenues	66,226	47,857	7,471	121,554
Total revenues	**66,226**	**47,857**	**7,471**	**121,554**
Profit/loss from fair value adjustments in investment properties	36,661	1,753	0	38,414
Other income	4,129	597	824	5,550
Profits originating from a purchase below market value	0	0	0	0
Profits from investments accounted for using the equity method	0	0	0	0
Unrealised fair value adjustments in equity investments	0	0	0	0
Segment revenues	**107,016**	**50,207**	**8,295**	**165,518**
Net assets from sold real estate companies	0	0	-3,510	-3,510
Expenses on real estate sales	-1,675	-19,328	0	-21,003
Other expenses	-35,844	-14,735	-6,898	-57,477
Losses from investments accounted for using the equity method	-3	0	-356	-359
Segment expenses	**-37,522**	**-34,063**	**-10,764**	**-83,349**
EBIT	**69,494**	**16,144**	**-2,469**	**83,169**
Financial income	228	0	925	1,153
Financial expenses	-19,199	-8,188	-16,973	-44,360
Income taxes	-8,929	-3,721	338	-12,313
Net profit/loss for the period	**41,593**	**4,235**	**-18,179**	**27,649**
Significant non-cash items	**-23,245**	**5,217**	**-4,617**	**-22,646**
Impairment losses in net profit/loss for the period	**955**	**12**	**1,091**	**2,058**

Additional information as at 31. Dezember 2016

SEGMENT ASSETS	**741,379**	**329,596**	**23,031**	**1,094,006**
of which investments accounted for using the equity method	9	0	117	126
of which financial receivables and other financial assets	2,025	0	8,268	10,293
of which tax refund claims	80	5	726	811
of which non-current assets, held for sale	20,691	3,600	0	24,291

SEGMENT LIABILITIES	**421,775**	**210,740**	**152,855**	**785,370**
of which non-current financial liabilities	362,696	122,796	135,996	621,488
of which current financial liabilities	19,387	9,275	13,358	42,020
of which tax liabilities	4,710	0	182	4,892

The Corporate Functions/Others segment mainly contains DEMIRE Deutsche Mittelstand Real Estate AG's activities in areas, such as risk management, finance and controlling, financing, legal, IT and compliance, that are related to its function as the Group holding and service provider for the subsidiaries. This segment also contains the effects of the Investments segment, which was still shown separately in 2015 and includes the legacy portfolio currently being sold and is only of minor strategic importance for the DEMIRE Group.

In the fiscal year, more than 10 % of total revenue in the amount of EURk 22,320 (previous year: EURk 9,796) were generated with one customer in the „Core Portfolio" segment.

In the „Core Portfolio" segment, non-cash items mainly comprise fair value adjustments in investment properties in the amount of EURk 36,661 (previous year: EURk 63,608), income taxes of EURk -7,623 (previous year: EURk -4,576). In the Central Functions/Others segment, non-cash items comprise profits from the disposal of real estate companies in the amount of EURk 3,961 (previous year: EURk 69), the profit/loss from investments accounted for using the equity method in the amount of EURk -359 (previous year: EURk 1,908) and changes in provisions of EURk 594 (previous year: EURk 434).

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

JANUARY 1, 2015 - DECEMBER 31, 2015 EURK	Invest-ments	Core Portfolio	Fair Value REIT	Central Functions/ Others	Group
Revenues	2,572	44,863	0	0	47,435
Profit/loss from fair value adjustments in investment properties	0	18,471	0	0	18,471
Other income	174	1,811	0	588	2,573
Profits originating from a purchase below market value	0	33,217	0	0	33,217
Profits from investments accounted for using the equity method	1,861	0	0	1,469	3,330
Segment revenues	**4,607**	**98,362**	**0**	**2,057**	**105,026**
Net assets from sold real estate companies	-1,421	-86	0	0	-1,507
Expenses on real estate sales	-192	-1,650	0	0	-1,842
Other expenses	-3,244	-26,383	0	-9,480	-39,107
Losses from investments accounted for using the equity method	-3,769	0	0	-61	-3,830
Segment expenses	**-8,626**	**-28,119**	**0**	**-9,541**	**-46,286**
EBIT	**-4,019**	**70,243**	**0**	**-7,484**	**58,740**
Financial income	171	281	0	1,693	2,145
Financial expenses	-1,980	-13,483	0	-12,410	-27,873
Income taxes	68	-4,576	0	369	-4,139
Net profit/loss for the period	**-5,760**	**52,465**	**0**	**-17,832**	**28,873**
Significant non-cash items	**4,165**	**-51,628**	**0**	**2,825**	**-44,638**
Impairment losses in net profit/loss for the period	**1,435**	**792**	**0**	**619**	**2,846**

Additional information as at 31. Dezember 2015

SEGMENT ASSETS	5,319	651,165	337,261	39,200	1,032,945
of which investments accounted for using the equity method	116	0	0	3,020	3,136
of which loans to investments accounted for using the equity method	0	0	0	553	553
of which financial receivables and other financial assets	83	5,011	0	20,926	26,020
of which tax refund claims	3	101	22	45	171
of which assets available for sales in investments accounted for using the equity method	0	1,255	11,750	0	13,005

SEGMENT LIABILITIES	282	414,896	217,803	135,062	768,043
of which non-current financial liabilities	0	348,870	187,738	134,424	671,032
of which current financial liabilities	107	23,236	16,531	4,569	46,443
of which tax liabilities	0	3,801	0	0	3,801

G. OTHER DISCLOSURES

1. Financial instruments

Generally, reference is made to the risk report in DEMIRE AG's group management report.

Financial risk management

The credit risk arising for DEMIRE as part of its operating activities as well as risk arising from financing activities are continuously monitored and actively managed by the Executive Board. As a result of these measures, the consolidated financial statements were prepared under the assumption of a going concern.

The Group's financial assets mainly consist of investments and loans to companies accounted for using the equity method, other loans, trade accounts receivable and other receivables, financial receivables, other financial assets and bank deposits. The majority of trade accounts receivable consists of rent receivables. Potential defaults in this context are taken into consideration.

DEMIRE's financial liabilities comprise mainly bonds, bank loans, other loans, overdrafts and trade payables. The main purpose of these financial liabilities is to finance the DEMIRE's operations.

DEMIRE is exposed to various financial risks as a result of its business activities: foreign currency risk, interest rate risk, credit risk and liquidity risk. The overarching risk management system concentrates on the continual identification and active management of typical business risks. This system accepts risk within a certain range if they offer the opportunity for commensurate returns. The goal is to limit the exposure to peak risks so that DEMIRE's continuance is not jeopardised.

The Executive Board identifies, evaluates and hedges financial risk in close collaboration with the risk manager and in coordination with the DEMIRE AG Supervisory Board.

Loan agreements exist in the Group that contain certain financial covenants stipulated by the creditors. Non-compliance with these financial covenants could lead to extraordinary terminations of these agreements by the creditors. The financial covenants concern financial ratios of the respective real estate portfolio, particularly the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and the loan-to-value (LTV) debt ratio. The calculations are based on the specifications set by the creditors in the loan agreement. The monitoring, compliance and reporting of the financial covenants specified in the loan agreements for the properties financed is 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.

Excluding the financing of Logistikpark Leipzig, 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 consisting of both variable and 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 exist with respect to liquid funds placed in deposit accounts as well as variable interest rates. The Company does not anticipate significant negative effects from interest rate changes over the long term because the liquid funds on the balance sheet date are only available until investments are made and will be subsequently tied up in projects according to plan.

The activities of DEMIRE group companies are essentially exposed to financial risk arising from changes in interest rates. For this reason, DEMIRE also uses derivative financial instruments to manage existing interest rate risk. Interest rate swaps are used which minimise interest rate risk as interest rates rise.

As at the balance sheet date, interest rate hedges existed in the form of purchased interest rate derivatives with a nominal volume of EURk 32,650 (previous year: EURk 36,149), which were acquired in the course of purchasing real estate companies. As at December 31, 2016, these had a market value of EURk -874 (previous year: EURk -829).

The following net payment obligations for DEMIRE AG result from the interest rate swaps in subsequent years based on the valuation at the balance sheet date:

- Maturity of up to one year: EURk 219
- Maturity between one and five years: EURk 548
- Maturity of more than five years: EURk 0

All derivative financial instruments are not integrated into a hedging relationship.

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

MEASUREMENT OF INTEREST RATE SENSITIVITY	December 31, 2016 TEUR	December 31, 2015 TEUR
Interest expense from variable interest loans	4,725	137
Increase in interest expenses from a fictitious rise of 100 bps in variable interest rates	1,046	69
Reduction in interest expenses from a fictitious decline of 100 bps in variable interest rates	-1,046	-69

The change in the interest expense analysed in the context of the above sensitivity analysis would have a direct impact on the consolidated result and the consolidated equity, taking into account income tax effects.

Since transaction prices for real estate increase when interest rates are low, the level of interest rates also has an impact on the purchase prices of newly acquired real estate. In addition, interest rates play an important role in the valuation of investment properties.

The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board of DEMIRE AG.

Credit risk

The reported financial instruments represent the maximum credit risk and default risk. Counterparty risk is uniformly assessed and monitored within the framework of Group-wide risk management. The aim is to minimise the risk of defaults. Counterparty risk is not insured. There are generally no significant concentrations of credit risk at DEMIRE. For an analysis of the impaired receivables, please refer to Note E.2.2.

Liquidity risk

In the initial phase of DEMIRE AG, the liquidity risk was mainly controlled by maintaining a liquidity reserve in the form of bank deposits available at all times and, to a limited extent, by means of callable credit lines. In the current situation, the liquidity situation's dependence on inflows from disposals and the planned prolongation of loans due is significantly higher. There are generally no significant concentrations of liquidity risk.

Further disclosures on risk management and financial risk are included in the risk report contained in the group management report.

Capital management and control

The primary objective of the Group's capital management is to ensure that DEMIRE's debt eligibility and its financial substance are maintained in the future. The capital structure is managed according to economic and regulatory requirements. Capital management is carried out by DEMIRE through dividends and/or financing. DEMIRE strives for a capital structure that is appropriate for the business risk and in doing so is also subject to the minimum capital requirements of the German Stock Corporation Act, the compliance of which is monitored by the DEMIRE AG Executive Board. The requirements were met both in the reporting year and in the previous year.

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

Other financial instrument disclosures

Financial assets and financial liabilities are classified and accounted for at the date of acquisition according to the categories of IAS 39.

Financial assets are classified by DEMIRE as either

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

Financial liabilities are classified by DEMIRE as either

- other financial liabilities, which are measured at amortised cost,
- financial liabilities measured at fair value, or
- derivative financial liabilities which meet the requirements for effective hedging transactions.

The Company mainly holds financial instruments from the categories loans and receivables and financial liabilities, which are carried at amortised cost. Financial assets and financial liabilities are recognised in the consolidated balance sheet for the first time when a Group company becomes a contracting party for a financial instrument. The first-time recognition of a financial instrument takes place at fair value, including any transaction costs.

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the time of initial recognition, loans and receivables are measured at fair value, including any transaction costs. In subsequent periods, they are measured at amortised cost using the effective interest method and less any impairment losses. Non-current, non-interest-bearing or low-interest receivables are carried at present value. DEMIRE classifies loans to investments accounted for using the equity method, trade receivables and other receivables (with the exception of receivables from income taxes and value-added taxes) as well as financial receivables in the category of loans and receivables.

DEMIRE uses derivative financial instruments to hedge against interest rate risk. These derivative financial instruments are initially recognised at their fair values as at the date on which the corresponding credit agreement is entered into and subsequently measured at their fair values. The provisions of IAS 39 on the accounting for hedging relationships do not apply. Derivative financial instruments are recognised as an asset if their fair value is positive and as a liability if their fair value is negative. The measurement is carried out using the mark-to-market method taking into account the market data available on the balance sheet date. Gains or losses resulting from changes in the fair value of the derivative financial instruments are recognised directly through profit or loss.

The classification of financial instruments required by IFRS 7 is in line with the respective items in the consolidated balance sheet. The tables below present the carrying amounts, valuations and fair values of the financial assets and liabilities for each individual category of financial instruments and relate these values to the measurement categories of IAS 39 as at the balance sheet date of the reporting year and that of the prior year. The measurement categories used by DEMIRE in accordance with IAS 39 are the available-for-sale financial assets (AfS), loans and receivables (LaR), Amortised Cost (AmC) and Held for Trading (HfT).

Under a shareholder agreement between DEMIRE AG and Dovemco Ltd., („Dovemco") signed in April 2015, an „earn-out" agreement was concluded for the underlying Condor portfolio. This agreement is based on a combination of call/put options with different exercise prices, which can only be exercised if certain budget targets are met. In principle, this combination is to be classified as a financial liability in the form of a derivative. Due to the fact that the thresholds for exercise have not yet been reached and are expected clearly not to be reached in the future, the obligation is valued at „zero".

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.

DECEMBER 31, 2016			IAS 39 measurement		
IN EURK	Measurement category	Carrying amount	Fair value through profit/loss	Amortised cost	Fair Value
Interests in investments accounted for using equity method	n/a	126	0	126	126
Other financial assets	LaR	11,328	0	11,328	11,328
Loans to investments accounted for using the equity method	LaR	0	0	0	0
Other loans	LaR	0	0	0	0
Trade accounts receivable and other receivables	LaR	23,614	0	23,614	23,614
Financial receivables and other financial assets	LaR/HfT	10,293	2,653	7,640	10,293
Cash and cash equivalents	LaR	31,289	0	31,289	31,289
Convertible bond	AmC	10,947	0	10,947	52,233
Bonds	AmC	97,650	0	97,650	103,000
A/B Notes (Germavest)	AmC	99,308	0	99,308	103,124
Financial liabilities (Fair Value REIT)	AmC	123,289		123,289	143,620
Other non-current financial liabilities	AmC	290,294	0	290,294	289,801
Interest rate swaps	HfT	874	874	0	874
Trade payables	AmC	17,378	0	17,378	17,378
Current financial liabilities	AmC	42,020	0	42,020	42,020
Amount per measurement category					
	LaR	76,524	2,653	73,871	76,524
	AmC	557,597	0	458,289	504,432
	Hft	874	874	0	874

Afs: Available-for-Sale Financial Assets;
LaR: Loans and Receivables;
AmC: Amortised Cost;
HfT: Held for Trading;
n/a: not applicable

DECEMBER 31, 2015			IAS 39 measurement		
IN EURK	Measure-ment category	Carrying amount	Fair value through profit/loss	Amortised cost	Total value
Interests in investments accounted for using equity method	n/a	3,136	0	3,136	3,136
Other financial assets	LaR	11,045	0	11,045	11,045
Loans to investments accounted for using the equity method	LaR	553	0	553	553
Other loans	LaR	384	0	384	384
Trade accounts receivable and other receivables	LaR	14,387	0	14,387	14,387
Financial receivables and other financial assets	LaR/HfT	26,020	2,205	23,815	26,020
Cash and cash equivalents	LaR	28,467	0	28,467	28,467
Convertible bond	AmC	19,491	0	19,491	56,947
Bonds	AmC	97,719	0	97,719	94,000
A/B Notes (Germavest)	AmC	92,651	0	92,651	92,651
Financial liabilities (Fair Value REIT)	AmC	144,113	0	144,113	143,620
Other non-current financial liabilities	AmC	317,058	0	317,058	316,565
Interest rate swaps	HfT	829	829	0	829
Trade payables	AmC	19,887	0	19,887	19,887
Current financial liabilities	AmC	46,443	0	46,443	46,443
Amount per measurement category					
	LaR	80,856	2,205	78,651	80,856
	AmC	593,249	0	500,598	533,842
	Hft	829	829	0	829

Afs: Available-for-Sale Financial Assets;
LaR: Loans and Receivables;
AmC: Amortised Cost;
HfT: Held for Trading;
n/a: not applicable

Due to the short-term maturity of cash and cash equivalents, trade accounts receivable and trade payables, as well as other current receivables and liabilities, it is assumed that the respective fair value corresponds to the carrying amount.

The following table presents the measurement hierarchy, measurement methods and key input factors for the determination of the fair values of the various measurement categories of financial assets and liabilities.

TYPE	HIERARCHY	MEASUREMENT PROCEDURE AND MATERIAL INPUT FACTORS
Investment properties	Level 3	Expected future free cash flows of a project by applying a market-based, property-specific discount rate
Interests in investments accounted for using the equity method	Level 2	Discounted cash flows from the continued use of an asset on the basis of yield curves observable on the market at the reporting date
Loans to investments accounted for using the equity method (fixed-rate)	Level 2	Discounted cash flows on the basis of yield curves observable on the market at the reporting date
Financial receivables and other financial assets	Level 3	Discounted cash flows on the basis of input factors not observable on the market at the reporting date
Non-current financial liabilities	Level 3	Discounted cash flows on the basis of input factors not observable on the market at the reporting date
Derivatives	Level 2	Interest rate curves, credit spreads, indices
Quoted convertible bonds	Level 1	Quoted bid prices on active markets
Quoted corporate bonds	Level 1	Quoted bid prices on active markets

For all current financial instruments, IFRS 7.29 assumes that the carrying amount corresponds to the fair value.

The maximum default risk is reflected in the amortised carrying amounts of the receivables and other financial assets recognised in the balance sheet.

The following table shows the future cash outflows for interest and principal payment of financial liabilities:

	2017	2018	2019	2020	2021	AFTER DEC. 31, 2020
Bonds and debentures	8,551	18,948	107,500	0	0	0
Bank liabilities	75,387	35,906	111,817	126,860	15,136	242,962
Other financial liabilities	3,040	38,240	0	0	0	0
Trade payables and other liabilities	17,378	0	0	865	0	0
Total	**104,356**	**93,094**	**219,317**	**127,725**	**15,136**	**242,962**

With respect to the 2013/2018 convertible bond and the 2015/2018 mandatory convertible bond, it is assumed that no conversion will take place until maturity.

2. Related party disclosures

Related companies and persons

Companies and persons are considered to be related if they have the ability to control DEMIRE and its subsidiaries or exercise significant influence over their financial and operating policies. The existing control relationships were taken into account to determine the degree of significant influence that related companies and persons have on the Company's financial and operating policies.

The group of related companies includes the fully consolidated subsidiaries and the joint ventures and associated companies accounted for using the equity method.

Moreover, due to their significant influence, the following key personnel of the parent company are considered to be related persons as defined by IAS 24:

- members of DEMIRE's Executive Board (see Note G.4.a.) and their close relatives, and
- members of DEMIRE's Supervisory Board (see Note G.4.b.) and their close relatives.

Legal transactions with related companies and persons

In the fiscal year under review, transactions with related parties were exclusively carried out at customary market conditions.

The transactions, revenues and rendering of services between the DEMIRE AG and its subsidiaries were settled in the same manner as those between unrelated parties and eliminated in the context of consolidation. Therefore, they are not explained in the notes.

In addition, PRAEDIA GmbH provided services at standard market conditions in the amount of EURk 114 to a company owned by an Executive Board member.

The following balances exist with respect to associated companies:

IN EURK	DECEMBER 31, 2016	DECEMBER 31, 2015
Financial receivables and other financial assets	0	116

For more information on financial receivables and other financial assets, please refer to the explanations in Note E.2.3.

The following balances exist with respect to joint ventures:

IN EURK	DECEMBER 31, 2016	DECEMBER 31, 2015
Loans to investments accounted for using the equity method	0	553
Financial receivables and other financial assets	0	480

With regard to loans to investments accounted for using the equity method, please refer to the explanations in Note E.1.6.

There is no collateral for receivables due from associated companies and joint ventures.

Volume of business transactions with associated companies:

IN EURK	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Financial receivables and other financial assets	116	68
Trade payables and other liabilities	0	146
Current financial liabilities	0	12

Volume of business transactions with joint ventures:

IN EURK	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Loans to investments accounted for using the equity method	553	2.304
Financial receivables and other financial assets	480	441
Current financial liabilities	0	385

Transactions underlying financial receivables and other financial assets resulted from the repayment of loans granted. The disposal of loans to investments accounted for using the equity method resulted from the transfer of these loans in the course of disposing of investments accounted for using the equity method (Note B).

3. Auditor's fee

The auditor's fee for Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt/Main charged in the fiscal year related to the subgroups DEMIRE and Fair Value REIT consisted of the following (amounts include value-added taxes):

IN EURK	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Auditing services	282	681
Other assurance services	219	1.740
Tax consultation services	0	0
Other services	0	26
	501	**2.447**

4. Executive Board, Supervisory Board and employees

a. Executive Board

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

In the past fiscal year, the Executive Board consisted of the following members:

- Mr Hon.-Prof. Andreas Steyer, CEO,
- Mr Markus Drews, COO,
- Mr Frank Schaich, CFO (until October 31, 2016).

In the 2016 fiscal year, DEMIRE AG recognised variable remuneration in the amount of EURk 531 (previous year: EURk 313), fixed remuneration of EURk 914 (previous year: EURk 464) and share-based payments of EURk 475 (previous year: EURk 444) for the members of the Executive Board.

Hon.-Prof. Andreas Steyer receives a pro rata entitlement to a multi-year bonus when the performance period for the determination of the multi-year bonus has lasted at least twenty-four months.

Please refer to the explanations in the remuneration report of the combined group management report and management report for DEMIRE Deutsche Mittelstand Real Estate AG.

The members of the Executive Board were not granted any loans or advances and no contingencies were assumed for their benefit.

b. Supervisory Board

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

NAME	POSITION	PROFESSION	PERIOD	2016	2015
Prof. Dr. Hermann Anton Wagner	Chairman	Auditor and tax consultant	Since April 17, 2013	135	135
Dr. Peter Maser	Deputy Chairman	Attorney at Law	Since January 12, 2015	90	90
Günther Walcher	General member	Entrepreneur	Since October 23, 2013	45	45
Gesamt				**270**	**270**

Supervisory Board members were also reimbursed for travel expenses in the amount of EURk 8 (previous year: EURk 5).

There were no pension obligations or long-term remuneration components owed to active or former Supervisory Board members as at December 31, 2016.

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 balance sheet date is listed in the following table.

	DECEMBER 31, 2016	DECEMBER 31, 2015
Executive Board members	2	2
Permanent employees	77	54
Trainees	1	0
Total	**80**	**56**

The average number of employees in the 2016 fiscal year was 69 (previous year: 38). Of the 77 permanent employees, three or an average of three, were respectively employed by PANACEA Property GmbH, which is not consolidated for reasons of materiality and provides asset and facility management services to DEMIRE Group companies. 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 of December 31, 2016 for reasons of materiality.

d. Share-based payments

In the 2015 fiscal year, share-based payments were issued in the form of subscription rights (stock options) to the Executive Board of DEMIRE AG as well as to a selected group of persons within the DEMIRE Group. The stock option programme is basically an option plan, which is settled with equity instruments (equity-settled share option plan). The option plan only provides for the possibility of settling the stock option programme in shares of DEMIRE AG. Accounting for the share-based payments issued is in accordance with IFRS 2.

Expenses arising from the issuance of the stock options are measured at the fair value of the stock options at the grant date. The fair value was determined using generally accepted option pricing models. Expenses arising from the issuance of stock options are recognised at the same time as a corresponding increase in equity (capital reserves) over the period in which the performance conditions are met. This so-called „vesting period" ends on the date on which the person in question of the beneficiary group is irrevocably entitled to receive the benefit. The cumulative expenses from the granting of the equity instruments reported at each balance sheet date reflect the portion of the vesting period that has already elapsed as well as the number of equity instruments that are actually exercisable on the basis of the best estimate at the end of the vesting period. The amount recognised in the consolidated statement of income reflects the development of the cumulative expenses recorded at the beginning and at the end of the reporting period.

The dilutive effect of the outstanding stock options is taken into account as 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 was authorised until December 31, 2015, („issue period") as detailed in the following provisions under the 2015 stock option plan to issue up to 1,000,000 stock options with subscription rights for shares of DEMIRE AG with a vesting period of four years and an exercise period of another five years („the exercise period") provided that each stock option entitles its holder to subscribe for one share of the Company. With regard to the issue of stock options to members of the Executive Board of the Company, this authorisation is limited only to the Supervisory Board.

The beneficiaries and the amount of stock options offered for subscription to those entitled are to be determined by the DEMIRE AG Executive Board with the consent of the Supervisory Board. To the extent members of the DEMIRE AG Executive Board are to receive stock options, the determination and the issue of these options will be governed by the Supervisory Board.

The following have been issued

- a total of up to 800,000 stock options (80 %) to members of the Executive Board, and
- a total of up to 200,000 stock options (20 %) to selected employees of DEMIRE AG or directors or employees of Group companies.

The subscription rights arising from the stock options can be exercised for the first time upon the expiration of the statutory vesting period of four years according to Section 193 (2) no. 4 AktG. The vesting period starts after the issue of the stock options (day of receipt of the beneficiary's statement of subscription by DEMIRE AG or by the credit institution commissioned for the settlement).

The relevant exercise price for one share of DEMIRE AG upon the exercise of the stock options corresponds to at least 100 % of the basis price. The basis price is the share price of DEMIRE AG at the time of the resolution of the Executive Board on the issue of stock option rights and, in the case of the issue of stock options to members of the Executive Board, at the time of the resolution of the Supervisory Board. The relevant share price is the average closing price of DEMIRE AG's shares in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) on the last ten stock exchange trading days before the resolution is made on the issue of stock options.

The prerequisite for the exercise of the subscription rights is that the share's closing price in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) must be at least 10 % higher than the basis price on the day preceding the exercise of the subscription rights.

The accounting of share-based payments is governed by IFRS 2. The „2015 stock option plan" is to be classified as „equity-settled share-based payments". In this case, total staff costs arising from the stock options are to be distributed over the four-year vesting period starting from the grant date. In the case of DEMIRE AG, the grant date is the day the approval is given by the Executive Board and/or Supervisory Board.

The value of compensation based on real stock options according to the Black-Scholes Model is determined by the fair value of the options at the grant date pursuant to IFRS 2.10. In the case of DEMIRE AG, the grant date is the day the options were issued (April 7, 2015 and December 9, 2015).

The following vesting conditions are relevant for the accounting of the stock-based compensation programme:

- The four-year vesting period represents a „service condition" since only a specified period of service in the Company must be completed.

- The exercise condition of a closing share price exceeding the basis price by at least 10 % on the trading day preceding the exercise is classified as a performance condition since meeting the condition is based on a performance target. The performance conditions are to be divided into market conditions and non-market conditions. In the case of DEMIRE AG, the exercise condition is to be classified a market performance condition as it is explicitly related to the Company's share price. Such a market performance condition is reflected in the valuation of the stock option exclusively by means of a probability calculation performed at the grant date.

During the reporting period until the balance sheet 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.

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 (%)[1]	60,40	46,25
Risk-free interest rate (%)	0,50	0,80
Term of the option (in years)	9,00	9,00
Weighted average share price (EUR)	4,258	3,76
Option price (EUR)	2,74	1,99

[1] 180-day historical volatility

Staff costs recognised in the reporting period from the „2015 Stock Option Plan" amounted to EURk 594 (previous year: EURk 434) and were recognised directly in equity under general and administrative expenses.

5. Subsequent events

Subsequent events that occurred after the end of the fiscal year that are of particular significance to DEMIRE's net assets, financial position and net profit/loss for the period are as follows:
After the resignation from the Supervisory Board of Mr Günther Walcher as at the end of January 23, 2017 and Dr. Peter Maser as at the end of February 13, 2017, DEMIRE was able to acquire Mr Frank Hölzle and Dr Thomas Wetzel as new Supervisory Board members. By order of the District Court of Frankfurt/Main on February 14, 2017, they were appointed as members of the Supervisory Board. The term of the appointment of the two new Supervisory Board members Frank Hölzle and Dr Thomas Wetzel will initially be limited until the next Annual General Meeting on June 29, 2017. DEMIRE intends to propose to the shareholders that Mr Hölzle and Dr Wetzel be confirmed as members of the Supervisory Board until June 2021.

At its constituent meeting on February 17, 2017, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG elected Mr Frank Hölzle as Deputy Chairman of the Supervisory Board. At that same meeting, the Supervisory Board appointed Ralf Kind as the Company's CFO. Ralf Kind took over his duties at DEMIRE AG with effect from March 1, 2017 and joined the Executive Board team of Prof Andreas Steyer (CEO) and Markus Drews (COO). In addition, on February 17, the Executive Board contract of Markus Drews, COO, was extended for a further three years until the end of 2020.

In mid-February 2017, the property in Pancharevo, Bulgaria, which was part of the legacy portfolio was sold at a profit of EUR 0.5 million.

At the end of February, DEMIRE Deutsche Mittelstand Real Estate AG prematurely extended the Deutsche Bank promissory note of EUR 148 million maturing in 2019 until 2022 and secured better conditions. The interest rate could be reduced from 5 % p.a. to 4 % p.a. with retroactive effect from January 1, 2017 without paying an early repayment penalty. This reduces the average interest on total borrowings for the DEMIRE Group from 4.4 % p.a. to 4.1 % p.a. As a result of the refinancing, FFO will increase by EUR 1.45 million annually starting in 2017. In addition, DEMIRE has a one-time option to reduce the interest rate on the promissory note to 3.5 % p.a. with a partial repayment. This would lead to a potential additional reduction in the financing costs to 4 % and a further increase in FFO of around EUR 2.2 million annually.

At the beginning of March 2017, DEMIRE Deutsche Mittelstand Real Estate AG extended the agreement with Baader Bank AG until April 30, 2018 for a credit line of EUR 5.0 million at a fixed interest rate of 5.0 % p.a. At the end of March 2017, the agreement with Sudwestbank AG for a credit line of EUR 5.0 million with a variable interest rate based on the 3-month EURIBOR rate plus a margin of 250 basis points for a minimum interest rate of 2.5 % p.a. was extended until March 30, 2018.

On April 12, 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that Hon. Prof. Andreas Steyer will leave the Company's Executive Board effective June 30, 2017 to pursue new challenges. His Executive Board contract, which runs until March 31, 2019, was terminated prematurely by mutual agreement with the Supervisory Board. Markus Drews will be the new Speaker of the Executive Board (CEO) starting July 1, 2017.

On April 13, 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that the 2016 fiscal year funds from operations ("FFO"), excluding gains from disposals, will clearly fall short of the Company's FFO forecast. The FFO forecast for the 2017 fiscal year was withdrawn. A new FFO forecast for the 2017 fiscal year will be announced after the Company's internal planning has been updated.

Prior to the publication of the Annual Report, a total of 10,800 conversion rights were exercised, and 10,800 new, no-par value bearer shares were created.

6. Declaration of Conformity with the German Corporate Governance Code
The statement required under Section 161 AktG with regard to the German Corporate Governance Code (GCGC) is made available DEMIRE AG to shareholders once per calendar year. The Declaration of Conformity with the German Corporate Governance Code was issued on April 26, 2017, and made permanently available to shareholders on DEMIRE AG's website (www.demire.ag/en/home) under the section titled „Company".

On Febuary 01, 2017, the Executive Board and Supervisory Board of Fair Value REIT-AG submitted the current Declaration of Conformity in accordance with Section 161 AktG and made it permanently available to shareholders on the Fair Value REIT-AG website (www.fvreit.de/en/investor-relations/corporate-governance/declaration-of-conformity/declaration-of-conformity.html).

Frankfurt am Main, den 27. April 2017
DEMIRE Deutsche Mittelstand Real Estate AG

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board
(CEO)

Dipl.-Kfm. (FH) Markus Drews
Executive Board Member
(COO)

Dipl. Betriebsw. (FH) Ralf Kind
Executive Board Member
(CFO)

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

Schedule of shareholdings of the DEMIRE Group pursuant to Section 313 (2) HGB

COMPANY	INTEREST IN EQUITY (%)	COMPANY	INTEREST IN EQUITY (%)
GERMANY		**GERMANY**	
DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt a. M.		FVR Beteiligungsgesellschaft Vierte mbH, Frankfurt a. M.	100.00
Glockenhofcenter Objektgesellschaft mbH, Berlin	94.90	FVR Beteiligungsgesellschaft Fünfte mbH, Frankfurt a. M.	100.00
Hanse-Center Objektgesellschaft mbH, Berlin	94.90	FVR Beteiligungsgesellschaft Sechste mbH, Frankfurt a. M.	100.00
Logistikpark Leipzig GmbH, Berlin	94.00	FVR Beteiligungsgesellschaft Siebente mbH, Frankfurt a. M.	100.00
Demire Immobilien Management GmbH, Berlin	100.00	FVR Beteiligungsgesellschaft Achte mbH, Frankfurt a. M.	100.00
Panacea Property GmbH, Berlin [1]	51.00	DEMIRE Commercial Real Estate GmbH, Frankfurt a. M.	100.00
Praedia GmbH, Berlin	51.00	DEMIRE Real Estate München 1 GmbH, Frankfurt a. M.	100.00
Fair Value REIT-AG, Gräfelfing	77.70	CAM Commercial Asset Management EINS GmbH, Frankfurt a. M.	100.00
IC Fonds & Co. Büropark Teltow KG, Munich [2]	39.86	CAM Commercial Asset Management ZWEI GmbH, Frankfurt a. M.	100.00
IC Fonds & Co. Gewerbeportfolio Deutschland 13. KG, Munich [2]	29.26	CAM Commercial Asset Management DREI GmbH, Frankfurt a. M.	100.00
IC Fonds & Co. SchmidtBank-Passage KG, Munich [2]	41.92	CAM Commercial Asset Management VIER GmbH, Frankfurt a. M.	100.00
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich [2]	39.63	Schwerin Margaretenhof 18 GmbH, Frankfurt a. M.	94.90
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich [2]	48.35	DEMIRE Commercial Real Estate ZWEI GmbH, Frankfurt a. M.	100.00
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich [2]	45.08	DEMIRE Objektgesellschaft Worms GmbH, Frankfurt a. M.	94.00
GP Value Management GmbH, Munich	77.70	TGA Immobilien Erwerb 1 GmbH, Berlin	94.00
BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich	77.70	DEMIRE Condor Properties Management GmbH, Frankfurt a. M.	100.00
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	77.70	DEMIRE Holding EINS GmbH, Frankfurt a. M.	100.00
BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich	77.70	Condor Real Estate Management EINS GmbH, Frankfurt a. M.	100.00
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	77.70	Condor Real Estate Management ZWEI GmbH, Frankfurt a. M.	100.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	77.70	Condor Real Estate Management DREI GmbH, Frankfurt a. M.	100.00
BBV Immobilien-Fonds Erlangen GbR, Munich [2]	32.65	Condor Objektgesellschaft Eschborn GmbH, Frankfurt a. M.	94.00
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich [2]	34.31	Condor Objektgesellschaft Bad Kreuznach GmbH, Frankfurt a. M.	94.00
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich [2]	37.43	Condor Real Estate Management FÜNF GmbH, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Erste mbH, Frankfurt a. M.	100.00	Condor Objektgesellschaft Düsseldorf GmbH, Frankfurt a. M.	94.00
FVR Beteiligungsgesellschaft Zweite mbH, Frankfurt a. M.	100.00	Condor Objektgesellschaft Rendsburg GmbH, Frankfurt a. M.	94.00
FVR Beteiligungsgesellschaft Dritte mbH, Frankfurt a. M.	100.00	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, Düsseldorf [3]	47.50
G + Q Effizienz GmbH, Berlin [3]	49.00
Demire Parkhaus Betriebsgesellschaft mbH, Berlin	100.00
Kurfürster Immobilien GmbH, Leipzig	94.90
Ritterhaus Immobilienverwaltung GmbH, Düsseldorf	100.00
Condor Objektgesellschaft Yellow GmbH, Frankfurt a. M.	94.00
Condor Yellow BV GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate DREI GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate VIER GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate FÜNF GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate SECHS GmbH, Frankfurt a. M.	100.00
LUXEMBOURG	
Germavest Real Estate S.à.r.l., Luxembourg	94.00
Armstripe S.à.r.l., Luxembourg	94.00
Blue Ringed S.à.r.l., Luxembourg	94.00
Briarius 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
SCHWEIZ SWITZERLAND	
Sihlegg Investments Holding GmbH, Wollerau	94.00
CYPRUS	
Denston Investments Ltd., Nicosia	94.00
NETHERLANDS	
MAGNAT Investment I B.V., Hardinxveld Giessendamm	99.64
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 shareholder meeting

3) Consolidated using the equity method

APPENDIX 2: VALUATION PARAMETERS

The determination of the present values is dependent on the following essential, non-observable input factors (Level 3):

ASSET KLASSEN	OFFICE				RETAIL				LOGISTICS				OTHERS			
	31/12/2016		31/12/2015		31/12/2016		31/12/2015		31/12/2016		31/12/2015		31/12/2016		31/12/2015	
Ratio of maintenance costs to gross profit (in %)	7.24		7.26		6.45		11.64		11.18		19.55		13.72		15.67	
Average maintenance costs (in EUR per m^2)	6.99		6.38		8.69		6.38		3.53		3.59		4.25		4.02	
Range of maintenance costs (in EUR per m^2)	4.00	10.00	2.36	10.00	5.00	9.00	5.00	7.50	3.53	3.53	3.59	3.59	2.50	5.00	4.00	6.50
Average property yield (in %)[1]	5.82		6.09		5.51		6.62		7.50		8.00		9.32		9.35	
Range of property yields (in %)[2]	4.63	9.75	5.00	9.75	5.26	8.00	6.00	7.25	7.50	7.50	8.00	8.00	6.75	10.25	6.75	10.25
Average residual useful life (in years)	37		37		37		39		25		25		25		25	
Range of residual useful life (in years)	25	45	25	45	35	40	35	45	25	25	25	25	25	45	25	25
Ratio of management costs to gross profit (in %)	2.01		3.09		2.12		4.08		1.16		1.77		6.38		3.70	
Range of ratio of management costs to gross profit (in %)	1.00	4.00	0.99	7.53	1.50	4.00	2.86	7.40	1.16	1.16	1.77	1.77	3.00	3.00	2.25	6.63
Average market rent (in EUR per m^2, per year)[3]	96.67		96.22		134.87		70.63		31.58		26.46		30.98		40.81	
Range of average market rents (in EUR per m^2, per year)	42.75	149.90	30.47	161.17	49.03	195.57	47.07	134.53	31.58	31.58	26.46	26.46	12.20	56.30	12.06	64.78
Rentable space as at balance sheet date (in m^2)	457,229		470,143		43,065		21,616		217,968		218,697		90,138		92,735	
Vacant space as at balance sheet date (in m^2)	32,798		39,025		6,209		3,410		73,824		66,978		38,415		34,335	
Value-based vacancy rate according to EPRA (in %)	6.41		8.32		15.49		12.18		45.66		30.63		19.35		32.81	
Average vacancy rate based on the rentable space (in %)	7.17		8.30		14.42		15.77		33.87		30.63		42.62		37.03	
Range of average vacancy rate based on the rentable space (in %)	0.00	54.50	0.00	67.27	0.00	43.80	0.00	46.70	33.87	33.87	30.63	30.63	0.00	100.00	0.00	86,62
Weighted Average Lease Term – WALT (in years)	5.49		6.04		7.62		8.10		2.00		2.42		2.00		2.50	

[1] The calculation of property-specific property yields is based on the average market property yield and takes into account the respective macro and micro conditions, competing properties, tenant creditworthiness, vacancy risk and the remaining terms of the lease contracts.
[2] Property yields derived vary based on the quality, location and structure of the property.
[3] The average market rent was determined on the basis of the rentable space as at December 31, 2016.

APPENDIX 3: SCHEDULE OF NON-CURRENT ASSETS

	GOODWILL		OTHER INTANGIBLE ASSETS		OPERATING AND OFFICE EQUIPMENT		TECHNICAL EQUIPMENT		ADVANCE PAYMENTS	
IN EURK	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Acquisition cost as at the beginning of the fiscal year	7,246	463	227	49	228	156	0	0	11,191	11,303
Cumulative depreciation/amortisation as at the beginning of the fiscal year	463	463	50	49	134	129	0	0	0	0
Carrying amounts as at the beginning of the fiscal year	6,783	0	177	0	94	27	0	0	11,191	11,303
Additions	0	0	64	3	321	62	1,370	0	35	11,191
Additions through business combinations	0	6,783	0	175	17	26	0	0	0	11,303
Disposals	0	0	1	0	17	16	0	0	11,196	0
Depreciation/amortisation	0	0	18	1	62	21	0	0	0	0
Acquisition cost as at the end of the fiscal year	7,246	7,246	290	227	549	228	1,370	0	30	11,191
Cumulative depreciation/amortisation as at the end of the fiscal year	463	463	68	50	211	134	0	0	0	0
Carrying amounts as at the end of the fiscal year	6,783	6,783	222	177	353	94	1,370	0	30	11,191

Balance sheet oath

As the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, we hereby confirm to the best of our knowledge, and in accordance with the applicable reporting principles, that the consolidated financial statements give a true and fair view of the net assets, financial position, and results of oprations of the Group, and furthermore that the Group management report includes a fair review of the development of the business including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt, April 27, 2017

Hon.-Prof. Andreas Steyer
Speaker of the Executive Board
(CEO)

Dipl.-Kfm. (FH) Markus Drews
Executive Board Member
(COO)

Dipl. Betriebsw. (FH) Ralf Kind
Executive Board Member
(CFO)

Auditor's report

We have audited the consolidated financial statements prepared by DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cashflow statement, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1st, 2016, to December 31st, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as applicable in the EU, and in accordance with the supplementary provisions of German commercial law applicable pursuant to Sec. 315a para. 1 HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRS, as applicable in the EU, and with the supplementary provisions of German commercial law applicable pursuant to Sec. 315a para. 1 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with principles of proper accounting. The group management report complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating to future development.

Eschborn/Frankfurt am Main, 27 April 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schmitt
Auditor

Rücker
Auditor

Notes

Imprint & Contact

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The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG

CONCEPT AND LAYOUT

GFEI Aktiengesellschaft

STATUS: **April 2017**

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