Annual Report 2019

DEMIRE

KEY GROUP FIGURES

KEY EARNINGS FIGURES in EUR thousands	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Rental income	**81,799**	**73,709**
Profit / loss from the rental of real estate	**65,538**	**58,500**
EBIT *	**155,170**	**127,065**
Financial result *	– 57,315	– 38,308
EBT	**97,855**	**88,757**
Net profit / loss for the period	**79,738**	**69,053**
Net profit / loss for the period attributable to parent company shareholders	**75,539**	**61,575**
Net profit / loss for the period per share (basic / diluted) in EUR	**0.70 / 0.70**	**0.85 / 0.85**
FFO I (after taxes, before minorities)	**34,506**	**23,359**
FFO I per share (basic / diluted) in EUR	**0.32 / 0.32**	**0.32 / 0.32**

* Previous-year figures adjusted due to changes in classification

KEY PORTFOLIO INDICATORS	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Properties (number of)	90	84
Gross asset value (in EUR millions)	1,488.4	1,130.4
Annualised contractual rents (in EUR millions)	90.0	73.2
Rental yield (in %)	6.0	6.5
EPRA vacancy rate (in %) *	9.4	7.5
WALT (in years)	4.8	4.5

* Excluding real estate held for sale

KEY BALANCE SHEET FIGURES in EUR thousands	01/01/2019 – 31/12/2019	01/01/2018 – 31/12/2018
Total assets	1,677,416	1,378,692
Investment properties	1,493,912	1,139,869
Non-current assets held for sale	16,305	12,262
Total real estate portfolio	**1,510,216**	**1,152,131**
Financial liabilities	806,969	636,572
Cash and cash equivalents	102,139	190,442
Net financial liabilities	**704,831**	**446,130**
Net loan-to-value in % (net LTV)	**46.7**	**38.7**
Equity according to Group balance sheet *	660,782	582,338
Equity ratio in % *	39.4	42.2
Net asset value(NAV) in the reporting period	613,351	537,913
EPRA NAV (basic / diluted)	684,131 / 684,641	595,225 / 595,745
EPRA NNNAV (diluted)	594,151	535,869
Number of shares in thousands (basic / diluted)	107,777 / 108,287	107,777 / 108,297
EPRA NAV per share (basic / diluted) in EUR	**6.35 / 6.32**	**5.52 / 5.50**
EPRA NNNAV per share (diluted) in EUR	**5.49**	**4.95**

* Previous-year figures adjusted due to changes in classification

CONTENTS

Foreword by the Executive Board

Dear Shareholders,
Ladies and Gentlemen,
2019 has been an extremely positive year for DEMIRE. With our consistent implementation of our "REALize potential" strategy, we have taken a fundamental step towards achieving our priority goals of growing our portfolio and improving our financing structure, while at the same time laying the foundation for DEMIRE's ongoing profitable and sustainable growth.

In all four areas of our "REALize potential" strategy (Acquisition, Management, Financials, Processes), we were able to meet or exceed our targets. Your DEMIRE, dear shareholders, is stronger than ever before.

In the "acquisition" area, we were able to make a significant contribution to increasing the size of the portfolio from EUR 1.1 billion in 2018 to EUR 1.5 billion at the end of 2019 by purchasing eleven attractive properties with an investment volume of around EUR 356 million. All acquisitions have an institutional size, offer further potential and improve the key figures of the entire portfolio.

In the "management" area, we were able to let more than twice as much space as in 2018, with a letting performance of 172,700 m² (around 15.4 % of the total portfolio). The WALT of our portfolio increased from 4.5 years at the end of 2018 to 4.8 years at the end of 2019. The EPRA vacancy rate of 9.4 % is well below the peak of 11.1 % at the end of the first half of 2019 and is trending further downwards in 2020 due to leases already concluded. The valuation result of EUR 83 million for the year as a whole is largely due to operational improvements in the portfolio. In addition, as part of the portfolio streamlining, we optimised eight non-strategic properties through targeted asset management measures and sold them very successfully with a total volume of around EUR 46.1 million. The sales proceeds were approximately 46.1 % higher than the latest valuations by independent experts.

In the area of "financials" we were able to repay higher-interest financing ahead of schedule through secured property financing with a volume of EUR 97.0 million and the issue of 2019 / 2024 corporate bond with a volume of EUR 600 million and reduce our average nominal financing costs sustainably from 3.00 % to 1.84 % p.a. as at 31 December 2019. The LTV is now at 46.7 %, leaving room for further growth.

In the fourth area, "PROCESSES", we are striving to optimise procedures and structures. Operational improvements are taking effect in many areas in DEMIRE's organisation as are economies of scale in addition to processes being made more efficient. In 2019, we further optimised our asset management processes, refined our reporting and controlling instruments and increased the efficiency of our administration. As a result, administration costs came down significantly.

Consequently, as expected, all of the measures we have taken have had a very positive effect on FFO, which enabled us to significantly exceed our targets. We were able to increase our forecast for FFO I (after taxes, before minorities) twice in 2019, and most recently to a level of EUR 33 to 34.5 million. With FFO I of EUR 34.5 million, we reached the upper end of the range, recording a significant increase of 47.7 % compared to the previous year. Rental income, the forecast for which we were able to increase to EUR 80.5 to 82.5 million during the year, reached the upper half of our expectations at EUR 81.8 million, for a rise of 11.0 % over the previous year.

The results for 2019 have once again proven that our business model and management approach offer high value-added potential, and that we can optimise existing assets and integrate acquisitions quickly and efficiently into the established organisation.

We will invest our available free resources in the further growth of DEMIRE. We have a well-filled acquisition pipeline and are planning to acquire attractive properties in the near future, which will further optimise the portfolio structure and the key figures and create potential for further FFO growth. With this approach, we intend to continue working towards our goal in 2020 of achieving a portfolio size of over EUR 2 billion. If these targets are achieved, ladies and gentlemen, we would like to offer you the prospect of a regular and attractive dividend payment. You, dear shareholders, can see that we are proceeding with a sense of proportion in our growth by the fact that we have not yet used the extensive capital you approved in February 2019. First of all, we will leverage and use DEMIRE's existing potential for growth. However, we are sticking to our expansion plans with the good feeling of having the opportunity to also realise a major growth step.

Looking at the year 2020, we are confident in the Company's outlook – assuming the overall economic environment remains stable – and are again forecasting a significant improvement in the key performance indicators. We expect rental income in the range of EUR 90 and 92 million and FFO I (after taxes, before minorities) between EUR 40 and 42 million.

Our current assumption is that the effects of the coronavirus epidemic will be copeable for DEMIRE given the diversification of the portfolio, although the further developments is hardly predictable. Nevertheless, we are constantly monitoring the effects within the scope of our risk management in order to take precautionary measures and make any necessary adjustments.

We would like to thank you, dear shareholders, for your loyalty and hope that you will continue to accompany and support us on our further growth path in 2020. We would like you to see our dividend consideration as an entrepreneurial and shareholder-oriented approach that we will continue to drive forward.

We would also like to express our sincere appreciation to our employees for their achievements and extraordinary commitment in 2019. They have visibly strengthened DEMIRE for the long term and prepared it for its future growth and regular dividend payments.

Together, we have taken the momentum of 2019 into the year 2020 to consistently continue DEMIRE's positive development. We are therefore pleased to welcome all shareholders, employees, friends and partners to accompany DEMIRE on this path.

Frankfurt am Main, 17 March 2020

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO)

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG:

Ingo Hartlief FRICS,
CEO (right), and
Tim Brückner,
CFO (left)

1.5

Real estate portfolio

in EUR billions
as at 31 December 2019

TO OUR SHAREHOLDERS

2019 Key indicators

KEY EARNINGS FIGURES

34.5
in EUR millions

FFO I (after taxes, before minorities), 2019 + 47.7 % compared to 2018

155.2
in EUR millions

EBIT, 2019 + 22.1 % compared to 2018

KEY FINANCIAL INDICATORS

46.7
in percent

Net loan-to-value ratio (net LTV), compared to 38.7 % at year-end 2018, provides leeway for further growth

1.84
in percent p. a.

Average nominal interest costs as at 31 December 2019 – decline by 116 basis points compared to level at year-end 2018

6.32
in EUR

Net asset value (EPRA NAV diluted), increases by 15.0 % or EUR 0.82 per share compared to year-end 2018

PORTFOLIO DEVELOPMENT

1.5
in EUR billions

Portfolio value, increases by EUR 356 million from acquisitions and value appreciation

81.8
in EUR millions

Rental income, rises by + 11.0 % compared to EUR 73.7 million in the prior year

4.8
in years

WALT, increases 0.3 years compared to 4.5 years at year-end 2018

9.4
in percent

EPRA vacancy rate, declines compared to level of 11.1 % as at 30 June 2019

172,699
in m^2

Letting performance, 2019 + 109.2% compared to prior-year performance of 82,559 m^2

PORTFOLIO DEVELOPMENT

1.5
in EUR billions
Market value
of the real estate portfolio

65.3
in %
Office properties as a share of total portfolio

90
Properties at 68 locations in 15 federal states

7.49
in EUR / m²
Average rent
across the portfolio

1,329
in EUR / m²
Value of real estate portfolio

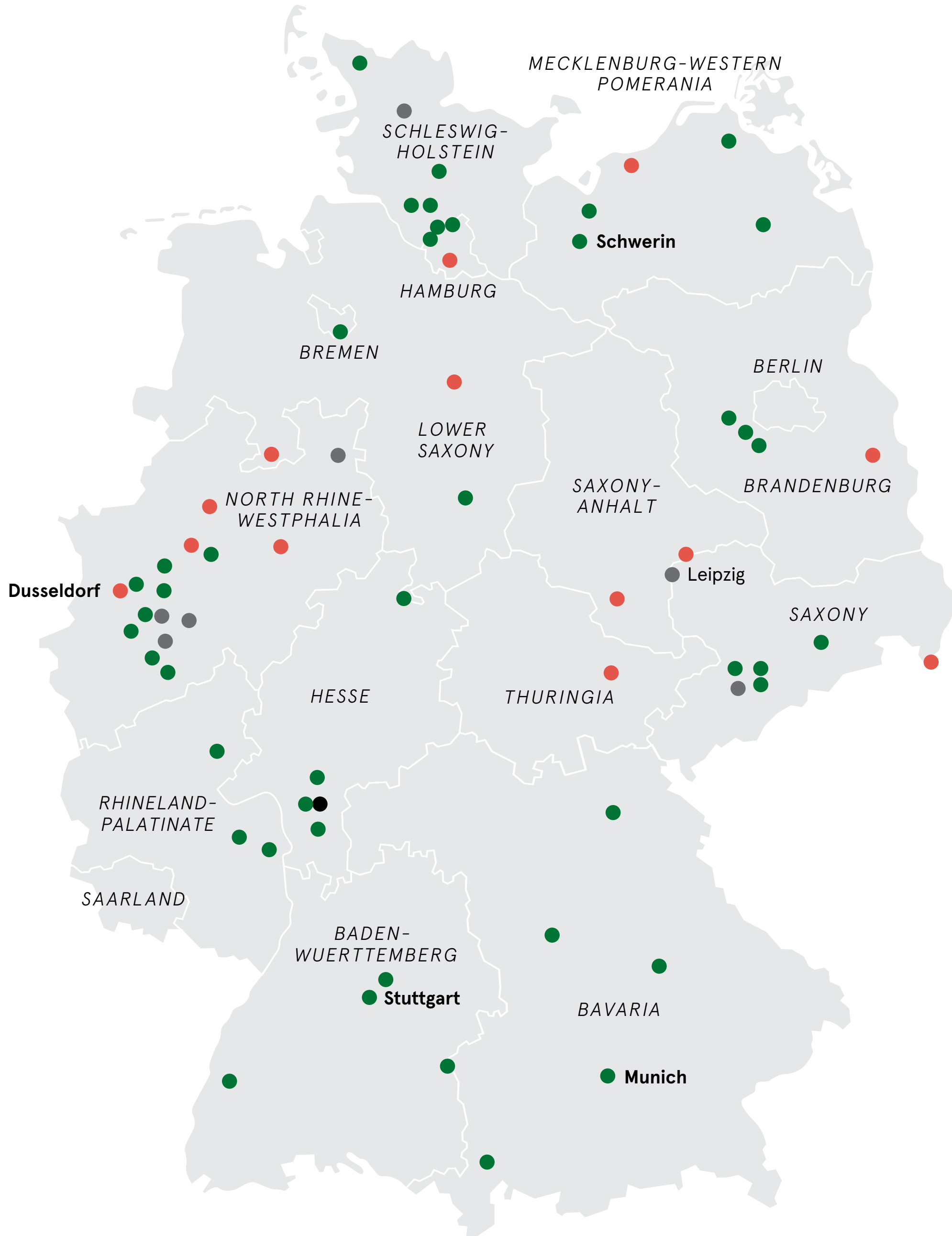
PROPERTY TYPE / USE

Office

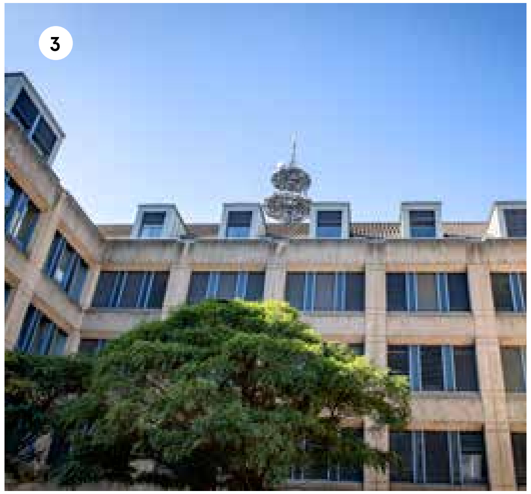
Retail

Logistics and Other

Corporate locations



1 Bremen, Flughafenallee 3, Otto-Lilienthal-Straße 19 **2** Bad Vilbel, Konra Adenauer Allee 1 - 11 **3** Bonn, Bonner Talweg 100 **4** Dusseldorf, Wiesenstraße 70
5 Flensburg, Eckernförder Landstraße 65
6 Essen, Theodor-Althoff-Straße 39-47

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10

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7 Aschheim, Max-Planck-Straße 3
8 Unterschleißheim, Ohmstraße
9 Aschheim, Max-Planck-Straße 3
10 Leonberg, Neue Ramtelstraße 4
11 Meckenheim, Auf dem Steinbüchel 20 **12** Bad Vilbel, Konra Adenauer Allee 1 – 11 **13** Neumünster, Kuhberg 11 – 19, Kieler Straße 1 – 15

DEMIRE on the capital market

AN OVERVIEW OF DEMIRE SHARES

The share capital of DEMIRE Deutsche Mittelstand Real Estate AG consists of a total of roughly 107.78 million no-par value bearer shares that are admitted for trading on the Frankfurt Stock Exchange and the XETRA electronic trading system.

DEMIRE KEY SHARE DATA

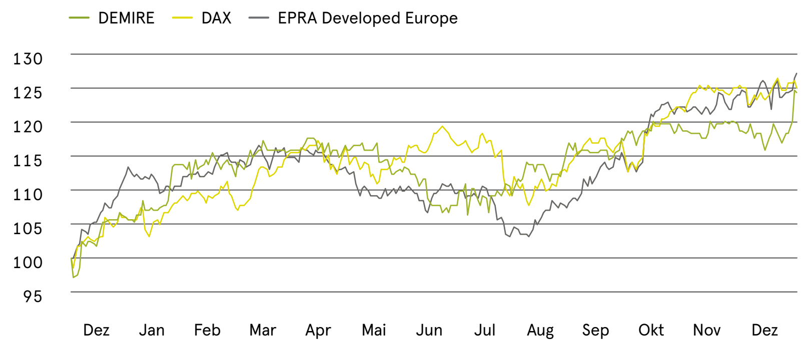
SHARE DATA	31/12/2019	31/12/2018
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol/ticker	DMRE	DMRE
Stock exchange	Frankfurt Stock Exchange (FSE); XETRA Open markets in Stuttgart, Berlin, Düsseldorf	Frankfurter Wertpapierbörse (FWB); XETRA Open markets in Stuttgart, Berlin, Düsseldorf
Market segment	Regulated Market (Prime Standard)	Regulated Market (Prime Standard)
Designated sponsors	BaaderBank, Pareto Securities AS	BaaderBank, Pareto Securities AS
Share capital	EUR 107,777,324	EUR 107,777,324
No. of shares	107,777,324	107,777,324
Closing price 31 December (XETRA)	EUR 5.36	EUR 4.31
Ø daily trading volume 01/01–31/12	10,853	41,493
Market capitalisation	EUR 577 million	EUR 465 million
Free float < 3%	11.43%	11.43%

DEVELOPMENT OF THE STOCK MARKET AND DEMIRE SHARES

Following a year marked by political uncertainties in 2018, two issues continued to dominate both international and domestic stock exchanges in the 2019 financial year: the ongoing discussions concerning Great Britain's withdrawal from the European Union and the trade dispute between the US and China. As these issues were already known at the start of 2019 and signs of potential resolutions to these issues emerged, the stock exchanges performed extremely well.

The German DAX benchmark index performed positively and closed the year with a gain of 25.2% compared to the end of 2018, and reached a level of 13,249 points.

STRONG PERFORMANCE OF DEMIRE SHARES IN 2019
in %



DEMIRE's shares also recorded favourable performance, closing the year with a gain of 24.2% and a price of EUR 5.36, which was just below their annual high of EUR 5.38.

DEVELOPMENT OF DEMIRE BONDS

The European bond markets also performed well. In view of the persistently ongoing low-interest policy of the central banks, demand on the bond market remained strong in 2019, as reflected in the continued price increases and falling yields. In this environment, DEMIRE had been talking to a number of investors since early 2019 and, after the 2017 / 2022 corporate bond (ISIN: XS1647824173) became callable in the summer of 2019, had also received concrete indications that the existing bond could be refinanced at significantly more attractive terms. After the summer break, the Company prepared for the issue of a new bond and successfully placed this issue with domestic and international investors from September onwards. The net proceeds of EUR 600 million from this 2019 / 2024 corporate bond (ISIN: DE000A2YPAK) were used to refinance the existing 2017 / 2022 corporate bond and the promissory note, also due in 2022, ahead of schedule. This step reduced the average nominal financing costs from 3.00 % p. a. at the beginning of 2019 to 1.84 % as at December 31, 2019.

2019 / 2024 CORPORATE BOND

Name	DEMIRE 2014 / 2024 corporate bond
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Rating	Ba2 (Moody's), BB+ (S & P)
Stock market listing / quotation	Open market of the Luxembourg Stock Exchange (Euro MTF)
Applicable law	German law
ISIN code	DE000A2YPAK
WKN	A2YPA
Issue volume	EUR 600,000,000
Issue price	99.407 %
Denomination	EUR 100,000
Coupon	1.875 %
Interest payments	on 15 April and 15 October, beginning on 15 April 2020
Maturity date	15 October 2024
Repayment	Non Call Life (incl. 3-month option for early repayment)
Distribution	Regulation S, without registration rights
Change of control	101 % plus accrued and not yet paid interest
Closing price 31 / 12 / 2019	101.841 %

RATINGS FROM S & P'S AND MOODY'S

With the rating assessments, DEMIRE strengthens transparency and supports the independent assessment of its business activities. In the medium term, DEMIRE aims to position its risk profile in the "investment grade" range, which would, among other things, enable it to finance its planned growth at even more favourable conditions.

In June 2019, S & P and Moody's carried out their regular review of the rating assessments, which led to a confirmation of the current rating for the corporate bond and for DEMIRE's corporate rating.

This assessment was confirmed by both rating agencies following the issue of the 2019 / 2024 corporate bond in October 2019.

The detailed rating and the update on the increase of the bond are available on the websites of Standard & Poor's at www.standardandpoors.com and Moody's at www.moodys.com as well as on the DEMIRE WEBSITE.

DEMIRE RATING – AS AT 31 / 12 / 2019

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

ANNUAL GENERAL MEETING

On 11 February 2019, DEMIRE Deutsche Mittelstand Real Estate AG held an Extraordinary General Meeting and approved substantial capital by a large majority to lay the foundation for the growth of DEMIRE's portfolio.

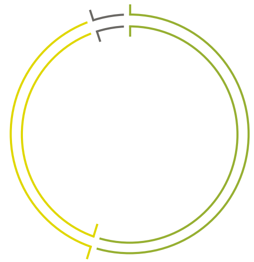
The Annual General Meeting was held on 29 May 2019. The resolution proposed by the management to appoint Prof Dr Kerstin Hennig as a new Supervisory Board member was approved by a large majority. She succeeds Dr Thomas Wetzel, who left the Supervisory Board as at the close of the Annual General Meeting.

SHAREHOLDER STRUCTURE

The DEMIRE shareholder structure was unchanged in the 2019 financial year and no voting rights notifications were submitted to the Company.

SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2019
in %

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



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

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

IR ACTIVITIES

In the 2019 financial year, DEMIRE continued to strengthen its communication with the capital market and its investors. Within the scope of the refinancing of the bond, the IR team placed a special emphasis on the Company's communication with bond investors.

On the capital market, DEMIRE relies on an active and transparent dialogue in its communication with all current and potential investors. With the support of existing shareholders and further growth, DEMIRE's market capitalisation and visibility on the capital market are expected to continue to rise in the future. With the perspective goal of inclusion in the DAX family of indices, the awareness among domestic and international investors should increase.

The Investor Relations department is responsible for approaching investors and analysts and communicating with debt specialists in a professional manner. To achieve this, the reporting requirements for equity and bond investors and rating agencies are bundled centrally.

DEMIRE took part in several German and international equity and debt capital market conferences during the past 2019 financial year. It also regularly presented the Company's current development to existing and potential equity and bond investors. DEMIRE periodically informs its stakeholders and, in addition to publishing its results on the website, organises telephone conferences for interested investors, analysts and the media and reports in detail on the results as of the most recent reporting date.

In the Investor Relations section on the DEMIRE WEBSITE, investors, analysts and the media have access to a wide range of documents such as all published annual reports, half-yearly reports and quarterly statements and summary presentations of these as well as recordings of the conference calls, current company presentations and further information.

DEMIRE is committed to treating bond investors and analysts, as well as equity investors and analysts equally.

ANALYST COVERAGE

DEMIRE's shares are currently covered by the three financial analysts in the table below.

BANK / BROKER	ANALYST	RATING	PRICE TARGET in EUR
Baader Bank	Andre Remke	Hold	5.40
Pareto Securities	Katharina Schmenger	Buy	6.40
SRC Research	Stefan Scharff	Buy	5.90

As at: March2020

www.demire.ag/investor-relations

Report of the Supervisory Board

Ladies and Gentlemen,
In the 2019 financial year, the Supervisory Board continued to perform the tasks and exercise the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its Rules of Procedure.

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

As in previous years, the Executive Board kept the Supervisory Board informed on the basis of written and verbal Executive Board reports. These reports included a detailed discussion of important issues related to the development of the markets relevant for the Company and the Group, current and potential real estate transactions, short- and long-term corporate planning and current business performance. The position of the Company and the Group, the liquidity, financing and risk situation, the Group-wide risk management system, current real estate projects and the further strategic development of the Group were also part of these discussions. The information provided by the Executive Board was critically reviewed by the Supervisory Board for plausibility.

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

The chairman of the Supervisory Board was informed by the Executive Board by way of written and verbal reports – also outside of Supervisory Board meetings – of particular business transactions that, in the opinion of the Executive Board, were of key significance in assessing the position and the development 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 in personal contact with the Executive Board and kept himself regularly informed of current business developments and significant business transactions. He also kept the other Supervisory Board members informed outside of the scheduled meetings and discussed developments with them.

There were no consulting or other service relationships between members of the Supervisory Board and the Company in 2019. A grant agreement exists with EBS Universität für Wirtschaft und Recht gemeinnützige GmbH. Prof Dr Kerstin Hennig is Head of EBS Real Estate Management Institute. 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 did not exist in the reporting year.

COMPOSITION OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD IN FINANCIAL YEAR 2019

- Prof Dr Alexander Goepfert (Chairman)
- Frank Hölzle (Deputy Chairman)
- Dr Thomas Wetzel (until 29 May 2019)
- Prof Dr Kerstin Hennig (since 29 May 2019)

CHANGES IN THE SUPERVISORY BOARD

At the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG on 29 May 2019, Prof Dr Kerstin Hennig was elected as a new member of the Supervisory Board. Dr Thomas Wetzel resigned from the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG at the end of the Annual General Meeting.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board consisted of three members in 2019. Committees were not formed due to the low number of members on the Supervisory Board.

WORK OF THE PLENUM IN THE REPORTING YEAR

The Supervisory Board had five physical meetings in the 2019 financial year: 3 January, 6 March, 29 May, 18 September and 4 December 2019. The Board also discussed current topics in numerous telephone conferences, particularly in connection with the bond issue in the amount of EUR 600 million and various purchase and sale transactions. All members of the Supervisory Board participated in all meetings and telephone conferences in the respective periods of their membership on the Supervisory Board.

The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG:
Chairman Prof Dr Alexander Goepfert (right),
Deputy Chairman Frank Hölzle (left) and
Prof Dr Kerstin Hennig (center).

1ST QUARTER 2019

At its meeting on 3 January 2019, the Supervisory Board dismissed Ralf Kind as a member of the Executive Board with immediate effect and terminated the employment contract with Mr Kind for good cause. Ingo Hartlief was appointed as the interim successor to Mr Kind to perform his previous duties.

In a conference call on 17 January 2019, the Supervisory Board appointed Tim Brückner as a new member of the Executive Board responsible for Finance with effect from 1 February 2019 until the end of 31 December 2021.

On 6 March 2019, together with the Executive Board, the Supervisory Board adopted the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz) on the recommendations of the “Government Commission on the German Corporate Governance Code” as amended on 7 February 2017 and published by the Federal Ministry of Justice in the official section of the Federal Gazette, the Corporate Governance Report and the Corporate Governance Statement in accordance with Section 315d and Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB). The Declaration of Conformity was subsequently published on the Company’s website.

At its meeting on 16 March 2019, the Supervisory Board comprehensively discussed the annual and consolidated financial statements for the 2018 financial year, including the combined management report for the Company and the Group. The auditor PricewaterhouseCoopers GmbH attended this meeting and reported on the main results of its audit. The auditing company PricewaterhouseCoopers GmbH, Frankfurt am Main, was elected by the Annual General Meeting on 27 June 2018, and commissioned by the Supervisory Board as the auditor, Group auditor and auditor for any review of condensed financial statements and interim reports as well as interim financial reports in the 2018 and 2019 financial years until the next Annual General Meeting.

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

2ND QUARTER 2019

In a conference call on 10 April 2019, the Supervisory Board discussed and debated the acquisition of a department store portfolio in detail and unanimously approved the purchase of the five properties.

In a meeting on 29 May 2019, following the Annual General Meeting, reports on the current status of the purchases of the department store portfolio and an office portfolio, the purchase of which had been notarised already in 2018, were received. In addition, the Supervisory Board resolved (with Prof Dr Alexander Goepfert abstaining from voting) to conclude a supplementary agreement to the mandate with Noerr LLP in connection with possible corporate transactions, to provide support at the Annual General Meeting on 29 May 2019 and for issues relating specifically to post-admission obligations, disclosures and reports, as well as a possible dispute in connection with the dismissal of Ralf Kind as member of the Executive Board.

In the conference call on 18 June 2019, a unanimous decision was made to purchase a 49 % stake in DEMIRE Einkauf GmbH, which at that time had not yet been part of the Group. A decision was also made to change the name of 40 domestic SPVs and to the cross-border transformation of five foreign companies into the legal form of a German GmbH, and to sign a loan agreement with DZ Hyp to finance the purchase of the office portfolio.

3RD QUARTER 2019

In the conference call on 12 August 2019, the Executive Board explained the operating and economic performance in the first half of 2019, and the Supervisory Board discussed the key details of the half-year figures with the Executive Board. In addition, the Supervisory Board was informed of the increase in the outlook for the 2019 financial year and about issues relating to the operating business, particularly the financing efforts in the second half of 2019.

In a conference call held on 21 August 2019, the Supervisory Board was informed that the Executive Board of DEMIRE AG was contemplating a possible bond and promissory note refinancing based on the favourable market environment to further strengthen the capital base. Following internal discussion, the Supervisory Board agrees to this.

At its meeting on 18 September 2019, the Supervisory Board approved, without reservation, the measures resolved by the Executive Board to prepare the placement of a new corporate bond and for the early repayment of outstanding bonds and promissory notes maturing in 2022 from the proceeds of the new corporate bond, and supported these measures.

4TH QUARTER 2019

In the conference call on 12 and 19 November 2019, the positive business development and key business transactions were explained. The Supervisory Board took note of and approved the results for the reporting period.

In the meeting on 4 December 2019, the Executive Board detailed the current business development and discussed it with the Supervisory Board. The Supervisory Board noted the positive business development and approved the purchase of a property in Frankfurt.

In the conference call on 5 December 2019, the Supervisory Board approved the purchase of a property in Neuss.

EXECUTIVE BOARD MATTERS

On 3 January 2019, the Supervisory Board dismissed Ralf Kind as a member of the Executive Board with immediate effect and terminated employment contract with Mr. Kind for good cause. As announced in this context, on 17 January 2019 the Supervisory Board appointed Tim Brückner as a new member of the Executive Board of the Company with responsibility for Finance with effect from 1 February 2019.

DEPENDENCY REPORT PURSUANT TO SECTION 312 (1) AKTG

In the 2019 financial year, DEMIRE Deutsche Mittelstand Real Estate AG – via Apollo Global Management LLC – was a dependent company of BRH Holdings GP, Ltd., as defined by Section 312 AktG. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG has therefore prepared an Executive Board report on the relationships with affiliated companies (“Dependency Report”) in accordance with Section 312 (1) AktG, which contains the following concluding declaration:

“In the legal transactions listed in the report on relationships with affiliated companies, our Company received appropriate consideration for each legal transaction according to the circumstances known to us at the time when the legal transactions were carried out. No reportable measures by our Company as defined by Section 312 AktG were either taken or omitted in the year under review.”

The Supervisory Board received and examined the Dependency Report in a timely manner. The auditor attended the relevant meeting and reported on the main findings of his audit and was available to provide additional information. On 17 March 2020, the auditor issued the following unqualified audit opinion for the Company’s Dependency Report:

"Under the terms of our mandate, we have audited the report of the Executive Board pursuant to Section 312 AktG on relationships with affiliated companies pursuant to Section 313 AktG for the reporting period from 1 January to 31 December 2019. As the final results of our audit did not give rise to any objections, we issue the following audit opinion in accordance with Section 313 (3) sentence 1 AktG:

Following our audit and assessment in accordance with professional standards, we confirm that
1. the factual statements in this report are correct, and
2. there are no reportable relationships with affiliated companies."

The Supervisory Board shares the opinion of the auditor. Following the final result of the examination by the Supervisory Board, the latter raised no objections to the declaration of the Executive Board on the report on relationships with affiliated companies.

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Group's staff for their tremendous dedication, particularly within the scope of preparing the financial statements, carrying out acquisitions and sales, undertaking financing activities and their valuable cooperation in the 2019 financial year.

This report was discussed in detail and adopted by the Supervisory Board in its conference call on 17 March 2020.

Frankfurt am Main, March 2020

Prof Dr Alexander Goepfert
Chairman of the Supervisory Board

Corporate Governance Report pursuant to Item 3.10 GCGC and 2019 Corporate Governance Statement pursuant to Sections 315d and 289f HGB

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

ORGANISATION AND MANAGEMENT

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

The management of the Core Portfolio is the responsibility of the Group's internal asset and portfolio management, which also manages and controls the external property and facility management. The segment Corporate Functions also assumes the risk management, finance and controlling, investor relations, legal, IT and compliance, as well as administrative tasks.

The Executive Board manages the individual real estate investments based on defined, individual cash flow-oriented budgets and steers the Group according to an overall plan derived from the individual budgets of the portfolio and property companies and other Group subsidiaries. The development of the individual budgets versus their budget targets is a component of the Executive Board's routine strategy and reporting discussions with the relevant operating managers.

COMPOSITION AND WORKING PRACTICES OF THE EXECUTIVE AND SUPERVISORY BOARDS

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

MANAGEMENT AND CONTROL STRUCTURE

THE EXECUTIVE BOARD

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

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

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

Mr Ingo Hartlief and Mr Tim Brückner do not hold offices in any statutory supervisory boards or comparable supervisory bodies or in any comparable domestic or foreign supervisory bodies of external commercial enterprises. Mr Ingo Hartlief is the Deputy Chairman of the Supervisory Board of Fair Value REIT-AG.

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

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

THE SUPERVISORY BOARD

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

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

The following changes were made to the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG in the 2019 financial year: Dr Thomas Wetzel, who had been elected as a Supervisory Board member by the Ordinary Annual General Meeting on 29 June 2017, resigned from the Supervisory Board at the end of the Annual General Meeting on 29 May 2019. At the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG on 29 May 2019, Prof Dr Kerstin Hennig was elected as a new Supervisory Board member.

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

NAME	COMPANY	POSITION
Prof Dr Alexander Goepfert (Chairman of the Supervisory Board) (since 27 June 2018)	PROXIMUS Real Estate AG, Cologne	Ordinary Member of the Supervisory Board
	AGROB Immobilien AG	Chairman of the Supervisory Board
	shareDnC GmbH, Cologne	Ordinary Member of the Advisory Board
	EBS Real Estate Management Institut, Wiesbaden	Chairman of the Board of Trustees
	iddiw Institut der Deutschen Immobilienwirtschaft e. V., Frankfurt	Vice President
Frank Hölzle (Vice Chairman of the Supervisory Board) (since 14 February 2017)	Grey SkyAG	Member of the Board of Directors
	clickworker GmbH, Essen	Chairman of the Advisory Board
	Mindlab Solutions GmbH, Stuttgart	Chairman of the Advisory Board
	mobileObjects AG, Büren	Chairman of the Supervisory Board
	rankingCoach GmbH, Cologne	Chairman of the Advisory Board
	SIC Invent AG, Basel / Switzerland	Member of the Board of Directors
	reBuy reCommerce GmbH, Berlin	Member of the Advisory Board
	sevDesk GmbH	Member of the Advisory Board
	Fair Value REIT-AG, Munich	Chairman of the Supervisory Board
Prof Dr Kerstin Hennig (since 29 May 2019)	DWS Grundbesitz GmbH	Ordinary Member of the Supervisory Board
	Urban Land Institute (ULI)	Member of the Executive Committee
	Real Estate Brand Club	Member of the Management Board
	Institutionelle Investoren Hotel	Member of the Advisory Board
Dr Thomas Wetzel (until 29 May 2019)	Brandenberger + Ruosch AG, Dietlikon / Switzerland	President of the Board of Directors
	EBV Immobilien AG, Urdorf / Switzerland	President of the Board of Directors (until 19 June 2018)
	Energie 360° AG, Zurich / Switzerland	Vice President of the Board of Directors
	Immobilien ETHZF AG, Zurich / Switzerland	Member of the Board of Directors
	VERIT Investment Management AG, Zurich / Switzerland	President of the Board of Directors
	Swiss Foundation for Anesthesia Research, Zurich / Switzerland	Member of the Foundation Council
	Stiftung für Kunst, Kultur und Geschichte, Küsnacht / Switzerland	Vice President of the Foundation Council
	Fair Value REIT-AG, Munich	Vice Chairman of the Supervisory Board (until 20 May 2019)
	Wintower Immobilien AG, Winterthur / Switzerland	Member of the Board of Directors (since 12 September 2018)

The Supervisory Board reports on its activities during the 2019 financial year in its report to the Annual General Meeting on pages 18 to 23 of this Annual Report. The remuneration of the members of the Supervisory Board is explained in the 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 AG had 107,777,324 shares outstanding as at 31 December 2019.

The following are the shares and stock options owned by members of governing bodies at the end of the 2019 financial year: Ralf Kind held 7,361 of the Company's shares, equivalent to an interest of 0.01 % of the Company's outstanding shares. Frank Hölzle held 1,400 shares in the Company, equivalent to an interest of 0.002 % of the Company's outstanding shares.

Members of the Executive Board and Supervisory Board are legally obliged under Article 19 of Regulation (EU) No 569 / 2014 of the European Parliament and of the Council on Market Abuse (Market Abuse Regulation) of 16 April 2014 to disclose any manager's transactions in shares or debt instruments of DEMIRE Deutsche Mittelstand Real Estate AG or related derivatives or other related financial instruments to the extent that the total amount of transactions effected by the member and persons closely associated with him or her reaches or exceeds the sum of EUR 5,000 within a calendar year. DEMIRE Deutsche Mittelstand Real Estate AG was not notified of any such transactions in the past financial year.

Shares owned by major shareholders at the end of the 2019 financial year: Based on the information available to the Company, Apollo (AEPF III 15 S. à r. l.) held 64.07 % of the Company's outstanding shares, and Wecken & Cie. held 24.50 % of the Company's outstanding share.

The remaining 11.43 % of the shares were in the hands of both institutional and private investors. None of these shareholders held an interest over or equal to 3 %. This information is based on information provided by members of the Company's governing bodies.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

All of the outstanding shares of DEMIRE Deutsche Mittelstand Real Estate AG are no-par value bearer shares with identical rights and obligations. Each share grants one vote at the Annual General Meeting, and there are no special voting rights or limits on the number of voting rights per shareholder. Resolutions of the Annual General Meeting usually require a simple majority of the votes cast. To the extent that the law prescribes a majority of the capital represented for resolutions, the Articles of Association provide for a simple majority of the capital represented as long as a larger majority is not required by law.

ACCOUNTING AND AUDITING OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. DEMIRE Deutsche Mittelstand Real Estate AG regularly informs shareholders and third parties during the financial year through its publication of the consolidated financial statements, the half-yearly financial report and the interim statements for the first and third quarters.

SEE PAGE 054

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

The following arrangements have been agreed with the auditor:

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

COMMUNICATION AND TRANSPARENCY

At DEMIRE Deutsche Mittelstand Real Estate AG, timely, consistent and comprehensive information is a top priority. Transparent corporate governance and good communication with shareholders and the public contribute to strengthening investor and public confidence. When disclosing information to the public, the Executive Board considers the principles of transparency, promptness, openness, clarity and the equal treatment of shareholders. Therefore, as part of its investor relations activities, DEMIRE Deutsche Mittelstand Real Estate AG provides comprehensive information on the Company's development. Reports on the Group's situation, development and especially its financial results are included in the annual report, three-month and nine-month interim statements and half-year financial report. The Group also informs the public through press releases and ad hoc announcements pursuant to Article 17 (1) 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 DEMIRE WEBSITE. The Company's financial calendar is also available on the website and lists the scheduled financial reporting dates and key publication dates as well as the date for the Annual General Meeting. The Articles of Association, all declarations of conformity and documentation for corporate governance are also available on the DEMIRE Deutsche Mittelstand Real Estate AG WEBSITE.

http://www.demire.ag/investor-relations
http://www.demire.ag/unternehmen/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 SECTIONS 315D AND 289F HGB

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

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

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

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

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

system, the audit and compliance. Notwithstanding Item 5.3.3 of the Code, a nomination committee was not formed and will not be formed in the future due to the number of members on the Supervisory Board.

- **Item 5.4.1:** According to the Code, the Supervisory Board should define concrete goals for its composition and develop a skills profile for the entire body. The naming of concrete goals for the composition or a change to the composition of the whole body, including a skills profile, are not considered necessary based on the current situation.
  - The Code recommends that the members of the Supervisory Board should be subject to an age limit and a standard limit on the length of their membership on the Supervisory Board. For the members of the Supervisory Board, neither an age limit nor a standard limit for the length of membership on the Supervisory Board has been established. In the opinion of the Company, age is not an appropriate criterion to elect a member of the Supervisory Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can rely on the long-standing expertise of individual members of the Supervisory Board. In the absence of a standard limit for the length of service, the factor is not a consideration in the election nominations of the Supervisory Board to the Annual General Meeting or in its publication on the status of implementation.
  - The Code recommends that the Supervisory Board submits curriculum vitae of the candidates proposed for nomination as new members that include the candidate's relevant knowledge, skills and experience; this is to be supplemented by an overview of the candidate's main activities outside of a Supervisory Board mandate and updated annually for all Supervisory Board members on the company's website. Although the CVs and significant activities of the members of the Supervisory Board are not available under "Company / People" on the website, they are, however, available as documentation for the Annual General Meeting at which the corresponding member was elected to the Supervisory Board.
- **Item 5.6:** According to the Code, the Supervisory Board should perform a routine review of the efficiency of its activities. In light of the limited period of time it has cooperated in this role, an efficiency review has not been carried out by a third party to date. The critical scrutiny of the activity in this Item is carried out by Supervisory Board members on an ongoing basis.
- **Item 7.1.2:** The Code recommends that the consolidated financial statements and the group management report be made publicly available within 90 days of the end of the financial year and that the mandatory interim financial information made available within 45 days after the end of the reporting period. For the time being, the Company follows the statutory publication deadlines.

This declaration was republished directly and made available to shareholders on the Company's WEBSITE. The Declaration of Conformity with the Code of Fair Value REIT-AG dated 11 February 2020, which is included in the consolidated financial statements, can be found on the Fair Value REIT-AG WEBSITE.

Frankfurt am Main, 11 February 2020

The Executive Board of DEMIRE
Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO

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

Prof. Dr. Alexander Goepfert

www.demire.ag
www.fvreit.de/investor-relations/corporate-governance

90.0

annualised rental income

in EUR millions
as at 31 December 2019

COMBINED MANAGEMENT REPORT

Group principles

The following presents the combined management report for DEMIRE Deutsche Mittelstand Real Estate AG ("the Company"), Frankfurt am Main, and the Group ("DEMIRE" or the "DEMIRE Group") for the financial year from 1 January 2019 to 31 December 2019. 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 in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The cope of consolidated is presented in detail in the Notes under Item B.

BUSINESS MODEL AND SUMMARY

DEMIRE acquires and holds commercial real estate in regional centres, medium-sized cities and up-and-coming regions bordering metropolitan areas across Germany. The Company's particular strength lies in realising the potential of the properties at these locations while focusing on a range of properties that appeals to both regional and international tenants. In contrast to other countries, Germany's economy and public administration is highly decentralised, which means that the German commercial real estate market is spread across considerably more cities and regions than in countries such as France or England. Because efficient property management requires a special understanding of the respective local market, as well as a local network in that market, international investors usually avoid these markets. The absence of opportunistic investors and the stability of a region's medium-sized companies give these markets added price stability. DEMIRE is the only listed real estate company operating throughout Germany whose focus is on realising potential in these markets.s

After the acquisition of an office and a department store portfolio in the first half of 2019 followed by a distribution centre in the second half, and the profitable sale of smaller, non-core properties, DEMIRE now has a real estate portfolio of 90 properties with lettable space of more than 1.1 million m² and a market value of around EUR 1.5 billion. In addition, DEMIRE signed a purchase agreement in the 2019 financial year for a hotel in Frankfurt / Main, and the transfer of ownership is expected in the first half of 2020.

The orientation of the portfolio towards a mix of office, retail, hotel and logistics properties, is appropriate to the risk / return structure for the commercial real estate business segment. The Company attaches great importance to signing contracts with solvent tenants and realising a property's potential and therefore continues to expect steady and sustainable rental income and solid valuations.

DEMIRE's shareholders stand at the centre of the Company's future development, which is underlined by the considerationof the a dividend distibution after having achieved the growth targets. DEMIRE's portfolio should grow for now. As it expands its portfolio, DEMIRE is concentrating on FFO-strong assets with potential and, at the same time, disposing of properties that are not in line with its strategy. DEMIRE took advantage of the favourable financing environment to reduce interest expenses and is targeting an investment-grade rating in the medium term.

DEMIRE is taking several steps to further the development of its operations and processes. Next to cost consciousness, operating performance should improve from the targeted management of external property management and other service providers as well as the expansion of the internal asset and portfolio management structures.

DEMIRE shares are listed on the regulated market (Prime Standard segment) of the Frankfurt Stock Exchange.

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

The strategically important "Core Portfolio" segment comprises the assets and activities DEMIRE's subsidiaries and sub-subsidiaries that are not allocated to the Fair Value REIT-AG subsidiary. The "Fair Value REIT" segment comprises the investment activities in direct and indirect real estate holdings of this listed subsidiary with REIT status in a Group context. The "Corporate Functions / Others" segment comprises the Group's administrative and cross-segment tasks such as risk management, finance, controlling, investor relations, legal, IT and compliance.

STRATEGY AND OBJECTIVES

REALIZE POTENTIAL

Since 2019,DEMIRE has been pursuing a strategy with four central pillars summarised under the ambition "REALize Potential":

1. ACQUISITION – Realising economies of scale through the continued purchase of properties in ABBA locations (A locations in B cities and B locations in A cities)
2. MANAGEMENT – Realising real estate potential through active and value-oriented property management
3. FINANCIALS – Realising cost saving potential
4. PROCESSES – Realising optimisation potential in processes and structures

DEMIRE will also follow this strategy in 2020:

Acquisition

In the years ahead, DEMIRE aims to build a portfolio with a size of more than EUR 2 billion with a focus on regional centres, medium-sized cities and up-and-coming locations bordering metropolitan areas throughout Germany. Given the continuing high demand for real estate, returns can be achieved in locations strategic for DEMIRE that have an appropriate risk ratio and at the same time offer potential for optimisation. To further improve the risk / return ratio, DEMIRE is diversifying the portfolio according to a mix of office, retail, hotel and logistics uses appropriate for the German commercial property market. The focus is on office properties. The expansion of the portfolio also facilitates the realisation of economies of scale that positively impact the cost structure by, for example, reducing administrative, financing and service costs.

Management

Based on the existing real estate portfolio, DEMIRE has expanded, optimised and streamlined its property management in recent months. This has included expanding its internal portfolio and asset management capacities and finalising the outsourcing of property management. These steps enable the portfolio and asset management activities to create dedicated individual property strategies, allow management to place a high level of attention on portfolio tenant support and new lettings, and helps to optimise the cost structures at the individual property level through the close control of property and facility management. At the same time, DEMIRE is expanding its regional network of administrations, trade associations, realtors and regional real estate players.

Profit/loss from the rental of real estate increased to EUR 65.5 million (2018: EUR 58.5 million), for a year-on-year increase of 12.0%. In addition to the purchase of properties, this increase resulted from rent increases and a better net balance of utility and service charges versus the prior year. Despite the announced growth target, the portfolio management is selling properties that are not in line with the strategy and boosting the real estate portfolio by focusing on properties with strong FFO. Four properties were successfully sold in 2019, notarised sales contracts were concluded for four additional properties with the transfer of ownership expected to take place at the beginning of 2020.

Financials

DEMIRE's financial performance indicators improved significantly in 2019. We will continue to control and improve our key figures going forward. In addition to monitoring the performance indicators, DEMIRE regularly reviews and benchmarks non-operating costs in particular. Administrative costs have already been cut significantly in 2019, and in the course of expanding the portfolio to EUR 1.5 billion, the net loan-to-value ratio improved from 38.7% at the end of 2018 to 46.7% at the end of 2019. The average nominal interest rate on debt was reduced by 116 basis points from 3.00% at the end of 2018 to 1.84% p.a. In the favourable interest and financing environment, DEMIRE is focusing on the continuous optimisation of its financing structure. Optimisation can be achieved by refinancing existing loans, as well as through the further purchase of properties and the associated refinancing. The further reduction of financing costs is a strategic goal.

Processes

An inherent component of DEMIRE's corporate culture is constant improvement. This includes questioning existing processes, procedures and structures. Over the next few months, the focus will be on the optimisation of investment structures and the digitalisation of processes and control instruments. In 2019, it was already possible to implement significant accelerations in the Company's real estate management processes, which led to cost savings and better service charge management. As part of this effort, we expect to achieve even further efficiency gains in 2020.

DEMIRE's objective is to ensure the capability to pay a sustainable dividend through the combination of measures implemented under "REALize Potential" and to achieve a portfolio volume of more than EUR 2 billion, as well as an investment grade rating in the medium term.

MANAGEMENT SYSTEM

In order to achieve the targets set within the framework of the strategy outlined above, DEMIRE uses rental income and operating cash flow (funds from operations before minority interests, after taxes [FFO I]) as a key management indicators for the portfolio and for the Company. In order to grow FFO I, the management is tasked with improving the cash flow of the existing portfolio over time and through active portfolio management. To achieve this, the development of the occupancy rate, the actual net rent per m², excluding service charges, ongoing maintenance and operating costs, allocable service charges, rent losses and the net operating income of the properties (NOI) are monitored and actively controlled at the operating level by means of regular target/actual comparisons. Integrated cash flow planning links both the business segments and the individual properties together. Next to these performance indicators, liquidity is particularly monitored on a continuous basis. For more information, please refer to the explanations in the notes to the consolidated financial statements on "Investment properties".

Revenue and cash flows are aggregated and evaluated at the DEMIRE AG level. The annual result is the key performance indicator for DEMIRE AG. A further performance indicator for measuring added value is the change in net asset value (NAV) in accordance with the specifications of the European Public Real Estate Association (EPRA). A second key performance indicator for the Group is the ratio of net financial liabilities to the sum total of the real estate portfolio (net loan-to-value [net LTV]). Interest expenses are also of major importance because they have a significant impact on the financial result and thus also on the profit/loss for the period and the development of cash flow. The active and ongoing management of the debt financing portfolio, combined with continuous market observation and evaluation, aims to steadily improve the financial result.

Economic Report

MACROECONOMIC AND SECTOR ENVIRONMENTS

MACROECONOMIC ENVIRONMENT

Despite trade disputes, Brexit and economic transformation processes, calculations by the Federal Statistical Office (destatis) show that Germany has had the longest period of growth since reunification. The price-adjusted gross domestic product (GDP) in 2019 was 0.6 percent higher than in the previous year. Although a look at economic growth in 2017 (+2.5 percent) and 2018 (+1.5 percent) reveals a clear cooling of the overall economic situation, the labour market still proved robust. The number of people employed has risen to a record high of 45.4 million (+400,000 employees compared to 2018). The consequences and effects of the coronavirus epidemic are not yet foreseeable.

Higher government (+2.5 percent) and private consumption (+1.6 percent) spending alongside higher gross capital investment (+5.4 percent) were the main contributors to economic growth. While the service sector is growing, the manufacturing sector (excluding construction) recorded a 3.6 percent decline in economic output.

DEVELOPMENT OF THE CONSTRUCTION AND REAL ESTATE SECTORS

Supported by the continuing stability in general economic development and the ECB's low interest rate policy, the transaction volume on the German real estate investment market reached an all-time high in 2019. According to a survey by the international brokerage house Jones Lang Lasalle (JLL), real estate transactions reached EUR 91.3 billion in the reporting period. The construction industry also benefited from the high demand for real estate. According to destatis, gross capital investments in buildings increased by a price-adjusted 3.8 percent in 2019. At the same time, the economic output of the construction industry increased by 4 percent.

Office real estate market

The continuing positive development of the labour market has boosted turnover in the German office letting market. The analysis company bulwiengesa, said space turnover in the German office market was a solid EUR 6.1 million m² in 2019. According to the spring 2020 audit of the Central Real Estate Committee (ZIA), the 2019 figure exceeded the 10-year average by 8.7 percent. Pre-lettings have increased again, particularly in so-called A cities (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart). In B cities (major cities of national and regional importance), pre-lettings have declined from an average of 200,000 m² over the last three years to 150,000 m², but are still above the long-term average of 100,000 m². In general, supply shortages, rising rents and increasing yield compression have shaped the markets in major German cities.

High demand for office properties has also had an impact on the office investment market. In 2019 reporting period, transaction volume rose to a record level of around EUR 40 billion. Of this amount, 80 percent was contributed by A cities, with B, C and D locations also recording gains.

Retail real estate market

For the past several years, brick-and-mortar retailers in Germany have faced fierce competition from online retailers. Despite this, stationary retailers continued to grow their sales in 2019 (+1.3 percent) and dominate the retail sector with a market share of almost 90 percent (2020 spring report of the ZIA). Although sales in online retailing is up 8.5 percent versus the prior year, growth momentum is declining compared to the previous years according to the ZIA spring report.

Retail real estate remained a sought-after asset class in 2019. A total of around EUR 10.1 billion was invested in the German. Transaction volume recorded a decrease for the second consecutive year (– 4.1 percent compared to 2018), however, primarily due to a lack of product availability in the A cities. The five largest German cities - Berlin, Hamburg, Frankfurt, Cologne and Munich - accounted for transaction volume of around EUR 1.9 billion.

There were vast differences for the different types of use. While specialty stores and specialty shopping centres were in strong demand, comprising 44 percent of the transaction volume, shopping centrers accounted for just roughly 17 percent. High-quality retail properties in central shopping streets and well-situated department stores contributed 28 percent of the total transaction volume. Yields also varied depending on the type of use and the location, but overall remained stable or recorded moderate growth.

Logistics real estate market

High demand, low availability of space and products and a further contraction in yields also describe the situation on the logistics property market in Germany. According to the ZIA spring report, strong growth in e-commerce and persistent high demand for traditional contract logistics were the main factors behind the substantial demand for logistics real estate

The turnover in logistics space amounted to about 6.1 million m² in 2019. Although this is lower than in the record year 2016 (8.3 million m²), this performance can be traced to an insufficient supply of logistics properties. Due to a lack of products, the transaction volume also declined from the 2017 peak (approx. EUR 6.4 billion) and amounted to around EUR 4.6 billion. As there is less and less logistics space available directly in A cities, bulwiengesa expects the focus to turn to locations in and around the metropolitan regions.

Hotel market

The German hotel investment market in 2019 underscored the ongoing strength in that market with the second best result ever achieved after 2016. According to BNP Paribas Real Estate (BNPPRE), the total transaction volume in 2019 was EUR 5 billion – almost a quarter higher than the level in 2018. While the number of individual deals declined, large-volume transactions such as the sale of "The Squaire", which houses 2 hotels from the Hilton group, or the "Nürnberger Tafelhof Palais", shaped the positive market dynamics.

A-cities accounted for a total of EUR 3.2 billion of the transactions, an increase of 17 % over the prior year. At the same time, the contribution of A cities to total performance fell by 4 % to approximately 64 % in the same period. This underlines the trend towards decentralisation, in which small and medium-sized cities are increasingly becoming the focus of (inter)national hotel investors.

Implications for DEMIRE

The macroeconomic and property market environment was positive for DEMIRE in 2019. The Company also profited from the strong market momentum seen in the economically strong German secondary locations. The Company is currently assuming that the effects of the coronavirus epidemic will not be material for DEMIRE and therefore expects the positive trend to continue in 2020. The Company currently assumes that the effects of the coronavirus epidemic will not be significant for DEMIRE due to the diversification of the portfolio and that the positive trend will continue in 2020 after a phase of shock. Nevertheless, the effects are constantly monitored within the framework of risk management in order to be able to make any necessary adjustments and take precautionary measures.

BUSINESS DEVELOPMENT

GENERAL STATEMENT ON THE BUSINESS PERFORMANCE AND POSITION OF THE GROUP

DEMIRE brought the 2019 financial year to a very successful close. On the one hand, the portfolio grew by EUR 356 million to EUR 1.5 billion, while on the other hand the relevant key figures developed better than planned. Thus, the forecast for rental income was raised once and the forecast for FFO I (after taxes, before minorities) twice during the year. Rental income rose by EUR 8.1 million to EUR 81.8 million, and FFO I (after taxes, before minorities) was at the upper end of the raised forecast at EUR 34.5 million, up EUR 11.1 million on the previous year.

In addition to the pro rata contribution to earnings made by the ten properties acquired in the course of 2019, the key indicators increasingly reflect the success of the "REALize Potential" strategy, which was formulated at the beginning of 2019 and implemented over the course of the year. This strategic orientation and the focus on a diversified portfolio with a balanced risk / opportunity profile is a key factor differentiating DEMIRE from competitors. The active approach to realising potential will continue to leverage the valuation potential of the existing real estate portfolio in the future and generate sustainable and further increasing rental income, optimise costs and leverage economies of scale through comprehensive operational measures. The resulting improved profitability forms the basis for DEMIRE's ability to pay sustainable dividends.

A milestone in the "REALize Potential" strategy was reached with the comprehensive refinancing of liabilities through the placement of the 2019 / 2024 corporate bond at favourable conditions during the past financial year. As a result of this transaction and the repayment of higher-interest financing, interest expenses will come down significantly from the 2020 financial year onwards.

The real estate portfolio also performed well in the past financial year. Rental income rose by 11.0 % in absolute terms and 0.3 % on a like-for-like basis (i. e. excluding purchases and sales). The EPRA vacancy rate rose by 190 basis points to 9.4 % at the end of 2019, primarily as a result of the acquisition of a property with a high vacancy rate. The vacancy rate peaked at 11.1 % in 2019, so that the year-end figure reflected the strong letting performance of roughly 172,700 m^2, suggesting a further reduction in vacancy in 2020. At the same time, the WALT rose from 4.5 years at the end of 2018 to 4.8 years at the end of 2019.

To summarise, DEMIRE continued to develop profitably in the 2019 financial year. As part of the ongoing and consistent implementation of the "REALize Potential" strategy, the focus is to continuing optimising the property management platform and grow the portfolio to over EUR 2 billion. Based on these efforts, the Company expects a significant improvement in FFO I (after taxes, before minorities) and further growth in the net asset value (NAV). With these actions, DEMIRE is laying the foundation to achieve an investment grade rating and pay an attractive and sustainable dividend to its shareholders. The implementation of dividend payments is expected to start, after growth targets are archieved.

2019 target achievement

KEY EARNINGS FIGURES

34.5
in EUR millions

FFO I (after taxes, before minorities)
at upper end of EUR 33 – 34.5 million forecast, which was raised twice, and + 47.7 % higher than in the prior year

KEY FINANCIAL INDICATORS

46.7
in percent

net LTV
provides room for further growth

1.84
in percent p. a.

average nominal interest costs
sharply lower by 116 bps as a result of comprehensive financing activities

6.32
in EUR

EPRA NAV (diluted)
significantly higher by EUR 0.82 per share

PORTFOLIO DEVELOPMENT

81.8
in EUR millions

rental income, initial forecast
of EUR 77 – 79 million exceeded and updated forecast of EUR 80.5 – 82.5 million reached

9.4
in percent

EPRA vacancy rate
1.7 percentage points below the peak of the year

DEVELOPMENT OF THE REAL ESTATE PORTFOLIO

As at 31 December 2019, the real estate portfolio consisted of 90 commercial properties with total lettable floor space of roughly 1,119,000 m^2 and a market value of around EUR 1.5 billion. At around 65 % (31 December 2018: 68 %) measured in terms of market value, office properties represented the lion's share of the total portfolio. Retail properties accounted for approximately 27 % (31 December 2018: 23 %) and logistics properties and other types of use accounted for approximately 8 % (31 December 2018: 9 %).

PORTFOLIO BY ASSET CATEGORY

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN THOUSAND M^2)	VALUE / M^2	CONTRACTUAL RENT IN EUR MILLIONS P. A.	CONTRACTUAL RENT PER M^2	RENTAL YIELD IN %	EPRA VACANCY RATE IN % [1]	WALT IN YEARS
Office	62	971.5	65.3	616.5	1,576	55.7	8.6	5.7	11.7	4.0
Retail	21	406.5	27.3	282.9	1,437	27.8	8.7	6.8	4.7	6.5
Logistics and Others	7	110.4	7.4	219.4	503	6.5	2.8	5.9	9.1	3.7
Total 31 / 12 / 2019	**90**	**1,488.4** [2]	**100**	**1,118.8**	**1,329**	**90.0**	**7.5**	**6.0**	**9.4**	**4.8**
Total 31 / 12 / 2018	**84**	**1,130.4**	**100**	**926.5**	**1,220**	**73.2**	**7.2**	**6.5**	**7.5**	**4.5**
Change in % / pp	+ 6	+ 31.7 %		20.8 %	+ 8.9 %	+ 23.0 %	+ 4.5 %	- 50 bps	+ 190 bps	+ 0.3 years

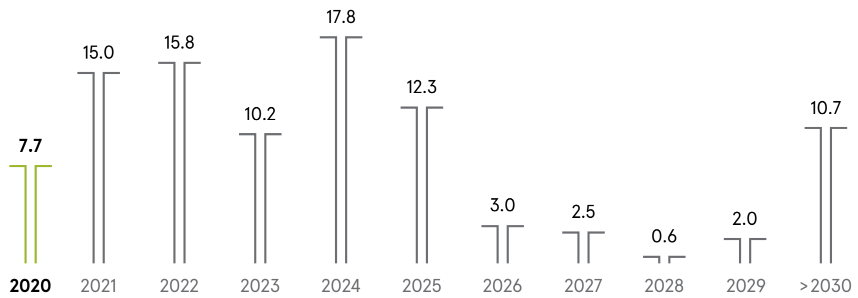
1 Excluding real estate held for sale.
2 Difference to balance sheet value of EUR 1,510.2 million due to prepayments made and leaseholds.

PORTFOLIO VALUATION & TRANSACTIONS

The entire portfolio was valued by the independent real estate appraiser Savills Immobilien Beratungs-GmbH as at 31 December 2019, who determined that the portfolio's fair value was EUR 1,488.4 million. Compared to the previous year's value of EUR 1,130.4 million, the increase is a result of purchases (EUR 298.5 million) and the valuation result (EUR 83.0 million), while sales in the amount of EUR 29.2 million partially offset this increase. In the past financial year, DEMIRE's property management generated letting performance of around 172,700 m² (which corresponds to approximately 15.4 % of the lettable space in the overall portfolio), more than doubling the previous year's figure of 82,560 m². Approximately 36 % is attributable to new lettings and approximately 64 % to follow-on lettings. The EPRA vacancy rate of the portfolio was 9.4 % as at the reporting date, which is approximately 1.9 percentage points higher than on 31 December 2018. The average remaining lease term (WALT) of the entire portfolio was 4.8 years as at the reporting date, amounting to a year-on-year increase of 0.3 years. The share of the lease volume expiring in 2020 is approximately 7.7 %. The rental income of the real estate portfolio rose like-for-like by 0.3 % in the financial year.

In the 2019 financial year, ten properties with a volume of around EUR 356 million were purchased, and four properties were sold at a price of around EUR 46 million. Purchase agreements were signed for four further properties in the reporting period, and the transfer of ownership, benefits and obligations takes place in the 2020 financial year.

TERM OF RENTAL CONTRACTS
in %



Based on annualised rental income

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

In the 2019 financial year, the net assets, financial position and results of operations developed positively. Rental income increased significantly compared to the previous year due to successful letting performance and the acquisition of new properties. On the income side, the income realised from the sale of real estate was very satisfactory, and the net profit / loss from fair value adjustments in investment properties also developed positively after a strong increase in the previous year. While general and administrative expenses fell significantly compared to the previous year, financial expenses rose sharply in the year under review due to one-off effects as a result of comprehensive refinancing measures.

CONSOLIDATED STATEMENT OF INCOME (selected information in EUR thousands)	2019	2018	CHANGE	IN %
Rental income	81,799	73,709	8,090	11.0
Income from utility and service charges	19,625	15,101	4,524	30.0
Operating expenses to generate rental income	– 35,886	– 30,310	– 5,576	18.4
Profit / loss from the rental of real estate	**65,538**	**58,500**	**7,038**	**12.0**
Income from the sale of real estate and real estate companies	46,130	1,052	45,078	>100
Expenses relating to the sale of real estate and real estate companies	– 29,327	– 1,002	– 28,325	>100
Profit / loss from the sale of real estate and real estate companies	**16,803**	**50**	**16,753**	**>100**
Profit / loss from fair value adjustments in investment properties	83,022	93,059	– 10,037	– 10.8
Impairment of receivables	– 629	– 1,874	1,245	– 66.4
Other operating income and other effects	4,327	2,513	1,814	72.2
General and administrative expenses *	– 13,017	– 20,649	7,632	– 37.0
Other operating expenses *	– 874	– 4,534	3,660	– 80.7
Earnings before interest and taxes	**155,170**	**127,065**	**28,105**	**22.1**
Financial result	– 57,315	– 38,308	– 19,007	49.6
Profit / loss before taxes	**97,855**	**88,757**	**9,098**	**10.3**
Current incomes taxes	– 4,651	– 540	– 4,111	>100
Deferred taxes	– 13,466	– 19,164	5,698	– 29.7
Net profit / loss for the period	**79,738**	**69,053**	**10,685**	**15.5**
Thereof attributable to parent company shareholders	75,539	61,575	13,964	22.7
Basic earnings per share (EUR)	0.70	0.85		
Weighted average number of shares outstanding (in thousands)	107,777	72,178		
Diluted earnings per share (EUR)	0.70	0.85		
Weighted average number of shares outstanding, diluted (in thousands)	107,777	72,698		

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

Profit / loss from the rental of real estate

In the 2019 financial year, the DEMIRE Group generated rental income totalling EUR 81.8 million (2018: EUR 73.7 million). The year-on-year increase is primarily due to the purchases in 2019 (EUR 8.5 million), partially offset by the effects from the sale of properties from the core portfolio (EUR 0.4 million). Rental income thus reached the upper half of the forecast range, increased in August 2019 to EUR 81.0 to 82.5 million.

Income from utility and service charge allocations of EUR 19.6 million (2018: EUR 15.1 million) consists of tenant payments for utilities. Utility and service charges were recorded as expenses to generate rental income and amounted to EUR 35.9 million in the reporting year (2018: EUR 30.3 million). Of the operating expenses, an amount of EUR 24.4 million (2018: EUR 19.9 million) is generally allocable and can be passed on to tenants. Operating expenses in the amount of EUR 11.5 million (2018: EUR 10.4 million) are non allocable. The higher level of income and expenses is primarily due to the properties acquired.

Overall, the total profit / loss from the rental of real estate increased 12.0 % to EUR 65.5 million in the reporting year (2018: EUR 58.5 million).

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

The profit / loss from the sales of real estate in the 2019 financial year equalled EUR 16.8 million (2018: EUR 0.1 million), supported by sales amounting to EUR 46.1 million and primarily driven by the sale of the properties in Stahnsdorf (EUR 24.4 million) and Berlin-Marzahn (EUR 17.6 million).

Other operating income and expenses

The profit / loss from the fair value adjustments in investment properties amounted to EUR 83.0 million in the reporting period (2018: EUR 93.1 million) and was at a high level but 10.8 % below the level of the prior year. Other operating income versus the prior year (2018: EUR 2.5 million) increased by EUR 1.8 million for a total of EUR 4.3 million in the reporting period. This increase originated primarily from out of court settlement payments.

At EUR 0.9 million, other operating expenses fell by EUR 3.7 million year-on-year (2018: EUR 4.5 million), reflecting lower depreciation and amortisation.

General and administrative expenses

General and administrative expenses in 2019 dropped by 37.0 % to EUR 13.0 million (2018: EUR 20.6 million), whereby the prior year’s value had included one-off legal and consulting fees related to capital market transactions.

Earnings before interest and taxes (EBIT)

Earnings before interest and taxes (EBIT) increased year-on-year by EUR 28.1 million to EUR 155.2 million (2018: EUR 127.1 million).

Financial result

The 2019 financial result amounted to EUR – 57.3 million (2018: EUR – 38.3 million). Financial expenses of EUR 50.9 million (2018: EUR 26.4 million) include one-off costs in connection with refinancing activities and early repayment penalties of EUR 31.7 million. The absence of early repayment penalties will also be the main reason for a significant decline in financial expenses starting with the 2020 financial year. Interests of minority shareholders in the Fair Value REIT-AG's subsidiaries fell by 37.4 % from EUR 12.4 million to EUR 7.7 million, primarily due to a lower rise in unrealised positive fair value changes in properties held by the Fair Value REIT funds.

Net profit / loss for the period

The profit / loss for the period (earnings after taxes) increased by 15.5 % to EUR 79.7 million compared with EUR 69.1 million in the prior year.

SEGMENT REPORTING

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

The individual segments developed as follows during the 2019 financial year:

2019 in EUR thousands	**CORE PORTFOLIO**	**FAIR VALUE REIT**	**CORPORATE FUNCTIONS / OTHERS**	**GROUP**
External revenues	118,286	28,268	1,000	147,554
Total revenues	**119,286**	**28,268**	**0**	**147,554**
Profit / loss from fair value adjustments in investment properties	70,500	12,523	0	83,022
Other income	3,836	323	167	4,327
Segment revenues	**193,622**	**41,114**	**167**	**234,903**
Expenses relating to the sale of real estate	– 28,127	– 1,200	0	– 29,327
Other expenses	– 27,452	– 14,949	– 8,005	– 50,407
Segment expenses	**– 55,579**	**– 16,149**	**– 8,005**	**– 79,734**
EBIT	**137,043**	**24,965**	**– 6,838**	**155,170**
Financial income	183	6	1,100	1,288
Financial expenses	– 26,177	– 2,351	– 22,331	– 50,860
Interests of minority shareholders	0	– 7,743	0	– 7,743
Income taxes	– 12,031	– 2,327	– 3,759	– 18,117
Net profit / loss for the period	**99,017**	**12,549**	**– 31,829**	**79,738**
Significant non-cash items	**– 74,311**	**– 10,190**	**3,759**	**– 80,742**
Impairment losses in net profit / loss for the period	**159**	**224**	**246**	**629**

The two business segments "Core Portfolio" and "Fair Value REIT" each represent subareas of the real estate portfolio that are held for the purpose of generating rental income and achieving value appreciation. The segment "Corporate Functions / Others" mainly contains the activities of DEMIRE AG in its function as the Group holding.

Revenues in the "Core Portfolio" segment amounted to EUR 118.3 million in 2019 compared to EUR 62.1 million in the previous year. Net profit / loss for the period totalled EUR 99.0 million (2018: EUR 77.7 million).

Revenues in the "Fair Value REIT" segment amounted to EUR 28.3 million in 2019 compared to EUR 27.8 million in the previous year. Net profit / loss for the period totalled EUR 12.5 million (2018: EUR 17.5 million).

The Corporate Functions / Others segment generated revenues of EUR 1.0 million in 2019 (2018: no revenues). Net profit / loss for the period amounted to EUR – 31.8 million (2018: EUR – 26.2 million).

At Group level, revenues increased from EUR 89.9 million in the previous year to EUR 147.6 million in the 2018 financial year. The Group's net profit / loss for the period amounted to EUR 79.7 million in 2019 (2018: EUR 69.1 million).

Further information on segment reporting can be found in the notes to the consolidated financial statements on page 132.

NET ASSETS

Total assets of the DEMIRE Group as at 31 December 2019 amounted to EUR 1,677.4 million (31 December 2018: EUR 1,378.7 million), representing a EUR 298.7 million increase over the end of 2018.

For the real estate portfolio (investment properties), the external real estate appraiser Savills Immobilien Beratungs GmbH determined a total market value of EUR 1,488.4 million (31 December 2018: EUR 1,130.4 million).

Selected information from the consolidated balance sheet

CONSOLIDATED BALANCE SHEET – ASSETS (selected information in EUR thousands)	31 / 12 / 2019	31 / 12 / 2018	CHANGE	IN %
Assets				
Total non-current assets	1,520,671	1,156,226	364,445	31.5
Total current assets	140,440	210,205	– 69,765	– 33.2
Non-current assets held for sale	16,305	12,262	4,043	33.0
Total assets	**1,677,416**	**1,378,692**	**298,724**	**21.7**

As at 31 December 2019, non-current assets increased by EUR 364.4 million to EUR 1,520.7 million (31 December 2018: EUR 1,156.2 million). Investment properties accounted for the largest share, increasing EUR 356.0 million, largely as a result of the acquisition of new properties (EUR 340.4 million) and fair value adjustments compared with the previous year's reporting date (EUR 83.0 million). Disposals from sales amounted to EUR 31.4 million.

As at 31 December 2019, the DEMIRE Group's current assets decreased by EUR 69.8 million to EUR 140.4 million (31 December 2018: EUR 210.2 million). This decline is due above all to lower cash and cash equivalents resulting from the acquisition of new properties.

The assets held for sale as at 31 December 2019 in the amount of EUR 16.3 million (31 December 2018: EUR 12.3 million) are properties in Wurzen, Genthin and Herzberg and a partial tract of land in Darmstadt.

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (selected information in EUR thousands)	31/12/2019	31/12/2019	CHANGE	IN %
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to parent company shareholders	613,351	537,913	75,438	14.0
Non-controlling interests	47,431	44,425	3,007	6.8
TOTAL EQUITY	**660,782**	**582,338**	**78,444**	**13.5**
LIABILITIES				
Total non-current liabilities	911,587	744,297	167,291	22.5
Total current liabilities	105,046	52,057	52,989	>100
TOTAL LIABILITIES	1,016,633	796,354	220,279	27.7
TOTAL EQUITY AND LIABILITIES	**1,677,416**	**1,378,692**	**298,724**	**21.7**

Group equity rose to EUR 660.8 million in the 2019 financial year (31 December 2018: EUR 582.3 million) as a result of the Group's positive net profit for the period. The equity ratio amounted to 39.4 %, compared to 42.2 % at the end of 2018. Non-controlling minority interests of EUR 78.7 million are reported in non-current liabilities and not under equity in accordance with IFRS, primarily due to the legal form of a partnership. The corresponding adjusted Group equity totalled EUR 739.5 million or 44.1 % of total equity and liabilities (31 December 2018: EUR 655.4 million or 47.5 %).

Non-current liabilities amounted to EUR 911.6 million at the end of 2019 (31 December 2018: EUR 744.3 million) and current liabilities came to EUR 105.0 million (31 December 2018: EUR 52.1 million). As a result, the total liabilities of the DEMIRE Group increased to EUR 1,016.6 million as at 31 December 2019 (31 December 2018: EUR 796.4 million).

Total financial liabilities of EUR 807.0 million (31 December 2018: EUR 636.6 million) include the EUR 600 million bond issued in 2019 and liabilities to banks and third parties of around EUR 216.9 million (31 December 2018: EUR 631.7 million in total). The share of unencumbered assets as at 31 December 2019 amounts to 45.6 % for an increase of 190 basis points compared to the previous year (31 December 2018: 46.2 %) resulting from the bond issue. As at the reporting date, there were variable interest rate agreements for borrowings totalling EUR 24.6 million. The average nominal interest rate on financial liabilities decreased by 116 basis points to 1.84 % p. a. as at the 31 December 2019 reporting date due to extensive financing activities in the reporting period. This compares with 3.00 % p. a. at the end of 2018. The average remaining term of the liabilities increased from 2.9 years at the end of 2018 to 4.4 years at the end of 2019.

As at 31 December 2019, trade payables and other liabilities increased to EUR 28.3 million (31 December 2018: EUR 18.0 million). This increase was primarily due to the residual purchase price and the land transfer tax for a property in Neuss transferred in December (EUR 9.2 million).

The total liabilities for the DEMIRE Group as at 31 December 2019 were EUR 1,016.6 million, representing an increase over the previous year (31 December 2018: EUR 796.4 million).

FINANCIAL POSITION

Financial management

The financial management of the DEMIRE Group ensures liquidity control and financing, and contributes to the optimisation of cash flows within the Group through central liquidity analysis. The primary objective is to secure liquidity for the entire Group and maintain financial independence. The focus is on maintaining a long-term, stable and cost-optimised financing mix that supports the development of the operating business in a positive and sustainable manner.

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

Selected information from the consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS (selected information in EUR thousands)	2019	2018	CHANGE	%
Cash flow from operating activities	45,844	38,862	6,982	18.0
Cash flow from investing activities	– 253,212	– 24,039	– 229,173	>100.0
Cash flow from financing activities	119,065	101,745	17,320	17.0
Net change in cash and cash equivalents	**– 88,303**	**116,567**	**– 204,870**	**–**
Cash and cash equivalents at the end of the period	**102,139**	**190,442**	**– 88,303**	**– 46.4**

In addition to the operating strength, the development of cash flows in the 2019 financial year reflects the effects of property acquisitions and refinancing activities. The detailed consolidated cash flow statement precedes the notes to the consolidated financial statements.

Cash flow from operating activities amounted to EUR 45.8 million at the end of financial year 2019 (2018: EUR 38.9 million) and improved compared to the previous year as a result of the higher business volume following the acquisitions.

Cash flow from investing activities amounted to EUR – 253.2 million in 2019 after EUR – 24.0 million in 2018, including payments of EUR – 275.8 million (previous year: EUR – 24.7 million) in connection with acquisitions and sale proceeds of EUR 31.4 million (previous year: EUR 0.6 million). Of the total, EUR 144.8 million was attributable to the purchase of the office portfolio in May 2019, EUR 71.0 million was attributable to the acquisition of the department store portfolio as at 1 July 2019 and EUR 60.0 million to the logistics property purchased at the end of December 2019.

Cash flow from financing activities amounted to EUR 119.1 million (2018: EUR 101.8 million). This includes proceeds from the assumption of borrowings of EUR 704.9 million (2018: EUR 41.1 million) from the issue the 2019 / 2024 corporate bond and secured mortgage financing. This was offset by the repayment of financial liabilities in the amount of EUR 540.9 million (2018: EUR 85.0 million), including the redemption of the 2017 / 2022 corporate bond and the promissory note. The net change in cash and cash equivalents amounted to EUR – 88.3 million at the end of 2019 financial year (2018: EUR 116.6 million). Total cash and cash equivalents at the end of the reporting period amounted to EUR 102.1 million (2018: EUR 190.4 million).

The DEMIRE Group was able to meet its payment obligations in full at all times throughout the reporting period.

FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

FINANCIAL KEY PERFORMANCE INDICATORS

Rental income

In the 2019 financial year, the DEMIRE Group generated rental income totalling EUR 81.8 million (2018: EUR 73.7 million). The year-on-year increase resulted primarily from purchases (EUR 8.5 million), which were partially offset by the effects of sales in the core portfolio of EUR 0.4 million.

Funds from Operations (FFO)

Funds from operations (FFO) measure the operating result of the DEMIRE Group. It corresponds to the earnings before taxes, which are adjusted for valuation results, other sales and one-off effects and non-periodic income and expenses.

FFO CALCULATION (selected information in EUR thousands)	2019	2018	CHANGE	IN %
Profit / loss before taxes	97,855	88,757	9,098	10.3
Minority interests	7,743	12,373	– 4,630	– 37.4
Earnings before taxes (EBT)	**105,598**	**101,130**	**4,468**	**4.4**
± Profit / loss from the sale of real estate companies	– 16,803	0	– 16,803	–
± Profit / loss from the sale of real estate	0	– 50	50	–
± Profit / loss from fair value adjustments in investment properties	– 83,022	– 93,059	10,037	– 10.8
± Profit / loss from the valuation of derivative financial instruments	0	0	0	–
± Other adjustments *	29,205	15,881	13,324	83.9
FFO I before taxes	**34,977**	**23,902**	**11,075**	**46.3**
± (Current) income taxes	– 472	– 543	71	– 13.1
FFO I after taxes	**34,506**	**23,359**	**11,147**	**47.7**
Thereof attributable to parent company shareholders	30,467	19,419	11,048	56.9
Thereof attributable to non-controlling interests	4,039	3,939	100	2.5
± Profit / loss from the sale of real estate companies / real estate (after taxes)	15,730	53	15,677	> 100
FFO II after taxes	**45,658**	**23,412**	**22,246**	**95.0**
Thereof attributable to parent company shareholders	42,059	19,479	22,580	> 100
Thereof attributable to non-controlling interests	3,599	3,933	– 334	– 8.5
FFO I after taxes per share				
Basic FFO I per share (EUR)	0.32	0.32	0.00	0.0
Weighted average number of shares outstanding (in thousands)	107,777	72,178	35,599	49.3
Diluted FFO I per share (EUR)	0.32	0.32	0.00	– 0.4
Weighted diluted average number of shares outstanding (in thousands)	108,287	72,698	35,589	49.0
FFO II after taxes per share				
Basic FFO II per share (EUR)	0.42	0.32	0.10	32.4
Weighted average number of shares outstanding (in thousands)	107,777	72,178	35,599	49.3
Diluted FFO II per share (EUR)	0.42	0.32	0.10	31.8
Weighted diluted average number of shares outstanding (in thousands)	**108,287**	**72,698**	**35,589**	**49.0**

* Other adjustments include:
- One-time refinancing costs (EUR 31.7 million; previous year: EUR 8.5 million, incl. other effects from refinancing)
- One-time transaction, legal and consulting fees (EUR – 3.3 million; previous year: EUR 5.0 million)
- One-time administrative costs (EUR – 0.3 million; previous year: EUR 2.4 million)
- Non-period expenses (EUR 0.1 million; previous year: EUR 0.1 million)

FFO I (after taxes, before minorities) amounted to EUR 34.5 million as at 31 December 2019 (2018: EUR 23.4 million), after taxes and after minorities, FFO I amounted to EUR 30.5 million (2018: EUR 19.4 million). Taking into account the result from the sale of real estate, funds from operations (FFO II) amounted to EUR 45.7 million after taxes, before minorities (2018: EUR 23.4 million) and EUR 42.1 million (2018: EUR 19.5 million) after taxes and after minorities.

The increase in FFO is mainly due to the pro rata contribution of properties to the 2019 income statement, for which ownership was transferred in the reporting period.

Net asset value (EPRA NAV / EPRA NNNAV)

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

In 2019, diluted EPRA NAV rose by 14.9 % to EUR 684.6 million. Based on the number of shares outstanding (108.3 million), diluted EPRA NAV per share equalled EUR 6.32, compared to EUR 5.50 at the end of 2018. The increase in diluted EPRA NAV per share stemmed primarily from DEMIRE's positive net profit for the period in 2019.

EPRA-NET ASSET VALUE (NAV / EPRA-NNNAV) in EUR thousands	31/12/2019	31/12/2018	CHANGE	IN %
Net asset value (NAV)	613,351	537,913	75,438	14.0
Deferred taxes	75,518	62,050	13,468	21.7
Goodwill resulting from deferred taxes	– 4,738	– 4,738	**0**	**0**
EPRA NAV (basic)	**684,131**	**595,225**	**88,906**	**14.9**
Number of shares outstanding (in thousands) (basic)	107,777	107,777	0	0
EPRA NAV per share (EUR) (basic)	6.35	5.52	0.83	15.0
Effect of the conversion of convertible bonds and other equity instruments	510	520	– 10	– 1.9
EPRA NAV (diluted)	684,641	595,745	88,896	14.9
Number of shares outstanding (in thousands) (diluted)	108,287	108,297	**– 10**	**– 0.0**
EPRA NAV per share (EUR) (diluted)	**6.32**	**5.50**	**0.82**	**15.0**
Fair value adjustments in liabilities	– 21,022	3,052	– 24,074	0
Deferred taxes	**– 69,468**	**– 62,928**	**– 6,540**	**10.4**
EPRA NNNAV (diluted)	**594,151**	**535,869**	**58,282**	**10.9**
EPRA NNNAV per share (EUR) (diluted)	**5.49**	**4.95**	**0.54**	**10.8**

Net loan-to-value ratio

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

NET LOAN-TO-VALUE (NET LTV) in EUR millions	31/12/2019	31/12/2018
Financial liabilities	807.0	636.6
Cash and cash equivalents	102.1	190.4
Net financial debt	**704.8**	**446.1**
Fair value of investment properties and non-current assets held for sale	**1,510.2**	**1,152.1**
Net LTV in %	**46.7 %**	**38.7 %**

As expected, net loan-to-value rose from 38.7 % to 46.7 % year-on-year as a result of the acquisitions and financing activities.

The maturities of the existing loan agreements are broadly staggered. While there will only be a small amount of follow-up financing over the next four years, refinancing requirements of EUR 687.2 million will emerge in 2024. The liquidity requirements for follow-up financing and repayments over the next few years are as follows:

MATURITIES in EUR millions	2020	2021	2022	2023	2024	AB 2025
	63.9	6.6	6.6	6.7	687.2	44.6

COVENANTS FOR THE 2019 / 2024 CORPORATE BOND

As part of the 2019 / 2024 corporate bond issue, DEMIRE undertook to comply with various covenants and to report regularly. The definitions of the covenants to be reported are listed in the issue prospectus of the 2019 / 2024 corporate bond.

BOND CONVENANTS 31/12/2019	NET-LTV	NET-SECURED LTV	ICR
Covenant	max. 60 %	max. 40 %	min 1.75
Value	44.9 %	7.3 %	2.82x

from 31/03/2021: 2.00

As at 31 December 2019, DEMIRE had complied with all covenants of the 2019 / 2024 corporate bond. The planning for the 2020 financial year and beyond assumes that the covenants will be complied with at all times.

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators are non-quantifiable values that are not used to directly control the Company, but rather play a fundamental role in the success of the Company's development and the appreciation in DEMIRE's value. The non-financial performance indicators are based on competencies, competitive advantages and qualifications that have accumulated through the Company's history in the context of current business activities and the people involved.

PERSONNEL

DEMIRE's corporate structure is based on flat hierarchies. Motivated and committed employees are offered a variety of responsibilities and areas of activity. Lean decision-making processes and direct open communication between all levels also promote constructive cooperation. DEMIRE is aware that the employees are at the heart of the Company's success, as well as an essential component in achieving its medium to long-term corporate goals.

By applying a market and performance-oriented remuneration system, DEMIRE encourages the management's and employees' focus on achieving corporate and departmental goals. Remuneration is reviewed regularly within the Company and adjusted to the Company-wide operational and personal targets. Employees are offered the opportunity to develop their professional qualifications internally and externally, thus ensuring that personal skills are promoted in line with the requirements of corporate development. In order to make the workplace more attractive, DEMIRE provides sufficient working space along with modern and spacious recreational areas to foster team building. This supports the targeted exchange of knowledge within the workforce and promotes cooperation between the various working areas and project groups.

The Group employed a total of 41 people (38.25 full-time equivalents), excluding the Executive Board, at its consolidated and non-consolidated entities as at 31 December 2019 (31 December 2018: 74). DEMIRE embraces and promotes diversity throughout the Company. The proportion of female employees is 48 %. The age structure of our employees is widely distributed. Around 12 % of our employees are younger than 30 years of age, around 68 % are between 31 and 50 years old, and another 20 % are older than 50 years.

Flat hierarchies and the formation of cross-divisional project groups encourage the exchange between departments and employees with different professional experiences. To support the health and fitness of the employees, subsidies are paid towards the costs of fitness contracts. Offers such as home office and the possibility of working part-time take into account the individual life phases of the employees.

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

As a stock-exchange-listed company and not subject to co-determination, DEMIRE AG is legally obliged to set targets for the proportion of women on the Supervisory Board, the Management Board and – if applicable – the two management levels below the Executive Board. At the end of June 2017, the target figures for the proportion of women on the Supervisory Board and the Executive Board for the period from 1 July 2017 to 30 June 2022 were set at zero. The target for the first management level below the Executive Board had been set at 25 % for the same period, in accordance with the percentage share of female managers at that time. Due to the size of the organisation and the flat hierarchies in the Company, a target figure was not set for the second management level below the Executive Board.

With the election of Prof Dr Kerstin Hennig at the Annual General Meeting on 29 May 2019, the proportion of women on the Supervisory Board is 33 %. As planned, the proportion of women on the two-member Executive Board was zero at the end of 2019, while the proportion of women in the first management level was 44.4 %. As a result, the target figures for the proportion of women were met as at 31 December 2019. The Company expects that the targets for the Supervisory Board, Executive Board and the management level below the Executive Board will continue to be met in 2020.

Tenants and service providers

DEMIRE relies on a high level of tenant loyalty based on a lasting, direct relationship and mutual trust. Direct on-site support secures the long-term rental income of our properties and minimises default risks. A good market network of employees ensures early recognition of potential market opportunities on both the rental and transaction markets, which helps to further optimise the property platform, improve operating performance and expand the property portfolio to over EUR 2 billion. Long-term partnerships with relevant service providers and other institutional market participants in the real estate market are maintained. DEMIRE's asset management team achieved a letting performance of roughly 172,700 m² in 2019. Because some of the letted space resulted from vacant space acquired in 2019, the Company expects the letting performance to decrease in 2020.

ESG – Environmental, Social & Governance

DEMIRE strives to act responsibly and sustainably in every situation. In doing so, DEMIRE observes ecological and social aspects in its business activities and acts in accordance with the principles of good corporate governance. Within the Group, DEMIRE supports measures that help to save energy and reduce emissions. In the future, DEMIRE will continue to pay attention to the sustainable use of environmental resources and take them into account in business decisions. A responsible and fair treatment of its employees, customers, business partners and the public is a priority. DEMIRE strives to further anchor sustainability in the Group by implementing guidelines. In 2019, DEMIRE underwent an external audit to document and apply the principles of good corporate governance based on the standards of the Institute for Corporate Governance ICG. Following a positive assessment, DEMIRE expects to be included in the ICG in 2020.

Transparency

DEMIRE is a member of the EPRA European Public Real Estate Association, the representative body of listed European real estate companies. DEMIRE supports the EPRA's best practice recommendations promoting the transparent presentation of key performance indicators for listed real estate companies.

DEMIRE also actively supports numerous associations in and outside the real estate industry through its memberships. As an active member of the ZIA Zentraler Immobilien Ausschuss e. V., the German real estate association and voice of the German real estate industry, DEMIRE supports its work, especially as a representative of its members' interests in public and politics.

DEMIRE is also a member of DIRK e. V., the German Investor Relations Association, which represents the investor relations work of German listed companies. This association also helps members improve their dialogue with capital market participants by providing professional support, access to networks and practical capital market expertise.

In 2019, DEMIRE entered a partnership with the EBS university for economics and law. The aim of this cooperation is to conduct practical and scientific studies and research in the field of real estate economics.

Changes in composition of governing bodies

On 3 January 2019, the Supervisory Board dismissed Ralf Kind as a member of the Executive Board with immediate effect. On 17 January 2019, Tim Brückner was appointed to the Company's Executive Board and tasked with overseeing finance. Tim Brückner took over his responsibilities at DEMIRE with effect from 1 February 2019.

Prof Dr Kerstin Hennig was elected to the Supervisory Board at the Company's Annual General Meeting on 29 May 2019. She succeeds Dr Thomas Wetzel, who retired from the Supervisory Board at the end of the Annual General Meeting.

Remuneration report

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

REMUNERATION OF THE EXECUTIVE BOARD

The Supervisory Board determines the appropriate level of remuneration for the members of the Executive Board. The criteria for the appropriateness of the total remuneration package are the responsibilities and performance of the respective Executive Board member, the Company's situation and the sustainability of its development. Total remuneration may not exceed the customary remuneration without specific reasons. In this context, the Supervisory Board takes into account the relationship between the remuneration of the Executive Board and the remuneration of the senior management and the workforce as a whole and over time, whereby the Supervisory Board determines how the senior management and the relevant workforce are to be defined for comparison purposes. The total remuneration of the Executive Board members is essentially composed of fixed remuneration and a variable remuneration component with short-term and long-term incentive components (performance bonus). The remuneration can be adjusted with effect from 1 January of each calendar year.

The employment contracts contain a non-competition clause that prohibits the Executive Board from founding, acquiring or directly or indirectly participating in or working for a competitor of the Company or one of its affiliated companies during the term of the agreement unless the Supervisory Board provides for an exemption. The service agreement also contains an obligation to maintain secrecy about all confidential information, not to grant third parties access to business documents and not to use this information for the Executive Board member's own benefit or the benefit of others.

The variable and fixed remuneration of the Executive Board members are subject to a cap. In principle, no higher remuneration is granted than the remuneration provided for the remaining term of the employment contracts.

The remuneration of the Executive Board also covers the executive board functions, those of the managing directors in the subsidiaries and those at sub-subsidiaries of the DEMIRE Group.

EXISTING EMPLOYMENT CONTRACTS

Ingo Hartlief

On 20 December 2018, the Supervisory Board of the Company concluded a contract with Ingo Hartlief as Chief Executive Officer for a period of three years with immediate effect. This means that one member of the Executive Board has a fixed-term employment contract.

Under this contract, Mr Hartlief receives a basic annual salary of EUR 320,000.00. This fixed component is paid monthly as a basic salary and granted on a pro rata basis should the contract begin or end during the year.

In addition, Mr. Hartlief receives a performance and success-based bonus of up to EUR 190,000.00 per year (starting with the 2019 financial year). The aforementioned target bonus also represents the upper limit for the achievable bonus. The amount is based on the achievement of certain targets set by the Supervisory Board at its reasonable discretion. If the Executive Board member's service contract ends during the year, the bonus is reduced on a pro rata basis. The bonus is due at the end of the month of the following year in which the annual financial statements of the Company are adopted.

Mr Hartlief also receives performance-related variable remuneration on a multi-year basis in the form of virtual shares. Virtual shares with a gross value of EUR 190,000.00 at the time of allocation are granted per each financial year (starting with the 2019 financial year). The actual amount paid depends on the long-term development of the Company's share price and amounts to a maximum of EUR 220,000.00 gross. The details are based on the Long-Term Incentive Programme as determined at the reasonable discretion of the Supervisory Board, as amended. If the Executive board member's employment contract ends during the year, the bonus is reduced on a pro rata basis.

The Company and Mr Hartlief have agreed on special bonuses for the achievement of certain targets. A special bonus in the amount of EUR 500,000 is dependent on the achievement of certain portfolio related targets. A further special bonus in the amount of EUR 500,000, as well as virtual shares in the amount of EUR 500,000, will be granted if certain capital market-related targets are achieved.

Mr Hartlief is entitled to the usual contractual (non-cash) fringe benefits. These include the provision of a company car, the reimbursement of expenses and travel costs, participation in contributions to statutory health insurance or suitable private health insurance, nursing care insurance with the statutory employer's contribution, the payment of contributions to a pension contract, if any, continuation of the existing pecuniary damage liability insurance (D & O insurance), conclusion of an accident and invalidity insurance policy within the framework of a group accident insurance policy as well as continued payment of remuneration in the event of illness or accident and a death benefit. In addition, Mr. Hartlief is granted a payment of EUR 500,000 for waiving a special right of termination.

Tim Brückner

On 17 January 2019, the Supervisory Board of the Company concluded a contract with Tim Brückner to join the Executive Board for a period of three years starting on 1 February 2019. As a result, one member of the Executive Board has a fixed-term employment contract.

Under this agreement, Mr. Brückner receives a basic annual salary of EUR 200,000.00. This fixed component is paid monthly as a basic salary and paid pro rata temporis if the contract begins or ends during the year.

In addition, Mr. Brückner receives performance and success-based bonus of up to EUR 50,000.00 per year (starting with the 2019 financial year). The maximum bonus is EUR 75,000.00. The bonus amount is based on the achievement of certain targets set at the reasonable discretion of the Supervisory Board. If the Executive Board employment contract ends during the year, the bonus will be reduced on a pro rata basis. The bonus is due at the end of the month of the year after the annual financial statements of the Company were adopted.

Mr. Brückner also receives performance-related variable remuneration on a multi-year basis in the form of virtual shares. Virtual shares with a gross value of EUR 50,000.00 at the time of allocation are granted per financial year (starting with the 2019 financial year). The actual amount paid depends on the long-term development of the Company's share price and amounts to a gross maximum of EUR 75,000.00. The details are based on the Long-Term Incentive Programme as amended and determined at the reasonable discretion of the Supervisory Board. If the employment contract of the Executive Board member ends during the year, the bonus is reduced on a pro rata basis.

The Company and Mr. Brückner have agreed to a one-time special bonus in the form of virtual shares in the value of a further EUR 250,000.00 if certain capital market-related targets are achieved.

Mr Brückner is entitled to the usual contractual (non-cash) fringe benefits. These include the provision of a company car, reimbursement of expenses and travel costs, participation in contributions to a statutory or suitable private health insurance and nursing care insurance with the statutory employer's contribution, payment of contributions to a pension contract, if any, continuation of the existing pecuniary damage liability insurance (D & O insurance), conclusion of an accident and disability insurance policy as part of a group accident insurance policy, continued payment of remuneration in the event of illness or accident and a death benefit.

The remuneration of Mr. Brückner was adjusted as of 1 January 2020. The basic annual salary amounts to EUR 240,000.00 and the annual performance-related variable remuneration amounts to EUR 142,500.00 (which is also the achievable upper limit). The remuneration package also includes performance-related variable remuneration on a multi-year basis in the form of virtual shares, also set at EUR 142,500.00 gross (whereby the actual amount paid out totals a maximum of EUR 165,000.00 gross).

EMPLOYMENT CONTRACTS ENDED IN 2019

Ralf Kind

Mr. Kind received a gross basic salary of EUR 2,903.23 in the reporting year from the Executive Board contract that was prematurely terminated with effect from 3 January 2019. The amount of any remaining compensation to which Mr. Ralf Kind may still be entitled is open, as these issues are currently the subject of pending legal proceedings; however, a provision amounting to EUR 420 thousand has been recognised.

REMUNERATION OF SUPERVISORY BOARD

The amount of the remuneration of the Supervisory Board is determined by the Annual General Meeting and governed by Article 16 ("Remuneration") of the Articles of Association. The most recently resolved remuneration remains valid until the Annual General Meeting resolves on amended remuneration. The fixed, annually payable remuneration starting in fiscal year 2017 was adjusted to EUR 30,000.00 in the year under review by resolution of the Annual General Meeting on 30 June 2016. The chairman of the Supervisory Board receives triple the basic remuneration and the deputy chairman received double the basic remuneration. Supervisory Board members who have not been members of the Supervisory Board for a full financial year receive remuneration in accordance with the length of their membership on the Supervisory Board.

In addition, the Company reimburses the members of the Supervisory Board for the expenses they incur in the exercise of their Supervisory Board mandates as well as the value-added tax payable on their remuneration and expenses, insofar as this is charged separately.

For more information, please refer to the corresponding explanations in the notes to the consolidated financial statements.

Benefits according to DRS 17 during the reporting year

	INGO HARTLIEF CEO SINCE 20 DECEMBER 2018			
in EUR thousands	FY 2019	FY 2019 (MIN)	FY 2019 (MAX)	FY 2018
Fixed remuneration	320	320	320	–
Fringe benefits	10	10	10	–
One-time payment	500	500	500	–
Total	**830**	**830**	**830**	**–**
Variable remuneration (one-year)	190	0	190	–
Variable remuneration (multi-year)	1,000	0	1,000	–
Stock options	690	0	720	–
Total	**2,710**	**830**	**2,740**	**–**
Pension expenses	5	5	5	–
Total remuneration	**2,715**	**835**	**2,745**	**–**

	RALF KIND CEO / CFO FROM 1 MARCH 2017 TO 3 JANUARY 2019			
in EUR thousands	FY 2019	FY 2019 (MIN)	FY 2019 (MAX)	FY 2018
Fixed remuneration	3	3	3	360
Fringe benefits	–	–	–	20
Total	**3**	**3**	**3**	**380**
Variable remuneration (one-year)	–	–	–	180
Variable remuneration (multi-year)	–	–	–	–
Stock options	–	–	–	302
Total	**3**	**3**	**3**	**862**
Pension expenses	–	–	–	16
Total remuneration	**3**	**3**	**3**	**804**

	TIM BRÜCKNER CFO SINCE 1 FEBRUARY 2019			
in EUR thousands	FY 2019	FY 2019 (MIN)	FY 2019 (MAX)	FY 2018
Fixed remuneration	200	200	200	–
Fringe benefits	17	17	17	–
Total	**217**	**217**	**217**	**–**
Variable remuneration (one-year)	50	0	75	–
Variable remuneration (multi-year)	–	–	–	–
Stock options	300	0	325	–
Total	**567**	**217**	**617**	**–**
Pension expenses	28	28	28	–
Total remuneration	**595**	**245**	**645**	**–**

Benefits received during the reporting year

	INGO HARTLIEF CEO SINCE 20 DECEMBER 2018	
in EUR thousands	FY 2019	FY 2018
Fixed remuneration	320	–
Fringe benefits	10	–
Total	**330**	**–**
Variable remuneration (one-year)	–	–
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**330**	**–**
Pension expenses	5	–
Total remuneration	**335**	**–**

	RALF KIND CEO / CFO FROM 1 MARCH 2017 TO 3 JANUARY 2019	
in EUR thousands	FY 2019	FY 2018
Fixed remuneration	3	360
Fringe benefits	–	20
Total	**3**	**380**
Variable remuneration (one-year)	–	275
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**3**	**655**
Pension expenses	–	16
Total remuneration	**3**	**671**

	TIM BRÜCKNER CFO SINCE 1 FEBRUARYY2019	
in EUR thousands	FY 2019	FY 2018
Fixed remuneration	183	–
Fringe benefits	17	–
Total	**200**	**–**
Variable remuneration (one-year)	–	–
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**200**	**–**
Pension expenses	28	–
Total remuneration	**228**	**–**

Report on Risks, Opportunities and Outlook

RISK REPORT

RISIKOMANAGEMENTSYSTEM

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

Early risk warning system

DEMIRE AG's early warning system is intended to detect all relevant risks and their causes, as well as to quantify and communicate them, thereby ensuring that any necessary countermeasures can be initiated at an early stage. The early risk warning system is audited and assessed annually by the auditor as part of the audit of the annual financial statements with regard to its compliance with the requirement set forth in of the German Stock Corporation Act in accordance with Section 317 (4) HGB. On 14 January 2020, DEMIRE's Executive Board also adopted an updated risk guideline, which was effective immediately.

Risk identification and evaluation

Risk identification forms the basis for the appropriate and effective handling of risks. Our employees are called upon to consciously and responsibly deal with risks and opportunities within their scope of responsibility. The relevant risk have been allocated according to the responsibilities of the respective departments. An identified risk is assessed for its probability of occurrence and the potential extent of the loss is determined.

Risk management

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

Risk reporting

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

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

IT systems

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

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

Financial reporting process

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

The financial reporting processes are structured to achieve the following objectives:

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

The Company, as the legal parent company, also prepares the consolidated financial statements. Impairment tests carried out centrally, particularly the market valuation of all properties by independent external experts, ensure the uniform and standardised application of the valuation criteria. The aggregation and preparation of required data for the Notes to the consolidated financial statements and the combined management report are also carried out at the Group level. These processes are preceded by the bookkeeping, the preparation of the annual financial statements and the gathering of additional information from the Group companies included in the consolidated financial statements in accordance with uniform requirements, partly by external property management and partly by agency agreements by the employees of DEMIRE AG.

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

Other essential tools include:

- 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 to provide an expert opinion on the market value of real estate, among other things

Together with our external consultants and service providers, new laws, accounting standards and other official pronouncements are continuously analysed for their relevance and their impact on the annual and consolidated financial statements and the combined management report. The Group makes adjustments to Group accounting policies when necessary. In the 2019 financial year, this occurred to the extent required under new accounting provisions.

The following measures and controls are regularly implemented, evaluated and further developed in a structured process with our service providers to ensure the appropriateness of the accounting and the correct overall presentation of the consolidated and annual financial statements and the combined management report:

- Identification and analysis of the main risk areas and control areas
- Monitoring and plausibility checks to monitor processes and their results at the level of the Executive Board and the operating units
- Preventive control measures in finance and accounting as well as in the operational corporate processes essential for accounting
- Measures to ensure the proper, complete and timely computer-aided processing of accounting-related facts and data
- Measures to monitor the accounting-related internal control and risk management system and measures to eliminate any control weaknesses

GENERAL RISK SITUATION

During the 2019 financial year, DEMIRE benefited from the continued positive development of the real estate market in Germany. This, together with the measures initiated by the Company's Executive Board, contributed significantly to the improvement in the financial and operating figures. The Company's rental income was sustainably increased through acquisitions and successful letting. At the same time, the raising of new financing and the replacement of existing financing contributed to a lasting reduction in average financing costs. This will lead to significantly better key figures in 2019 and the following years.

INDIVIDUAL RISKS

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

The individual risks are assessed on the basis of the amount of loss ("very low", "low", "medium", "high", "very high") and the probability of occurrence ("unlikely", "possible", "likely", "very likely").

Macroeconomic, market-related and sector risks

Macroeconomic changes can have positive or negative effects on our net assets, financial position and results of operations. There is a moderately positive forecast of economic growth for 2020, so that moderate growth is still expected in Germany. An important risk is the further development of coronavirus infections and their impact on the economy. The economic development generally leads us to expect further new hires and demand for new office space, particularly in secondary locations. As a result of rising wages and salaries, private consumption will continue to be a growth driver for the German economy, and may also benefit the letting of our retail space. We see a strong economic deterioration within the next twelve months as unlikely and therefore assess the risk of a negative impact as low.

As a real estate company, the development of the German real estate market is decisive for DEMIRE. The future development of rental income represents a risk that may also indirectly affect the valuation of the portfolio. In addition, there is strong competition in the commercial real estate sector, which entails the risk that the Company might not be able to assert itself sufficiently. With regard to risks from negative developments on the real estate market and other environmental and sector risks, we currently assume that the probability of their occurrence is low and estimate the risk of a negative impact on the net assets, financial position and results of operations as low.

FINANCIAL RISK

Financing and liquidity risk

Liquidity management serves the purpose of ensuring the Group's solvency at all times. Under conservative assumptions, the funds required for the operational management of the Group in particular are budgeted and scheduled at the level of the Group companies and the Company. Liquidity is derived from current income from the properties, less management, administrative and financing costs at the respective property holding level and at the level of the Company, as well as from inflows from Group companies in the form of dividends, profit distributions, profit transfers and withdrawals.

In principle, there is the risks that the Company may not have sufficient liquidity at all times during the year to meet its current obligations and that follow-up financing of expiring financial liabilities may not be obtained or may only be obtained at less favourable conditions than planned. Additional liquidity requirements from events beyond DEMIRE's control may also result, first and foremost, from the operating and other risks listed below.

The funds available at the reporting date and the planned cash flows in 2020 are sufficient for the current needs of the operating activities.

Risks from covenant obligations

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

As at the reporting date, the LTVs of all of the Group's financial liabilities were clearly below the levels stipulated in the respective financing agreements. In the case of the promissory note loan and the financing of Sihlegg Investments Holding GmbH, the DSCR complies with the capital coverage required by the respective agreements as at 31 December 2019.

The 2017 / 2022 corporate was redeemed on 11 October 2019 and the new 2019 / 2024 corporate bond was issued. The new bond stipulates the following covenants: LTV (net loan-to-value ratio) based on financial liabilities less cash and cash equivalents as a ratio to total assets less goodwill and cash and cash equivalents; ICR (interest coverage ratio) based on Group EBITDA as a ratio to net cash interest (interest expenses to third parties less interest income from third parties, net of one-time financing costs and early repayment penalties). Please refer to page 53 for the individual covenants, as well as the status as at 31 December 2019 for the new corporate bond.

The internationally renowned rating agencies Standard & Poor's and Moody's confirmed their BB+ and Ba2 rating for the corporate bond in July 2019 and maintained this rating for the 2019 / 2024 corporate bond. DEMIRE is required to comply with the conditions necessary to maintain the credit rating of the rating agencies.

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

Interest rate risk

The DEMIRE Group uses debt to finance German commercial real estate. This involves both loans with predominantly fixed and, to a lesser extent, variable interest rates and tradable instruments such as corporate bonds. The interest rate policy is evaluated at regular intervals in close coordination with the Supervisory Board.

For loans with variable interest rates, a rise in the interest rate level leads to a burden on the Group. As at the reporting date, financial liabilities in the amount of EUR 714.9 million had fixed interest rates and EUR 22.9 million had variable interest rates.

Derivatives are not utilised due to the low volume of variable interest rate loans.

The interest rate level also has an impact on the purchase prices of newly acquired properties and plays a significant role in the valuation of investment properties. In view of the expectations for interest rate developments in the coming years, the Executive Board estimates the interest rate risk and the resulting effects on the net assets, financial position and results of operations to be low.

Currency risk

There is very low currency risk for the existing portfolio of commercial properties in Germany, as all major business transactions are conducted in EUR. The Executive Board estimates the currency risks and the resulting effects on the net assets, financial position and results of operations to be very low.

OPERATING RISK

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

Rental and property management risks

When renting and managing real estate, there is the risk of rent reductions, loss of rent or vacant space. Index-related rent increases may not always be implemented in full, immediately or at all. In addition to loss of income, letting-related costs (e.g. tenant incentives, expansion costs, assumption of relocation costs, rent-free periods) may arise. Generally, we strive to secure long-term rental agreements and take early action to ensure follow-up and new rentals. Should DEMIRE not succeed in letting its properties at attractive conditions, or should rental agreements be deficient in form and therefore unenforceable, this may have a negative effect on the Company's net assets, financial position and results of operations.

There is the risk that unexpected costs for maintenance and repair measures or for adapting the properties to modern requirements may also be incurred as a result of delays in implementation, such as a later issue of the building permit, which could result in a corresponding change in the rental date and, in turn, the inflow of rental income and profitability.

Based on the Group's tenant structure, at the time of this report's preparation, there was no significant rental risk that would have a direct impact on the Group's earnings situation. Default risks from rent receivables are taken into account by recognising impairments. We also generally try to avoid dependence on large tenants. In the 2019 fiscal year, 43.2 % (31 December 2018: 47.6 %) of contractual rents were attributable to the ten largest tenants. These are exclusively reputable tenants, especially from the public sector, telecommunications and retail, most of whom have good credit ratings. However, there is a dependency on a few tenants who account for a significant share of rental income. The largest tenant, with a cumulative share of 19.1 % (31 December 2018: 30.4 %) of total contractual rents in the real estate portfolio across several leases and real estate locations, is Deutsche Telekom (GMG Generalmietgesellschaft GmbH). Should it not be possible to find subsequent tenants for this property or other key tenants from the ten largest tenants after the end of the contract or extraordinary termination of the contract, this would lead to a considerable decline in rental income and, consequently, to a material negative effect on the Company's net assets, financial position, and results of operations. Thanks to our own highly effective asset and portfolio management, we are positioned close to our tenants and maintain long-term tenant loyalty. The Executive Board therefore estimates the rental and property management risk and the resulting effects on the net assets, financial position and results of operations to be low.

Valuation risk

The investment properties in the consolidated financial statements are carried at fair value in accordance with IFRS 13. The fair values are based on appraisals that are prepared at least once a year by independent appraisers. Various factors play a role here, for example, circumstances such as the respective socioeconomic development of the location and the development of the rental period, rent level and vacancies. Qualitative factors such as the location and condition of the property are also included as parameters in the valuation.

In the course of the subsequent measurement of investment properties in the quarterly, half-yearly or annual financial statements, negative changes in the fair value of the respective properties may occur due to a possible change in the internal and external parameters included in the valuation reports. This then leads to impairments, which may also have a significant negative impact on consolidated earnings. This would not, however, have a direct impact on the Group's funds from operations (FFO) or liquidity. The Executive Board estimates the rental and property management risks and the resulting effects on the net assets, financial position and results of operations as low.

Acquisition risk

The Company's success depends in part on its ability to find suitable properties or equity interests in real estate companies in economically attractive regions that are in line with its strategy, in good condition, with solid tenants and at a reasonable price. We continually review and design options to expand our real estate portfolio. If we succeed in exploiting growth opportunities, this could increase the rental income and the profit / loss from the rental of real estate The lack of investment opportunities in real estate could drive up the price of such properties. The availability of these opportunities still depends on a number of factors over which the Company has no influence. In situations of scarce availability, competition for the properties will become fiercer, and competitors with greater financial resources and / or lower interest charges could win through their ability to pay a higher price. Increased competition for scarce resources may also lead to a generally higher price level for properties and have a negative effect on the targeted medium-term growth to EUR 2 billion in the real estate portfolio.

In the case of acquisitions, location risks can arise from the incorrect assessment of the property situation and changes in the infrastructure of the microlocation or the regional structures of the macrolocation. Therefore, as part of our strategy, we examine our situation and location strategy approach intensively in advance of any investment or acquisition decisions. In our operations, our professional internal asset and portfolio management, as well as our property management service provider, help to identify changes in the environment in good time and react appropriately, for example by repositioning or selling.

There are risks that unexpected costs may be incurred for maintenance and repair measures or for adapting the acquired properties to meet modern requirements. These risks can also arise if only limited technical due diligence could be performed due to time pressure from the seller. Hidden damage can therefore emerge later or more comprehensively than expected, so that a reasonable warranty claim by the seller would not be possible or be able to enforce if necessary.

The acquisition of real estate and particularly real estate portfolios, can lead to a misjudgment or overestimation of earnings and synergy potential, which can have a negative impact on the net assets, financial position and results of operations of the Group compared with planning. We reduce risks prior to the acquisition of properties by means of a detailed due diligence process involving the external experts, if necessary. The Executive Board estimates the risk from acquisitions and the resulting effects on the net assets, financial position and results of operations to be low.

Selling risk

We use property sales from the existing portfolio to dispose of properties that are not in line with our strategy. Following the sale of properties, the buyer could assert warranty claims when the properties do not have the features promised, e.g. state of modernisation, no contamination, letting. These could have a negative effect on the Group's net assets, financial position and results of operations.

Due to the low volume of divestments at DEMIRE in recent financial years, the Executive Board estimates selling risk and the resulting effects on the net assets, financial position and results of operations to be low.

OTHER RISKS

Legal risk

Concerning DEMIRE's business model, risk can arise particularly from changes in the legal framework and regulations. In comparison to other countries in Europe, Germany in the past has proven to be an economy with a high degree of regulatory stability and therefore has little potential for sudden measures and regulatory intervention outside a broad social and economic policy consensus. Nevertheless, DEMIRE may need to pay for contaminated sites, environmental pollution and harmful building substances that are currently unrecognised or be held liable for non-compliance with building law requirements in accordance with the applicable legal situation.

Legal risks also arise from portfolio investments in countries with relatively less stable legal systems. In view of the ongoing reduction in commitments in countries in Eastern Europe and the Black Sea region, these risks can be considered lower compared with the level in previous financial years.

Other legal risk can generally result from various types of disputes, for example in rental or personnel matters. Rental disputes are part of the unavoidable everyday business of real estate companies and are handled accordingly. No major legal dispute that could pose a significant risk is currently pending or foreseeable. Adequate provisions have been made for current legal disputes. Overall, the Executive Board estimates the legal risk and the financial effect on the Company's net assets, financial position and results of operations to be low.

Compliance risk

Responsible and sustainable management is part of DEMIRE's corporate culture and everyday business. We are therefore continuing to develop our compliance programme with the aim of supporting employees in complying with relevant legal regulations and standards of conduct. At the beginning of 2017, DEMIRE introduced a Group-wide Code of Conduct as a central element of the compliance programme and mandatory for all employees to sign. Appropriate compliance training courses are held regularly to reinforce and explain the guidelines and principles of the Code, covering topics such as anti-corruption, avoiding conflicts of interest, protecting against discrimination, promoting respect, protecting company secrets and data, as well as reporting and information policies.

A compliance officer is the contact person for questions regarding compliance and for information on non-compliance. However, our existing compliance processes and controls may not be sufficient to prevent deliberate unlawful conduct by DEMIRE Group employees, which could damage DEMIRE's reputation and the trust in our business. In addition, if DEMIRE is unable to detect illegal conduct and take appropriate organisational and disciplinary action, it could face sanctions and fines that could adversely affect the Company's business, financial position and results of operations.

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

Tax risk

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

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

In the Company's opinion, there are currently no significant tax risks that would need to be taken into account by provisions other than those recognised. Tax risk may arise in connection with external tax audits and routine changes to the existing portfolio or in connection with the portfolio's expansion primarily through the acquisition of shares in the companies holding the properties.

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

In its capacity as a German real estate investment trust corporation (REIT), Fair Value REIT-AG must fulfill certain statutory requirements in order to maintain its REIT status and specifically to benefit from tax exemptions that apply to REITs:

- Admission of the shares for trading on a regulated market
- Restriction of real estate trading and non real estate-related services in return for payment
- Compliance with the free float ratio of a minimum of 15 %
- Compliance with the maximum direct interest of less than 10 % of the shares or voting rights
- Minimum equity of 45 % of the value of immovable assets
- A proportion of immovable assets at least equal to 75 % of total assets
- At least 75 % of gross income must be derived from immovable assets
- The distribution of at least 90 % of the net profit under commercial law by the end of the following financial year
- Restrictions on purpose of business

As a REIT, Fair Value REIT-AG is exempt from corporate and trade tax. If Fair Value REIT-AG permanently fails to fulfill the above-mentioned requirements, it is subject to partial penalties and - if repeated several times - the loss of its tax exemption and withdrawal of its status as a German REIT. This could result in additional tax payments and a substantial outflow of liquidity under certain circumstances, and in the event that Fair Value REIT-AG loses its REIT status this could also result in Fair Value REIT-AG's shareholders possibly having claims for compensation. These events could have a material negative impact on the Company's net assets, financial position and results of operations.

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

Personnel risk

Competent, committed and motivated employees are an essential prerequisite for DEMIRE's successful development. The DEMIRE Group may lose members of the Executive Board or other key personnel, or may not be able to replace them with sufficiently qualified personnel and in a timely manner. In 2019, there was a relatively high fluctuation of employees in addition to the new appointments to the Executive Board. All vacant positions were filled promptly. The Executive Board is convinced that the current personnel structure also means that the positions will be filled on a longer-term basis. However, since the demand for well-qualified personnel is very high, the Executive Board considers the risk associated with the loss of employees and the resulting effects on the net assets, financial position and results of operations to be moderate.

IT risk

The IT systems of DEMIRE, its subsidiaries and its service providers could irretrievably lose important data or experience unauthorised access to data from outside. Both could cause disruptions in business operations and costs and ultimately lead to financial losses. DEMIRE has protected itself against IT risks with its own network, modern hardware and software solutions and measures against external attacks, and all data is additionally secured. Detailed access rights regulations ensure that employees only have access to the systems and documents necessary for their work. The Executive Board considers the risk from IT risks and the resulting effects on the net assets, financial position and results of operations to be low.

OVERALL ASSESSMENT OF THE RISK SITUATION

The risk situation of the DEMIRE Group and the Company continued to improve during the reporting period. The refinancing of the unsecured 2017/2022 corporate bond and the promissory note at significantly better interest conditions contributed to this improvement. Based on these financing measures, interest expenses and repayment obligations dropped significantly and the associated outflow of liquidity was significantly lower starting with the fourth quarter of 2019 and continuing thereafter. At the same time, the early repayment of the promissory note released considerable real estate value from the mortgage collateral, which is now available for future collateralisation. The Company's positive operating development and growth have significantly strengthened the profitability of the DEMIRE Group as well as the Company's equity base.

Based on the current assessment, the Executive Board is not aware of any risk that could endanger the Company's existence. The Company is convinced that it will be able to continue to take advantage of the opportunities and challenges that arise in the future without having to subject itself to unjustifiably high risk.

OPPORTUNITIES REPORT

MACROECONOMIC AND SECTOR OPPORTUNITIES

DEMIRE considers the overall economic and sector environment to be favourable for the 2020 financial year and consequently continues to see good opportunities for the DEMIRE Group's targeted expansion of its real estate portfolio. Germany continues to show robust and healthy economic development, making the demand for commercial space sustainably stable. The DEMIRE Group intends to use this environment to further increase its enterprise value by carefully and professionally selecting additional properties and actively managing the existing portfolio.

The real estate experts at JLL anticipate a continuance of uninterrupted demand for real estate in 2020. Transaction volumes for German commercial real estate are expected at a high level, yet below the record level of previous years due to the lower supply. Trends on the major German office letting markets have also been influenced by the rise in rents, which resulted from the combination of an ever-decreasing supply of space and high demand.

The economic outlook has clouded over somewhat due to the global political situation and discussions, and the effects of the coronavirus, particularly on the demand for real estate, are not yet clear. Nevertheless, the market development in 2020 is expected to be shaped by a stable demand for office space.

BUSINESS OPPORTUNITIES

As a result of its strong growth over the past few years, particularly as a result of the acquisition of a majority interest in Fair Value REIT-AG at the end of 2015, DEMIRE has reached the relevant size to conclude framework agreements with supra-regional utilities for basic services, allowing it to optimise its costs thanks to larger purchasing volumes and more favourable service conditions.

The successive insourcing of Group functions, the associated harmonisation of processes and IT structures and the further expansion of internal asset and portfolio management activities can achieve greater efficiency and economic benefits. With the outsourcing of property and facility management to a renowned service provider in November 2018, DEMIRE is relying on a significantly more flexible and scalable property management model in the German commercial property market as part of its planned portfolio growth to over EUR 2 billion. After completing the outsourcing of its property and facility management, DEMIRE expects further cost savings in 2020. In the case that professional and dedicated support increases the lease terms and the chances of follow-on leases, tenant fluctuation and vacancies will continue to decrease.

Higher demand, particularly for commercial space in the regions of DEMIRE's property holdings, also presents opportunities for new lettings of existing vacancies.

At the same time, the purchase of properties offering potential to leverage their added value is highly attractive for DEMIRE's business model. With its active property management approach, DEMIRE is able to increase the cash flows of these properties.

FINANCIAL OPPORTUNITIES

DEMIRE plans to use the current interest rate level to further reduce its average interest rate on borrowed capital. Following the comprehensive refinancing of existing liabilities in 2019, which will lead to significantly lower interest expenses during the 2020 financial year, DEMIRE aims to further optimise the financial structure of the DEMIRE Group as part of its planned growth by using a mix of secured and unsecured financing.

The financing possibilities for future property acquisitions remain positive and, in the Company's opinion, will continue to be so for the foreseeable future.

OVERALL ASSESSMENT OF DEMIRE'S OPPORTUNITIES

Over the past two years, DEMIRE has laid the essential foundation for its long-term success as one of the leading portfolio owners of German commercial real estate with a balanced risk / reward profile and attractive cash flows. As a result, DEMIRE intends to offer its shareholders not only the prospect of an increase in value in the medium term, but also regular dividend payments. The Executive Board considers DEMIRE's opportunities favourable enough to further increase its portfolio's size and profitability in the years ahead through planned internal and external growth, improving efficiency and optimising its property management platform.

REPORT ON OUTLOOK

ECONOMIC ENVIRONMENT AND SECTOR OUTLOOK

According to experts, the German economy should continue to grow in 2020. The IMF forecasts a growth rate of 1.1 percent and is confident about the development of the construction industry, among other things. Recently, the risk of a recession has increased due to the effects of the coronavirus and the associated measures, although the concrete effect of this cannot yet be assessed. The commercial investment market is still likely to show a strong transaction volume, albeit below the record level of the previous year. Office properties could experience a slight decline in demand, while the market for retail properties continues to consolidate.

Macroeconomic environment

For the eurozone, the IMF is expecting a slight increase in gross domestic product of 1.3 percent, and a plus of 1.1 percent for Germany. According to the Federal Ministry of Economics and Energy, the German economy is divided: While the service and construction sectors are developing well, the export-oriented industry is under pressure. In addition to the increasing protectionist measures worldwide, the coronavirus has become another risk factor with consequences for the industrial economy that cannot yet be accurately assessed. The average inflation rate in Germany is currently estimated at 1.5 percent for 2020 (IWF). The unemployment rate in Germany for 2020 is estimated at 4.9 percent, which is 1 percentage point lower than in the previous year (IWF).

The continuation of extremely favourable financing conditions is having a positive effect on the construction industry. The Institute for the World Economy estimates that construction investments will increase by 2.5 percent in 2020.

Transaction market for commercial real estate

After a record volume of EUR 71.6 billion in commercial real estate transactions in 2019, Colliers estimates a lower but still strong transaction volume of EUR 60 billion for 2020. The low financing costs and negative interest rates on liquidity reserves favour market dynamics. The investment market for office properties is likely to continue its positive trend of recent years and maintain its top position among asset classes. The investment market for retail real estate will be characterised by selective but large-volume deals due to the structural change, so that a transaction volume of up to EUR 10 billion seems realistic for experts. Logistics properties are likely to remain in demand in 2020 due to the trend towards e-commerce and the continued solid consumer environment.

Rental market

According to experts, demand for office space in Germany will remain high in 2020 due to robust economic growth. Colliers expects a space turnover of up to 3.5 million square metres for the top 7 office markets. However, this corresponds to a slight decline compared to the previous year with 3.9 million square metres of space turnover. JLL anticipates a more significant decline in demand for office real estate. Although the labour market remains robust, it is likely to have peaked at the end of 2019. The vacancy rate will continue to decline due to the still limited supply of office space in the top locations. For 2020, JLL anticipates continued positive but slower growth in office property rents in the seven top German locations of two percent. However, higher growth rates are also possible outside the top locations. According to experts, the demand for logistics real estate will remain high in the coming year.

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

DEMIRE expects stable overall economic conditions in financial year 2020 and, due to the good operating performance in 2019, sustained positive business development for the Group.

The focus will be on further growth of the portfolio with a continued positive development in the operating key figures. DEMIRE is planning further acquisitions in order to achieve its medium-term goal of a portfolio of over EUR 2 billion. DEMIRE intends to continue to optimise the current real estate portfolio through actively managing properties, reducing vacancies, realising value creation potential and continuing to selectively sell non-strategic properties. DEMIRE anticipates a further gradual increase in the earnings base in 2020 through further acquisitions, efficiency gains from continued optimisation of property management and cost structures and through the use of synergies and economies of scale.

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

DEMIRE plans to generate rental income in the range of EUR 90 million to EUR 92 million from the letting of the real estate portfolio in 2020, taking into account already notarised purchases and sales. Active property management will continue to contribute to the increase in rental income, among other things, through a further reduction in vacancies. Based on the expected rental income, DEMIRE plans to further increase the FFO for 2020 (FFO I, before minorities, after taxes) to a range of EUR 40 million to EUR 42 million. With regard to non-financial performance indicators, DEMIRE's primary goal is to achieve a slight reduction in staff turnover.

FORECAST in EUR millions	FORECAST 2019	1ST RISE IN FORECAST ON 7 AUGUST 2019	2ND RISE IN FORECAST ON 20 DECEMBER 2019	ACTUAL 2019	FORECAST 2020
Rental income	77 – 79	80.5 – 82.5	80.5 – 82.5	81.8	90 – 92
FFO I (before minorities, after taxes)	27 – 29	30 – 32	33.0 – 34.5	34.5	40 – 42

Acquisition-related information

COMPOSITION OF SUBSCRIBED CAPITAL

a) as at 31 December 2019

As at 31 December 2019, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest in share capital of EUR 1.00; the Group held 5,000 of these shares. A total of 178,893 no-par value bearer shares were recorded in the commercial register in February 2019. DEMIRE shares have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

b) Development after 31 December 2019

No new no-par value bearer shares had been created up to the date of this Annual Report's publication.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

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

DIRECT OR INDIRECT CAPITAL INTERESTS THAT EXCEED 3 % OF THE VOTING RIGHTS

a) as at 31 December 2019

In 2019, the Company did not receive any voting right notifications. As at 31 December 2019, the following shareholders held interests in the Company representing more than 3 %, 5 % or 10 % of the voting rights:

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

b) Development after 31 December 2019

The Company did not receive additional voting right notifications with regard to direct or indirect interests that exceeded 3 %, 5 % or 10 % of the voting rights up to the date of this Annual Report's publication.

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

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

Such interests do not exist.

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

Appointment and replacement of Executive Board members

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

Amendments to Articles of Association

Changes to the Articles of Association require a resolution of the Annual General Meeting pursuant to Section 179 (1) AktG, which requires a majority of three-fourths of the capital represented in the voting pursuant to Section 179 (2) AktG 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's Articles of Association makes use of the option to deviate therefrom pursuant to Section 179 (2) AktG and provides that resolutions can generally be passed by a simple majority vote and, if a capital majority is required, by a simple capital majority unless mandatory provisions require otherwise. The Supervisory Board is authorised to resolve amendments to the Articles of Association that relate to their wording only. The Supervisory Board is also authorised to amend the wording of Section 5 of the Articles of Association with respect to the amount and composition of the share capital in correspondence to the scope of capital increases from authorised capital.

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised Capital

a) as at 31 December 2019

By resolution of the Extraordinary General Meeting on 11 February 2019, the Authorised Capital 2018 / I was cancelled and the Executive Board was authorised, with the consent of the Supervisory Board, to increase the share capital of the Company on one or more occasions on or before 10 February 2024 by up to a total of EUR 53,888,662.00 by issuing up to a total of 53,888,662 new no-par value bearer shares against cash contributions and / or contributions in kind (Authorised Capital 2019 / I). The shareholders are generally entitled to subscription rights. The new shares may also be underwritten by one or more banks, or companies treated as such, in accordance with Section 186 (5) sentence 1 AktG with the obligation to offer these to the shareholders for subscription. The Executive Board is however authorised, with the consent of the Supervisory Board, to exclude the subscription rights of shareholders for fractional amounts, cash capital increases of up to 10 % of the share capital at an issue price that is not significantly lower than the stock market price, to service option or conversion rights and in the case of capital increases against contributions in kind.

Authorised Capital 2019 / I had not yet been utilised by 31 December 2019.

b) Development after 31 December 2019

There were no changes compared with 31 December 2019 up to the publication of this Annual Report.

Conditional capital

a) as at December 2019

By resolution of the Extraordinary General Meeting of 11 February 2019, Conditional Capital 2018 / II was cancelled and the Executive Board was authorised, with the consent of the Supervisory Board, to conditionally increase the share capital of the Company by up to EUR 53,328,662.00 by issuing up to 53,328,662 no-par value bearer shares (Conditional Capital 2019 / I). 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 combinations of these instruments), which are or will be issued (i) on the basis of the authorisation resolved by the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) and / or (ii) on the basis of the authorisation resolved by the Annual General Meeting of 11 June 2019 under Agenda Item 2 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) issued or to be issued by the Company or its direct or indirect subsidiaries and granting a conversion or option right to new no-par value bearer shares of the Company or establishing a conversion or option obligations. The new shares shall be issued at the exercise or conversion price to be determined in each case in accordance with the respective authorisation resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights or the holders with conversion or option obligations fulfil their conversion or option obligations, unless cash compensation is granted or treasury shares or shares created from authorised capital are used to service this obligation. The Executive Board is authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase.

b) Development after 31 December 2019

There were no changes compared with 31 December 2019 up to the publication of the Annual Report.

Authorisation to issue convertible bonds or bonds with warrants

a) as at 31 December 2019

The authorisation granted by resolution of the Annual General Meeting of 29 June 2017 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds with a total nominal value of up to EUR 125,000,000.00 was cancelled by resolution of the Annual General Meeting of 27 June 2018. By resolution of the same Annual General Meeting, the Executive Board was authorised, with the consent of the Supervisory Board, to issue bearer or registered convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) (collectively “bonds”) with or without a limited term to maturity up to a total nominal amount of EUR 125,000,000.00 on one or more occasions up to 26 June 2023 and to grant the holders or creditors of bonds, option rights to no-par value bearer shares of the Company with a notional interest in the share capital of up to a total of EUR 25,000,000.00 in accordance with the more detailed provisions of the terms and conditions of the bonds.

The option and conversion rights can be serviced from existing or future conditional or authorised capital, from existing shares or treasury shares, or from the shares of a shareholder. The rights may be issued by Group companies or issued against contributions in kind. The shareholders have subscription rights that can be excluded for fractional amounts, in the case of an issue against cash, whose options or conversion rights do not exceed 10 % of the share capital if the issue price is not significantly lower than the market value of the bonds, and to grant subscription rights to the holders of option or conversion rights, in the case of an issue against contribution in kind.

The authorisation granted by resolution of the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds with a total nominal value of up to EUR 125,000,000.00 was cancelled by resolution of the Annual General Meeting of 11 February 2019 and the Executive Board was authorised, with the consent of the Supervisory Board, to issue subordinated or non-subordinated bearer or registered convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments; collectively "bonds") with or without a limited term to maturity in the total nominal amount of up to EUR 325,000,000,000.00 on one or more occasions up to 10 February 2024, and to grant or impose conversion or option rights and conversion or option obligations to holders or creditors of bonds for a total of up to 53,328,662 no-par value bearer shares of the Company with a notional interest in the share capital totalling up to EUR 53,328,662.00 in accordance with the more detailed provisions of the bond conditions.

Authorisation to purchase treasury shares

On the basis of the resolution of the Annual General Meeting of 29 May 2019, the Company is authorised until 28 May 2024 to acquire up to a total of 10 % of the share capital existing at the time of the resolution or, if lower, the share capital existing at the time the authorisation is exercised. Together with other own shares acquired and owned by the Company or are attributable to the Company, the own shares acquired on the basis of this authorisation may at no time exceed 10 % of the Company's share capital existing at the time of the resolution or, if this value is lower, at the time the authorisation is exercised. The acquisition for the purpose of trading in own shares is excluded. The authorisation may be exercised in whole or in part, once or several times, in pursuit of one or several objectives by the Company or its Group companies or by third parties for its or their account.

The shares may be acquired on the stock exchange or by way of a public repurchase offer or a public invitation to the Company's shareholders to submit offers for sale:

If the shares are acquired on the stock exchange, the consideration per share paid by the Company (in each case without consideration of ancillary acquisition costs) may not exceed the average closing price of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or a comparable successor system) on the last three trading days prior to the acquisition by more than 10 % or fall below this price by more than 10 %. If the Company is listed on several stock exchanges, the respective last ten closing prices of the Company on the Frankfurt Stock Exchange are decisive.

At the Executive Board's discretion, Company shares may be acquired on the stock exchange or by means of a public purchase offer to all shareholders or public invitation to submit an offer to sell. If purchased on the stock exchange, the consideration paid per share (excluding ancillary acquisition costs) may not be more than 10 % higher or 20 % lower than the average closing price of the Company's shares of the same class in Xetra trading (or a comparable successor system) on the last five trading days of the Frankfurt Stock Exchange prior to entering into the obligation to purchase.

In the event of a public offer to buy or a public invitation to submit an offer to sell, the purchase price offered or the limits of the purchase price range per share (excluding incidental acquisition costs) may not be more than 10 % higher or 20 % lower than the average closing price of the Company's shares of the same class in Xetra trading (or a comparable successor system) on the last five trading days on the Frankfurt Stock Exchange before the date of publication of the offer or the public invitation to submit an offer to sell.

The volume of the offer or the invitation to submit offers may be limited. If the total acceptance of the offer or the offers made by shareholders in response to an invitation to submit offers exceeds this volume, the acquisition or acceptance must be effected in proportion to the shares offered, partially excluding any tender rights of shareholders. Preferential acquisition or preferential acceptance of smaller quantities of up to 100 shares of the Company offered for acquisition per shareholder of the Company may be provided for, to the extent that the shareholders' right to tender may be partially excluded.

In addition to selling the purchased shares of the Company on the stock exchange, the Executive Board is authorised to retire the acquired treasury shares of the Company and reducing the share capital, transfer them to third parties as consideration in business combinations or the acquisition of companies or equity interests, or to offer them to employees for purchase, use them to service option or conversion rights or to sell them in a way other than on the stock exchange, provided that the selling price is not significantly lower than the stock exchange price.

The purchase offer or the invitation to submit an offer to sell may stipulate further conditions. No use has been made of the authorisation to purchase own shares to date.

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

In particular, the debt financing agreements concluded in 2019 (2019/2024 corporate bond and mortgage financing in the amount of EUR 97 million) provide for an extraordinary termination right for the creditors of Group companies concerned in the event of a change of control.

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

In the event of the direct or indirect acquisition of control of the voting rights of the Company of at least 50 % of the voting rights or a comparable situation that restricts the power of management of the Executive Board of the Company, Ralf Kind (Executive Board member until 3 January 2019) had an extraordinary special right of termination. If the special right of termination had been exercised, the contract would have ended with immediate effect and Mr. Kind would have received a severance payment in the amount of an annual remuneration determined by the sum of the basic salary and target bonus.

Corporate Governance Report / Corporate Governance Statement

On 11 February 2020, the Executive Board of the Company issued its Corporate Governance Statement in accordance with Sections 315d and 289f of the German Commercial Code (HGB) and made it generally and permanently accessible on the Company's website at www.demire.ag in the section "Company" under the heading "Corporate Governance".

Combined management report for DEMIRE Deutsche Mittelstand Real Estate AG

In addition to reporting on the situation of the DEMIRE Group, the development of the Company is explained below. The basic statements on the market, strategy and management as well as on the opportunities and risks of the business activities presented in the group management report also apply equally to the Company.

The Company is the operational management unit of the DEMIRE Group and does not hold any of its own properties. In the 2019 financial year, it generated revenue from management services rendered for the project companies. The number of employees, excluding Executive Board members, increased to an average of 30 in the reporting year (2018: 27).

DEMIRE's financial statements as at 31 December 2019 were prepared in accordance with the provision of the German Commercial Code (HGB) and the supplementary provision of the German Stock Corporation Act (AktG). Supplementary provisions from the Articles of Association did not arise.

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

Results of operations

In the 2019 financial year, DEMIRE generated a net profit of EUR 2.7 million.

STATEMENT OF INCOME (EXCERPT) in EUR thousands	2019	2018	CHANGE	%
Revenue	3,483	2,618	865	33
Other operating income	2,695	97,969	– 95,274	– 97
Staff costs	– 4,886	– 3,495	1,391	40
Other operating expenses, depreciation & amortisation	– 12,520	– 13,078	558	4
Income from investments	1,179	10,747	– 9,568	– 89
Income from profit transfer agreements	20,023	3,321	16,7	>100
Expenses from the assumption of losses	– 2,531	– 69	– 2,461	>100
Income from loans of financial assets	15,859	12,452	3,407	27
Impairment of financial assets	– 120	– 260	140	54
Financial result	– 20,047	– 14,119	– 5,928	42
Result before taxes	3,138	96,087	– 92,949	– 97
Net profit	2,697	93,326	– 90,629	– 97

The Company’s revenue results mainly from management fees related to the provision of internal Group services to the subsidiaries and sub-subsidiaries of DEMIRE. As a result of newly concluded agency agreements, including for Fair Value REIT AG, there was a year-on-year increase of EUR 0.9 million to EUR 3.5 million.

Other operating income returned to a customary level at EUR 2.7 million after the previous year’s figure was distorted by the contribution of shares in two affiliated companies as part of a cash capital increase with a premium in kind. The cash capital increase with a premium in kind had resulted in the release of hidden reserves.

Staff costs increased as planned to EUR 4.6 million (2018: EUR 3.5 million).

Other operating expenses, depreciation and amortisation fell by EUR 0.6 million to EUR 12.5 million. While the prior year had included expenses for consulting and service fees in connection with the takeover offer of Apollo Global Management and the capital measures in April and November 2018, in 2019, this item includes costs in connection with the issue of the 2019 / 2024 corporate bond.

In the 2019 financial year, a total net profit of EUR 20.0 million (2018: EUR 3.3 million) was transferred and a loss of EUR 2.5 million (2018: EUR 0.1 million) was assumed on the basis of existing control and profit transfer agreements.

Income from loans of financial fixed assets of EUR 15.9 million (previous year: EUR 12.5 million) resulted primarily from loans granted to affiliated companies to finance the acquisition of real estate companies and properties by subsidiaries and sub-subsidiaries of the Company. Impairment on financial assets in the 2019 financial year equalled EUR 0.1 million (2018: EUR 0.3 million). The financial result in fiscal year 2019 was EUR –20 million (fiscal year 2018: EUR –14.1 million), the increase is mainly due to the costs associated with the bond issue.

The result before taxes normalised at EUR 3.1 million in 2019 (2018: EUR 96.1 million). The net profit amounted to EUR 2.7 million (2018: EUR 93.3 million).

Financial position

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

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

Liquidity position

STATEMENT OF CASH FLOWS in EUR thousands	2019	2018	CHANGE	%
Cash flow from operating activities	–16,653	–16,117	–536	3.3
Cash flow from investing activities	–300,006	–5,084	–294,922	>100
Cash flow from financing activities	235,681	133,354	102,328	76.7
Net change in cash and cash equivalents	**–80,978**	**112,152**	**–193,130**	**>100**
Cash and cash equivalents at the end of the period	**61,201**	**142,269**	**–80,978**	**–57.0**

Operating activities resulted in a cash outflow of EUR 16.7 million in 2019, which was comparable to the previous year's figure of EUR 16.1 million.

Cash flow from investing activities includes the acquisitions made via subsidiaries in 2019 and amounted to EUR –300.0 million, compared to EUR –5.1 million in 2018.

Cash flow from financing activities amounted to EUR 235.7 million in the 2019 financial year, compared with EUR 133.4 million in 2018. The cash flow includes the net effect of the issue of the 2019/2024 corporate bond and the repayment of the 2017/2022 corporate bond in the 2019 financial year.

During the 2019 financial year, DEMIRE was able to meet all of its payment obligations at all times.

Net assets

BALANCE SHEET – ASSETS (selected information in EUR thousands)	31/12/2019	31/12/2018	CHANGE	%
Assets				
Fixed assets	878,932	579,135	299,797	52
Current assets / prepaid expenses	123,811	188,262	-64,450	-34
Total assets	**1,002,743**	**767,396**	**235,347**	**31**

BALANCE SHEET – EQUITY AND LIABILITIES (selected information in EUR thousands)	31/12/2019	31/12/2018	CHANGE	%
Equity and liabilities				
Equity	368,896	366,199	2,697	1
Provisions	4,872	3,685	1,187	32
Liabilities / deferred tax liabilities	628,975	397,512	231,463	59
Total equity and liabilities	**1,002,743**	**767,396**	**235,347**	**31**

The Company's total assets as at the 31 December 2019 reporting date amounted to EUR 1,002.7 million. This represents an increase of EUR 235.3 million compared to the previous year's total of EUR 767.4 million.

Fixed assets increased by EUR 299.8 million in the 2019 financial year as a result of new and increased loans to affiliated companies. Current assets including prepaid expenses decreased by EUR 64.5 million to EUR 123.8 million compared to EUR 188.3 million on the previous year's reporting date. The largest item was cash and cash equivalents, amounting to EUR 61.3 million (2018: EUR 142.3 million).

On the liabilities side of the balance sheet, the Company's equity increased from EUR 366.2 million as at 31 December 2018 to EUR 368.9 million as at 31 December 2019 as a result of net profit in 2019.

The equity ratio declined accordingly from 47.7 % as at 31 December 2018 to 36.8 % as at 31 December 2019.

Provisions of EUR 4.9 million as at 31 December 2019 (31 December 2018: EUR 3.7 million) primarily relate to other staff costs, outstanding invoices, legal and consulting fees, as well as costs for the preparation and audit of the annual and consolidated financial statements.

The Company’s liabilities increased from EUR 395.2 million as at 31 December 2018 to EUR 627.0 million as at 31 December 2019, mainly as a result of the 2019 / 2024 corporate bond issue with a simultaneous repayment of the remaining 2017 / 2022 corporate bond and promissory note.

Comparison of prior year forecasts with actual business development

For the 2019 financial year, a significantly lower but positive annual result was expected compared to 2018. This forecast was achieved. Contrary to planning, the favourable situation on the capital markets was utilised to issue the 2019 / 2024 corporate bond and use the proceeds for the early repayment of the 2017 / 2022 corporate bond. This has led to one-off, unscheduled financing expenses, but will be accompanied by a significant reduction in interest costs in 2020 and in subsequent years.

Report on outlook

For the 2020 financial year, a positive net profit that is slightly above that of 2019 is expected, assuming a rapid recovery of the economic environment. Due to the excellent conditions and the remaining duration of the existing financing, the Company does not expect any significant unscheduled expenses from refinancing in the 2020 financial year, as in the previous year.

Concluding statement to the Dependency Report pursuant to Section 312 AktG

In accordance with Section 312 AktG, the Executive Board issues the following concluding statement: “In the legal transactions listed in the report on relations with affiliated companies, our Company received appropriate consideration for each legal transaction according to the circumstances known to us at the time when the legal transactions were carried out. No reportable measures by our Company as defined by Section 312 AktG were either taken or omitted in the year under review.”

Frankfurt am Main, 17 March 2020
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS	**Tim Brückner**
(CEO)	(CFO)

34.5

FFO I (after taxes, before minorities)

in EUR millions
Financial Year 2019

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

For the financial year 1 January 2019 to 31 December 2019

in EUR thousands	NOTE	2019	2018
Rental income		81,799	73,709
Income from utility and service charges		19,625	15,101
Operating expenses to generate rental income		– 35,886	– 30,310
Profit / loss from the rental of real estate	**D 1**	**65,538**	**58,500**
Income from the sale of real estate and real estate companies		46,130	1,052
Expenses relating to the sale of real estate and real estate companies		– 29,327	– 1,002
Profit / loss from the sale of real estate and real estate companies	**D 2**	**16,803**	**50**
Profit / loss from fair value adjustments in investment properties	D 3	83,022	93,059
Impairment of receivables	D 4	– 629	– 1,874
Other operating income	D 5	4,327	2,513
General and administrative expenses*	D 6	– 13,017	– 20,649
Other operating expenses*	D 7	– 874	– 4,534
Earnings before interest and taxes		**155,170**	**127,065**
Financial income		1,288	480
Finance expenses		– 50,860	– 26,415
Interests of minority shareholders		– 7,743	– 12,373
Financial result	**D 8**	**– 57,315**	**– 38,308**
Profit / loss before taxes		**97,855**	**88,757**
Current income taxes	D 9	– 4,651	– 540
Deferred taxes	D 9	– 13,466	– 19,164
Net profit / loss for the period		**79,738**	**69,053**
Thereof, attributable to:			
Non-controlling interests		**4,199**	**7,478**
Parent company shareholders		**75,539**	**61,575**
Basic earnings per share	D 10	0.70	0.85
Diluted earnings per share	D 10	0.70	0.85

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year 1 January 2019 to 31 December 2019

in EUR thousands	2019	2018
Net profit / loss for the period	79,738	69,053
Other comprehensive income	0	0
Total comprehensive income	79,738	69,053
Thereof, attributable to:		
Non-controlling interests	4,199	7,478
Parent company shareholders	75,539	61,575

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

ASSETS in EUR thousands	NOTE	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Intangible assets	E 1.1	6,881	6,884
Property, plant and equipment	E 1.2	446	465
Investment properties	E 1.3	1,493,912	1,139,869
Other assets*	E 1.4	19,433	9,007
Total non-current assets		**1,520,671**	**1,156,226**
Current assets			
Trade accounts receivable*	E 2.1	6,261	5,150
Other receivables*	E 2.1	30,510	11,729
Tax refund claims		1,530	2,884
Cash and cash equivalents	E 2.2	102,139	190,442
Total current assets		**140,440**	**210,205**
Non-current assets held for sale	**E 3**	**16,305**	**12,262**
TOTAL ASSETS		**1,677,416**	**1,378,692**

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

EQUITY AND LIABILITIES in EUR thousands	NOTE	31/12/2019	31/12/2018
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital		107,777	107,777
Reserves		505,574	430,136
Equity attributable to parent company shareholders		**613,351**	**537,913**
Non-controlling interests		47,431	44,425
TOTAL EQUITY	E 4	**660,782**	**582,338**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	E 5.1	75,518	62,050
Minority interests	E 5.2	78,682	73,085
Financial liabilities	E 5.3	737,832	606,404
Lease liabilities*	E 7.2	18,717	1,600
Other liabilities	E 5.4	837	1,157
Total non-current liabilities		**911,587**	**744,297**
Current liabilities			
Provisions	E 6.1	2,204	1,302
Trade payables*	E 6.2	10,041	15,413
Other liabilities*	E 6.2	18,223	2,552
Tax liabilities	E 6.3	4,948	2,486
Financial liabilities	E 5.3	69,137	30,168
Lease liabilities*	E 7.2	492	137
Total current liabilities		**105,046**	**52,057**
TOTAL LIABILITIES		**1,016,633**	**796,354**
TOTAL EQUITY AND LIABILITIES		**1,677,416**	**1,378,692**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year 1 January 2019 to 31 December 2019

in EUR thousands	2019	2018
Group profit / loss before taxes	**97,855**	**88,757**
Financial expenses	50,860	26,415
Financial income	– 1,288	– 480
Interests of minority shareholders	7,743	12,373
Change in real estate inventory	– 4,043	1,734
Change in trade accounts receivable and other receivables *	233	2,743
Change in other receivables	– 4,734	– 1,494
Change in provisions	902	286
Change in trade payables and other liabilities	340	2,403
Profit / loss from fair value adjustments in investment properties	– 83,022	– 93,059
Gains from the sale of real estate and real estate companies	– 16,803	– 50
Interest proceeds	92	129
Income taxes paid	– 727	– 881
Change in reserves	– 99	1,357
Depreciation and amortisation and impairment	797	2,113
Distributions to minority shareholders / dividends	– 2,153	– 2,961
Other non-cash items	– 109	– 522
Cash flow from operating activities	**45,844**	**38,862**
Payments for investments in property, plant and equipment	– 213,309	– 24,680
Payments for investments in investment properties and acquisition of interests in in fully consolidated companies, less net cash acquired	– 69,301	0
Payments due to short-term cash investments	– 2,000	0
Proceeds from the sale of real estate	31,398	641
Cash flow from investing activities	**– 253,212**	**– 24,039**
Proceeds from capital increases	0	173,730
Payments for expenses associated with raising equity	0	– 2,145
Payments for expenses associated with raising financial liabilities	– 7,405	0
Proceeds from the issuance of financial liabilities	704,883	41,083
Interest paid on financial liabilities	– 37,003	– 22,814
Payments for the purchase of additional interests in subsidiaries	– 525	– 3,115
Payments for the redemption of financial liabilities	– 540,885	– 84,995
Cash flow from financing activities	**119,065**	**101,745**
Net change in cash and cash equivalents	**– 88,303**	**116,567**
Cash and cash equivalents at the start of the period	190,442	73,874
Cash and cash equivalents at the end of the period	**102,139**	**190,442**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year 1 January 2019 to 31 December 2019

in EUR thousands	SHARE CAPITAL	RESERVES						
	SUBSCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS INCL. GROUP PROFIT / LOSS	RESERVES FOR TREASURY SHARES	CURRENCY TRANSLATION	EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
01/01/2019	**107,777**	**129,848**	**300,288**	**0**	**0**	**537,914**	**44,425**	**582,339**
Net profit / loss for the period	0	0	75,539	0	0	75,539	4,199	79,738
Other comprehensive income	0	0	0	0	0	0	0	0
Total comprehensive income	**0**	**0**	**75,539**	**0**	**0**	**75,539**	**4,199**	**79,738**
Capital increases	0	0	0	0	0	0	0	0
Stock option programme	0	4	0	0	0	4	0	4
Convertible bonds	0	0	0	0	0	0	0	0
Dividend payments / distributions	0	0	0	0	0	0	– 424	– 424
Increase in shareholdings in subsidiaries	0	0	81	0	0	81	– 947	– 866
Other changes	0	0	– 184	0	0	– 184	175	– 9
31/12/2019	**107,777**	**129,852**	**375,724**	**0**	**0**	**613,354**	**47,428**	**660,782**
01/01/2018	**54,271**	**0**	**231,433**	**– 310**	**22**	**285,417**	**40,052**	**325,469**
First-time application of IFRS 9	**0**	**0**	**6,597**	**0**	**0**	**6,597**	**421**	**7,018**
Net profit / loss for the period	0	0	61,575	0	0	61,575	7,478	69,053
Other comprehensive income	0	0	0	0	0	0	0	0
Total comprehensive income	**0**	**0**	**61,575**	**0**	**0**	**61,575**	**7,478**	**69,053**
Capital increases	39,939	131,646	0	0	0	171,585	0	171,585
Stock option programme	0	1,357	0	0	0	1,357	0	1,357
Convertible bond	13,568	– 3,097	0	0	0	10,471	0	10,471
Dividend payments / distributions	0	0	0	0	0	0	– 1,302	– 1,302
Increase in shareholdings in subsidiaries	0	0	687	0	0	687	– 2,042	– 1,356
Other changes	0	– 59	– 3	310	– 22	226	– 182	43
31/12/2018	**107,777**	**129,847**	**300,288**	**0**	**0**	**537,914**	**44,425**	**582,338**

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

Notes to the consolidated financial statements for the financial year 1 January to 31 December 2019

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 at 31 December 2019, the Company's scope of consolidation pursuant to Section 313 (2) HGB includes DEMIRE AG as the parent company and the companies listed in Appendix 1 ("DEMIRE" or the "DEMIRE Group"). The Company's registered office is located in Frankfurt / Main, Germany and the Company's business address is Robert-Bosch-Strasse 11, Langen, Germany. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

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

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

The consolidated financial statements of DEMIRE AG for the financial year ended 31 December 2019 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), pursuant to Section 315e of the German Commercial Code (HGB). All International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and interpretations of the IFRS Interpretations Committee (IFRS IC), formerly the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) mandatory for the 2019 financial year were taken into consideration. Furthermore, all statutory disclosure and explanation requirements of the German Commercial Code (HGB) that are in addition to the provisions of the IASB have been fulfilled, particularly those for the preparation of a group management report.

These consolidated financial statements were prepared by the Executive Board and approved by the Supervisory Board at its meeting on 17 March 2020.

2. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

2.1 First-time application of new and amended standards and interpretations in the 2019 financial year

The accounting policies applied to the consolidated financial statements are the same as those applied in the 2018 financial year except for the changes mentioned below. The following new and amended standards and interpretations that are material from DEMIRE perspective were applied for the first time in the 2019 financial year.

The effects of the first-time application of the above-mentioned standards and interpretations do not have any significant impact overall on the presentation of the net assets, financial position and results of operations.

The amendments to IFRIC 23 supplement the regulations in IAS 12 regarding the consideration of uncertainties in the income tax treatment of situations and transactions. The clarification of IFRIC 23 has no material effect on the consolidated financial statements of DEMIRE.

FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS IN THE 2019 FINANCIAL YEAR

		ENDORSEMENT	MANDATORY APPLICATION FOR FINANCIAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE'S CONSOLIDATED FINANCIAL STATEMENTS
IFRIC 23	Uncertainty over Income Tax Treatments (issued on 7 June 2017)	23 October 2018	1 January 2019	No material effect
Amendments to IFRS 9	Prepayment Features with Negative Compensation (issued on 12 October 2017)	22 March 2018	1 January 2019	No material effect
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	8 February 2019	1 January 2019	No effect
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	13 March 2019	1 January 2019	No effect
Annual Improvements	Annual Improvements to IFRS 2015–2017 Cycle (issued on December 12, 2017)	14 March 2019	1 January 2019	No effect

The amendments to IFRS 9, which specify rules for the classification of financial assets with early termination options and provide clarification on modifications of financial liabilities, have no material effect on the consolidated financial statements of DEMIRE.

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

The amendment to IAS 19 to determine the pension cost of changes to defined benefit pension plans has no effect on the consolidated financial statements of DEMIRE.

The amendments to IFRS 16 relating to the classification and measurement of leases are mandatory as of 1 January 2019. DEMIRE has voluntarily applied the new standard IFRS 16 early as of 1 January 2018 using the modified retrospective method. The cumulative effect of the first-time application was recognised in equity in the 2018 financial year. With regard to the other disclosures on lease liabilities, please refer to Note E.7.

2.2 Standards and interpretations for future mandatory application

The following IASB standards have been endorsed by the EU but are only mandatory after 31 December 2019:

STANDARDS AND INTERPRETATIONS THAT REQUIRE FUTURE MANDATORY APPLICATION

		ENDORSEMENT	MANDATORY APPLICATION FOR FINANCIAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE'S CONSOLIDATED FINANCIAL STATEMENTS
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	Conceptual Framework in IFRS Standards	29 November 2019	1 January 2020	No material effect
Amendments to IAS 1 and IAS 8	Definition of Material (issued on 31 October 2018)	29 November 2019	1 January 2020	No material effect

The amendments to IAS 1 and IAS 8, which narrow the definition of "material" and standardise the various definitions in the framework and standards, are currently being examined for their impact on the consolidated financial statements of DEMIRE. DEMIRE does not expect any significant impact on the consolidated financial statements.

The changes in the references to the conceptual framework in IFRS standards represent an update of the references to the conceptual framework and quotes contained therein. The adjustments related to the amendments are currently being examined by DEMIRE.

DEMIRE has not made use of the early application option. DEMIRE does not expect any significant impact on the consolidated financial statements.

The EU has not yet transposed the following pronouncements adopted by the IASB or IFRS IC into European law:

STANDARDS AND INTERPRETATIONS THAT REQUIRE FUTURE MANDATORY APPLICATION

		ENDORSEMENT	MANDATORY APPLICATION FOR FINANCIAL YEARS BEGINNING AFTER	EFFECT ON DEMIRE'S CONSOLIDATED FINANCIAL STATEMENTS
IFRS 17	Insurance Contracts (issued on 18 May 2017)	Pending	1 January 2021	No effect
Amendments to IFRS 3	Business Combinations (issued on 22 October 2018)	Planned for Q1 2020	1 January 2020	No material effect
Amendments to IFRS 9, IAS 39 and IFRS 7)	Interest Rate Benchmark Reform (issued on 26 September 2019)	15 January 2020	1 January 2020	No material effect

DEMIRE plans to apply the new standards mentioned above when they take effect in the EU. The IASB and IFRS IC standards will be transformed into European law through their endorsement by the EU. Early adoption is impossible due to the pending endorsement. Based on our current knowledge, there is likely to be only a minor effect on the presentation of DEMIRE AG's net assets, financial position and results of operations from the standards not yet adopted into European law. This also applies to the new pronouncements on IFRS 3, as business combinations will generally not apply to purchases of real estate portfolios according to the concentration test. DEMIRE does not expect any significant impact on the consolidated financial statements.

DEMIRE AG has not yet conclusively assessed the effects associated with the first-time application of IFRS 17, the amendments to IFRS 3 and the amendments to IFRS 9, IAS 39 and IFRS 7 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 2020 financial year. DEMIRE does not expect any significant impact on the consolidated financial statements.

3. KEY DISCRETIONARY DECISIONS, JUDGEMENTS AND ASSUMPTIONS

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

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

Valuation of investment properties: Key valuation indicators are the expected cash flows, the assumed vacancy rate and the discount and capitalisation rates. Valuation is performed using the DCF method, in which future cash flows are discounted back to the reporting date. Estimates contain assumptions about the future. The valuation parameters used in the valuation model reflect normal market expectations and represent forecasts based on analysed market information and past values of the properties to be valued or comparable properties.

If DEMIRE AG obtains direct or indirect control over an acquired entity or acquires assets, it must be determined whether the transaction should be classified as a business combination according to IFRS 3, or an acquisition of a group of assets or net assets (aggregated assets). If a business operation defined as an integrated group of activities is acquired in addition to assets and liabilities, this constitutes a business combination that must be accounted for according to IFRS 3. An integrated group of activities is defined, for example, as business processes in the areas of property management, credit management and accounting. Additionally, the fact that staff is employed at the acquired real estate company is another indication that a business operation has been acquired.

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

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

B. SCOPE AND PRINCIPLES OF CONSOLIDATION

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

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

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

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

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),
- 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 at the date on which DEMIRE acquires control over the subsidiary until the date on which control ceases.

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

Business combinations are accounted for using the purchase method when the Group obtains control. In the course of the necessary revaluation, all hidden reserves and liabilities of the acquired company are released. Any positive difference remaining after the release of hidden reserves and liabilities is capitalised as goodwill on the balance sheet. The consideration transferred upon acquisition and the identifiable net assets acquired are generally measured at fair value. Transaction costs are expensed immediately, unless they are costs for raising capital or issuing liabilities.

Acquisitions of real estate companies that do not constitute business operations as defined by IFRS 3 are shown as the direct purchase of properties. The acquisition cost of the property company is allocated to individually identifiable assets and liabilities based on their relative fair values.

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

Interests in the net assets of subsidiaries that are in the legal form of a partnership and not attributable to DEMIRE are recorded in the Group’s liabilities, since the minority shareholders have the right to terminate their investments. In accordance with IAS 32, the interests of these minority shareholders are assessed as potential compensation claims and reported as liabilities. Upon initial recognition, they are measured at fair value, which corresponds to the minority shareholders’ interests in the net assets of the respective company. The liabilities reported correspond to the notional share of minority shareholders in the net assets of the respective subsidiary at their carrying amounts.

DEMIRE’s interests in associates are accounted for using the equity method in accordance with IAS 28, after their initial recognition at cost. Associates are all companies over which the Group exercises significant influence but not control or joint control. This is generally the case when the Group holds between 20 % and 50 % of the voting rights.

Changes to the scope of consolidation in the reporting period

During the reporting period, 94.9 % of the shares in each of the following companies was purchased: DEMIRE Trier Celle GmbH, Frankfurt am Main (formerly Kaufhaus Portfolio Beteiligung A S.a. r.l., Luxembourg); DEMIRE Goslar Rosenstraße 1 GmbH, Frankfurt am Main (formerly Goslar, Rosenstraße 1 Immobilien S.a. r.l., Luxembourg); DEMIRE Memmingen Königsgraben 3 GmbH, Frankfurt am Main (formerly Memmingen, Königsgraben 3 Immobilien S.a. r.l., Luxembourg); and DEMIRE Offenburg Lindenplatz 3 GmbH, Frankfurt am Main (formerly Offenburg, Lindenplatz 3 Immobilien S.a. r.l., Luxembourg). This transaction represents the acquisition of real estate companies that do not represent business operations as defined by IFRS 3 and is referred to below as the department store portfolio.

Based on 100 % of the assets and liabilities and taking into account non-controlling interests, the following amounts at the time of acquisition (1 July 2019) upon first-time consolidation were applied:

in EUR thousands	AMOUNT RECOGNISED AT TIME OF ACQUISITION
Assumed assets	87,456
Assumed liabilities	16,354
Net assets at 100 %	71,102
Of which non-controlling interests	1,371
Acquisition cost	69,731

During the reporting period, the following foreign companies in the legacy portfolio were deconsolidated due to their immateriality for the Group: MAGNAT Investment I B. V. (Hardinxveld Giessendamm, Netherlands); MAGNAT AM GmbH (Vienna, Austria); R-Quadrat Bulgaria EOOD (Sofia, Bulgaria); Irao Magnat 28 / 2 LLC (Tbilisi, Georgia) and SC Victory International Consulting s. r. l. (Bucharest, Romania). Irao Magnat Digomi LLC (Tbilisi, Georgia) was deconsolidated due to the sale. In addition, BBV Immobilien-Fonds Erlangen GbR (Munich) was deconsolidated due to the company's liquidation.

Deconsolidations did not have any significant effects on the net assets, financial position and results of operations.

DEMIRE Parkhaus Betriebsgesellschaft mbH, Berlin, was merged with DEMIRE Einkauf GmbH, Frankfurt am Main, during the reporting period by maintaining the carrying amounts of acquired assets and liabilities. The transaction was accounted for as a transfer of a group of assets as defined by IFRS 3.2 (b).

Changes to the scope of consolidation in the prior year

In the previous period, the entities named DEMIRE Ankauf 1 GmbH through DEMIRE Ankauf 10 GmbH (all based in Frankfurt am Main) and FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main, were added to the scope of consolidation. The inclusion of these entities in the scope of consolidation did not have a material effect on the net assets, financial position and results of operations.

In the previous period, IC Fonds & Co. Gewerbeportfolio Deutschland 13 KG, Munich; Praedia GmbH, Berlin, and DEMIRE Immobilien Management GmbH, Berlin; were deconsolidated. Deconsolidations did not have any significant effects on the net assets, financial position and results of operations.

DISCLOSURES ACCORDING TO IFRS 12

a) Disclosures relating to fully consolidated subsidiaries

Fair Value REIT-AG, Munich, and its subsidiaries were fully consolidated for the first time in the DEMIRE AG consolidated financial statements as at 31 December 2015, as the Fair Value REIT subgroup. In the reporting period, dividend distributions of EUR 424 thousand were allocated to the non-controlling shareholders of Fair Value REIT-AG

The carrying amount of the non-controlling interests of Fair Value REIT-AG minorities amounted to EUR 27,337 thousand as at 31 December 2019. A share in the profit for the period in the amount of EUR 3,112 thousand was attributable to non-controlling shareholders for the 2019 financial year.

The disclosures in accordance with IFRS 12.12 (g) are listed in the table below.

FAIR VALUE REIT SUBGROUP BALANCE SHEET in EUR thousands	**31/12/2019**	**31/12/2018**
Non-current assets	325,582	314,213
Non-current assets	22.797	21,603
thereof cash and cash equivalents	18,144	17,969
Non-current liabilities	125,820	165,381
thereof interests of non-controlling shareholders	78,682	73,085
Current liabilities	63,391	24,278
thereof financial liabilities	58,951	20,584
Net assets	**159,167**	**146,158**
Statement of income		
Revenue	27,292	27,321
Interest income	48	1
Interest expenses	– 2,537	– 2,610
Net profit / loss for the period	**15,107**	**22,780**

The interest of non-controlling shareholders in the reporting year remained unchanged (20.6 %).

In the 2019 financial year, the shareholding in Logistikpark Leipzig GmbH, Berlin, was increases by 0.9 % to 94.9 % and in DEMIRE Holding I GmbH (formerly: DEMIRE Einkauf GmbH), Frankfurt am Main, by 41 % to 100 %. This resulted in the following effects on DEMIRE's equity in the 2019 financial year:

in EUR thousands	**2019**
Carrying amount of acquired non-controlling interests	947
Consideration paid to non-controlling interests	– 866
Surplus of consideration paid, which is recognised in retained earnings	**81**

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 / up to one year). Deferred taxes are generally reported as non-current.

Assets are generally measured at amortised acquisition or production costs, except for the fair value measurement of investment properties pursuant to IAS 40. According to IFRS 5.5 (d), real estate held for sale is also carried at fair value. The fair value in this case is the purchase price.

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 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 following table shows the measurement hierarchy, measurement methods and significant input factors for determining the fair values of the various measurement categories of financial assets and liabilities. A special feature results from the fact that the fair value of bond 2019 / 2024 was determined on the basis of the stock exchange price on December 31, 2019

TYPE	HIERARCHY	MEASUREMENT METHOD AND SIGNIFICANT INPUT FACTORS
Financial receivables and other financial assets	Level 3	Discounted cash flows based on input factors not observable on the market at the valuation date
Non-current financial liabilities	Level 3	Discounted cash flows based on input factors not observable on the market at the valuation date

Financial assets and financial liabilities are classified and recognised in accordance with the categories of IFRS 9. Accordingly, financial assets are classified in the categories at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. As at the reporting date, the Company only holds financial instruments in the category at amortised cost. Financial instruments are classified as at amortised cost if they are held as part of a business model and the objective is to hold them to collect the contractual cash flows and if the contractual terms and conditions of the financial asset result in cash flows at specified dates, which represent exclusively principal and interest payments on the outstanding principal.

Financial assets and financial liabilities are recognised in the consolidated balance sheet for the first time when a Group company becomes a party to a financial instrument. The initial recognition of a financial instrument is at fair value including any transaction costs. The maximum default risk is reflected by the amortised carrying amounts of the receivables and other financial assets recognised in the balance sheet. Credit risk and default risk are the risk that counterparties – essentially the tenants of the properties held by DEMIRE – will not be able to meet their contractual payment obligations, which could result in a loss for the Company. In order to mitigate and manage default risks as much as possible, DEMIRE reviews the creditworthiness of tenants for new lettings. Default risks exist for all classes of financial instruments, but especially for trade accounts receivable and purchase price receivables. There is no significant default risk for other financial instruments. DEMIRE does not consider itself to be exposed to any significant credit risk from individual counterparties. A concentration of risk does not exist.

In accordance with the requirements of IFRS 9.5.5, the simplified model of expected credit losses is used for impairments of trade accounts receivable and financial assets. Accordingly, the credit losses expected over the term are taken into account for all relevant items. Trade accounts receivable and contract assets were combined on the basis of credit risk features to measure expected credit losses. DEMIRE mainly has receivables from letting and purchase price receivables from properties located in Germany. The credit risk is classified at the level of the property companies, as they have different default rates in some cases. The expected default rates are based on the payment profiles of the last three years before the reporting date. In order to determine the expected credit loss, appropriate and reliable information on past events, current circumstances and forecasts on future economic developments must be determined with reasonable effort. In contrast from the incurred loss model from IAS 39, IFRS 9 requires expected losses to be recognised even if there are no concrete indications of a default at the time of recognition.

Other accounting policies for the individual balance sheet items and 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

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. Revenue from ancillary rental costs is allocable ancillary costs that are passed on to tenants.

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

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

2019 in EUR thousands	REVENUE FROM RENTING AND LEASING	REVENUE FROM SALE OF IAS 40 REAL ESTATE
Point in time	0	46,130
Period of time	101,424	0
Total	**101,424**	**46,130**

When real estate companies and real estate are sold, income is realised when

- the risks and rewards (ownership, benefits and encumbrances) associated with ownership have been transferred to the buyer;
- DEMIRE does not retain any right of disposal or effective power of disposal over the object of sale;
- the amount of revenue and the costs incurred or to be incurred in connection with the sale can be measured reliably; and
- it is sufficiently probable that an economic benefit will flow to DEMIRE from the sale.

1. PROFIT / LOSS FROM THE RENTAL OF REAL ESTATE

Rental income is generated in connection with leases classified as operating leases and is recognised as rental income over time. The property taxes and insurance settled as part of service charges do not constitute a separate performance obligation and are allocated to the rents accordingly. They are accounted for as other lease components in accordance with IFRS 16. In the case of other costs (gas, electricity, water, etc.), the Company has come to the conclusion that it is acting in the role as principal and continues to bear significant risks. Accordingly, revenues and related costs continue to be presented on a gross basis. Revenue from other operating costs are accounted for according to IFRS 15.

The profit / loss from the rental of real estate in the amount of EUR 65,538 thousand (previous year: EUR 58,500 thousand) consists of the following:

in EUR thousands	2019	2018
Rental income	81,799	73,709
Income from utility and service charges	19,625	15,101
Rental revenue from real estate	**101,424**	**88,810**
Allocable operating expenses to generate rental income	– 24,376	– 19,868
Non-allocable operating expenses to generate rental income	– 11,511	– 10,442
Operating expenses to generate rental income	**– 35,886**	**– 30,310**
Profit / loss from the rental of real estate	**65,538**	**58,500**

The increase in the profit/loss from the rental of real estate to EUR 65,538 thousand (previous year: EUR 58,500 thousand) is primarily due to the addition of the office portfolio acquired in the second quarter of 2019 and the addition of the five department stores acquired in July 2019 as part of a share deal. This led to an increase in rental income of EUR 8,465 thousand. In addition, rental income also includes income of EUR 1,554 thousand from the linearisation of rent-free periods in accordance with IFRS 16 relating to the acquired department stores. Furthermore, the increase in rental income resulted from an improvement in the contractual situation with existing tenants, which is partially offset by disposals from the real estate portfolio.

The higher income from utility and service charges of EUR 19,625 thousand (previous year: EUR 15,101 thousand) resulted mainly from higher allocable costs, as well as the addition of the department store portfolio. Of the operating expenses, an amount of EUR 24,376 thousand (previous year: EUR 19,868 thousand) is generally allocable and can be charged on to tenants.

Operating expenses of EUR 11,511 thousand (previous year: EUR 10,442 thousand) are non-allocable, of which EUR 6,637 thousand (previous year: EUR 4,756 thousand) relate to property maintenance costs and EUR 1,539 thousand to tenant improvements. Maintenance costs increased due to the addition of the new properties and higher expenses for tenant improvements related to the letting performance in the current financial year.

Assets and liabilities from contracts with customers were as follows:

ASSETS AND LIABILITIES FROM CONTRACTS WITH CUSTOMERS in EUR thousands	**31/12/2019**	**31/12/2018**
Current contract assets from operating costs	1,498	1,346
Total contract assets	**1,498**	**1,346**
Current contract liabilities from operating costs	715	656
Total contract liabilities	**715**	**656**

No impairment losses were recognised for operating costs in the reporting period.

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

In the 2019 financial year, the Group generated profit of EUR 16,803 thousand (previous year: EUR 50 thousand) from the sale of real estate. The real estate sold were the Wahlstedt, Stahnsdorf, Rendsburg and Berlin-Marzahn properties. The high amount in the reporting year resulted mainly from the sale above market price of the properties in Stahnsdorf and Marzahn.

Costs of EUR 22 thousand were incurred for obtaining sales agreements and relate to the Wahlstedt property and the Genthin property, which will be disposed of in the following year.

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

The profit / loss from the fair value adjustment in investment properties of EUR 83,022 thousand (previous year: EUR 93,059 thousand) concerns all properties. The largest single effect of EUR 11,353 thousand stems from the property in Bad Vilbel due to the new letting to the state of Hesse. Other major profits resulted from the revaluation of the property in Essen in the amount of EUR 9,711 thousand and the properties in Trier and Celle GmbH in the amount of EUR 5,572 thousand.

The fair values of these properties are based on the appraisal reports of external, independent experts from Savills Immobilien Beratungs-GmbH. In particular, the positive economic situation in Germany combined with the continued increase in foreign investors' demand for commercial real estate and the strong letting performance led to a significant improvement in valuation factors in the reporting year and consequently to an increase in the properties' market values. Please refer to Note E.1.3 for details on the valuation methods applied.

4. IMPAIRMENT OF TRADE ACCOUNTS RECEIVABLE

Impairment of trade accounts receivable amounted to EUR 629 thousand in the reporting period (previous year: EUR – 1,874 thousand) and mainly relate to rent receivables of EUR 629 thousand (previous year: EUR – 143 thousand) for properties occupied in Germany. In addition to trade receivables, the purchase price receivables from the legacy portfolio were impaired by EUR – 1,695 thousand in the prior period.

5. OTHER OPERATING INCOME

in EUR thousands	2019	2018
Compensation and indemnity payments	3,004	0
Insurance compensation	598	147
Income from passing on of expenses	97	232
Other non-period income	70	28
Benefits in kind	37	94
Derecognition of liabilities	0	602
Income from facility management	0	400
Forbearance commissions	0	359
Other	521	651
Total	**4,327**	**2,513**

The compensation and indemnity payments relate to payments of EUR 900 thousand from the settlement with a credit institute and a settlement payment of EUR 336 thousand from a court claim.

Insurance compensation in the reporting period includes reimbursements in the amount of EUR 370 thousand due to storm damage.

The decline in income from facility management is attributable to the deconsolidated subsidiary PRAEDIA GMBH, which had generated this income in the previous period.

The decrease in the item derecognition of liabilities is essentially due to high liabilities that expired by limitation in the previous year.

6. GENERAL AND ADMINISTRATIVE EXPENSES

in EUR thousands	2019	2018
Staff costs	– 4,659	– 5,317
Accounting and audit costs	– 1,818	– 1,598
Legal and consulting fees	– 1,795	– 7,171
Expenses for real estate expert opinions	– 569	– 442
Fees and incidental costs from monetary transactions	– 476	– 222
Fund administration costs	– 450	– 575
Non-deductible input taxes	– 424	– 913
Advertising and travel expenses	– 371	– 305
Supervisory Board remuneration	– 236	– 219
IT costs	– 226	– 675
Custodial compensation	– 211	– 129
Recruitment costs	– 186	– 341
Investor relations expenses	– 136	– 127
Annual General Meeting and shareholder advisory expenses	– 134	– 128
Insurance	– 77	– 115
Cost of premises	– 42	– 121
Amortisation of rights-of-use	– 40	– 208
Agency commissions	– 22	– 133
Implementation costs	0	– 355
Other	– 1,145	– 1,555
Total	**– 13,017**	**– 20,649**

Staff costs for the staff employed at the level of the ultimate parent company and Fair Value REIT-AG are included in general and administrative expenses only. The decline in staff costs of EUR 658 thousand to EUR 4,659 thousand (previous year: EUR 5,317 thousand) is due to the reduction in staff costs at FAIR Value REIT-AG to EUR 257 thousand (previous year: EUR 564 thousand) due to lower bonus payments. In addition, the DEMIRE AG staff costs in the prior year contained expenses in the amount of EUR 1,505 thousand (2019: EUR 0 thousand) for share-based compensation under the 2015 Stock Option Programme. This was offset by expenses in the reporting year for severance and bonus payments in the amount of roughly EUR 1,000 thousand. In 2019, EUR 4 thousand was still incurred for the “2015 Stock Option Programme”.

The decline in legal and consulting fees by EUR 5,376 thousand to EUR 1,795 thousand (prior year: EUR 7,171 thousand) is primarily due to legal and consulting fees in 2018 in connection with the takeover offer by the major shareholder Apollo, which did not reoccur in the 2019 financial year.

Fund administration costs result from the administration of Fair Value REIT-AG’s funds and were largely unchanged compared to the previous year.

Implementation costs concern one-off costs as part of the outsourcing of property and facility management to Strabag in 2018.

The decline in recruitment costs resulted mainly from the costs incurred in the prior year in the search for a new Executive Board member.

The decrease in non-deductible input taxes of EUR 489 thousand to EUR 424 thousand (previous year: EUR 913 thousand) resulted primarily from the decline in legal and consulting fees of EUR 5,376 thousand, with which the non-deductible input tax item is directly related.

IT costs comprise costs for software and ongoing IT consulting services that were used for one-off projects in the previous period.

The item “amortisation of rights-of-use” resulted from the application of IFRS 16 and the resulting amortisation of right-of-use under car and office leases. The decline is largely a result of the first-time application of IFRS 16 in the previous period, which was introduced using the modified retrospective method.

7. OTHER OPERATING EXPENSES

in EUR thousands	2019	2018
Other non-period expenses	– 149	– 105
Depreciation / amortisation of property, plant and equipment and intangible assets	– 128	– 202
Membership fees	– 42	– 27
Facility management expenses	– 41	– 227
Further education, trade literature	– 39	– 32
Deconsolidation effects	– 24	– 466
Impairment of legacy portfolio	0	– 2,701
Other	– 451	– 774
Total	**– 874**	**– 4,534**

The decline in the item “deconsolidation effects” results from a one-off impairment of real estate inventory and other assets contained in the legacy portfolio, which occurred in the prior reporting period.

8. FINANCIAL RESULT

in EUR thousands	2019	2018
Financial income	1,288	480
Financial expenses	– 50,860	– 26,415
Interest of minority shareholders	– 7,743	– 12,373
Financial result	**– 57,315**	**– 38,308**

Financial income of EUR 1,288 thousand (previous year: EUR 480 thousand) results primarily from income from overdue purchase price receivables (EUR 646 thousand) and from income from loans of EUR 354 thousand.

The increase of EUR 24,445 thousand in financial expenses to EUR 50,860 thousand (previous year: EUR 26,415 thousand) is due to two one-time items: Early repayment penalties from the early repayment of the 2017 / 2022 corporate bond (EUR 5,272 thousand) and the Condor bank loan (EUR 11,714 thousand) and early amortisation expenses from the repayment of the corporate bond of EUR 4,336 thousand and the Condor bank loan totalling EUR 5,520 thousand.

Financial expenses include a nominal interest expense of EUR 24,819 thousand (previous year: EUR 23,694 thousand). The effective interest method resulted in expenses of EUR 2,809 thousand (previous year: EUR 4,648 thousand).

Profits from investments accounted for using the equity method amounting to EUR 165 thousand (previous year: EUR 101 thousand) are reported under financial income for reasons of materiality and relate to profits from the investments in DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf, and G+Q Effizienz GmbH, Berlin.

The share of profit / loss of minority shareholders amounting to EUR – 7,743 thousand (previous year: EUR – 12,373 thousand) concerns minority shareholder's profits in the Fair Value REIT-AG subsidiaries recorded as liabilities under IAS 32. The decline in the share of profit / loss of minority shareholders resulted primarily from lower valuation results on properties of these subsidiaries in the reporting year.

9. INCOME TAXES

in EUR thousands	2019	2018
Current income taxes	– 4,651	– 540
Deferred income taxes	– 13,466	– 19,164
Total income taxes	**– 18,117**	**– 19,704**

Current income tax expenses of EUR 4,651 thousand (previous year: EUR 540 thousand) include corporate taxes and trade taxes and arose entirely in Germany. The increase in current income taxes is primarily the result of the profit / loss from the sale of real estate in the amount of EUR 16,803 thousand (previous year: EUR 50 thousand).

Deferred income taxes of EUR 13,466 thousand (previous year: EUR 19,164 thousand) comprise deferred tax benefits of EUR 1,492 thousand (previous year: EUR 1,398 thousand) and deferred tax expenses of EUR 14,958 thousand (previous year: EUR 20,562 thousand). Deferred tax expenses result primarily from temporary differences in connection with the valuation of investment properties pursuant to IAS 40 and IFRS 13. The decline in deferred taxes was largely a result of the lower profits from fair value adjustment in investment properties and the sale of the Stahnsdorf and Berlin-Marzahn properties.

As at the reporting date, there were total unused tax loss carryforwards of EUR 41,965 thousand (previous year: EUR 32,018 thousand) for the companies included in the consolidated financial statements. In the DEMIRE Group, deferred taxes on loss carryforwards were capitalised only at the level of the same taxable entities to the extent that deferred tax liabilities were existed.

Tax reconciliation

The tax reconciliation between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 28.78 % (previous year: 28.78 %). The Group tax rate includes the 15 % corporate tax rate, 5.5 % solidarity surcharge and 12.95 % trade tax (municipal rate for Langen: 370 %; trade tax rate 3.5 %). The calculation of the deferred taxes of domestic real estate companies is based on a tax rate of 15.83 %. These companies generate income exclusively from managing their own real estate. Only the corporate tax rate and the solidarity surcharge apply to these companies because of the option to deduct the profit from the management of own real estate from the profit under trade tax law.

in EUR thousands	2019	2018
Profit / loss before taxes	**97,855**	**88,757**
Group tax rate	**28.78 %**	**28.78 %**
Expected income taxes	**28,163**	**25,544**
Trade tax effects	– 10,716	– 8,544
Tax effects arising from non-deductible operating expenses	442	482
Tax effects of tax-free income	– 171	– 202
Tax effects from the loss of tax loss carryforwards	0	2,524
Others	399	– 100
Actual income taxes	**18,117**	**19,704**

Tax-exempt income resulted primarily from the sale of real estate companies. The tax effect from non-deductible operating expenses is mainly the result of the income tax-related interest barrier rule.

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

DEMIRE did not recognise deferred tax liabilities for the accumulated results of subsidiaries amounting to EUR 11,074 thousand (previous year: EUR 10,581 thousand) since these profits are intended to be reinvested indefinitely.

Recognising deferred taxes on outside basis differences as temporary differences means that future tax effects must 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 those related to Fair Value REIT. The recognition of deferred taxes for outside basis differences at the level of Fair Value REIT amounted to EUR 18,756 thousand as at 31 December 2019 (previous year: EUR 16,430 thousand).

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

10. EARNINGS PER SHARE

Earnings per share

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

in EUR thousands	2019	2018
Net profit / loss for the period in EUR thousands	**79,738**	**69,053**
Net profit / loss for the period less non-controlling interests	75,539	61,575
Number of shares (in units)		
Number of shares outstanding as at the reporting date	107,777	107,777
Weighted average number of shares outstanding	107,777	72,178
Impact of conversion of convertible bonds and exercise under the 2015 Stock Option Programme	510	520
Weighted average number of shares (diluted)	108,287	72,698
Earnings per share (in EUR)		
Basic earnings per share	0.70	0.85
Diluted earnings per share	0.70	0.85

Participants in the 2015 stock option programme are entitled to subscribe to 510,000 shares (previous year: 520,000 shares).

11. STAFF COSTS

in EUR thousands	2019	2018
Salaries	– 4,257	– 7,649
Statutory social expenses	– 418	– 599
Total	**– 4,674**	**– 8,248**

Staff costs of EUR 4,674 thousand are generally recognised in general and administrative expenses and relate mainly to DEMIRE AG (EUR 4,407 thousand) and Fair Value REIT-AG (EUR 251 thousand). This item also includes staff costs of EUR 15 thousand from Hanse-Center Objektgesellschaft mbH that are reported under expenses incurred to generate rental income. Of the statutory social expenses, about half are attributable to contributions to statutory pension insurance. The decrease in staff costs resulted largely from the absence of staff costs from DEMIRE Immobilien Management GmbH and Praedia GmbH, which were both deconsolidated at the end of the previous reporting period.

Income from the reversal of provisions in the amount of EUR 482 thousand (previous year: EUR 62 thousand) is included in staff costs.

In the reporting period, staff costs at DEMIRE AG contained expenses for share-based payments from the 2015 Stock Option Plan in the amount of EUR 3 thousand (previous year: EUR 1,505 thousand). This was offset by the release of capital reserves in the amount of EUR 3 thousand (previous year: EUR 148 thousand) as described in Chapter G.4 d Share-based payments. The decrease resulted from the departure of employees in the previous reporting period, who had retained their entitlements under the 2015 Stock Option Plan. The new virtual stock option programme resulted in staff costs of EUR 159 thousand (previous year: EUR 302 thousand).

E. NOTES TO THE CONSOLIDATED BALANCE SHEET

1. NON-CURRENT ASSETS

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

1.1 Intangible assets

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

Intangible assets with an indefinite useful life are not amortised. These assets are tested for impairment at least once a year either on the basis of the individual asset or at the level of the cash-generating unit. An impairment test is also carried out when events have occurred that impair the asset.

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 less costs to sell.

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 as at the purchase date to the Group's cash-generating units that are expected to benefit from the merger.

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

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

The Group carried out the annual impairment test as at 31 December 2019. The recoverable amount of Fair Value REIT was calculated on the basis of the calculation of value in use using cash flow forecasts based on financial plans approved by the management for a period of five years. The management's plans are based on past experience and the best possible estimates of future developments. The discount rate (WACC) used for cash flow forecasts was 2.91 %. The projections for cash flows after five years are based on the average amount from the last two detailed planning periods 2023 and 2024. The recoverable amount determined on the basis of the value in use was then compared with the carrying amount of the CGU in order to assess its value. As a result of this analysis, management identified sufficient headroom between the value in use and the carrying amount of the CGU. No change in the material assumptions deemed possible by the management results in the carrying amount exceeding the recoverable amount. Accordingly, DEMIRE has not identified any impairment as at 31 December 2019.

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

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

Rental cash flows could drop as a result of rent reductions, rental losses or rising vacancies. Moreover, a reduction in the real estate portfolio could lead to a decline in cash flows. Even if cash flows fell by 10 %, no impairment would result as at 31 December 2019.

Discount rate – The discount rate is based on the CGU's weighted average cost of capital (WACC). The weighted average cost of capital takes into account both the cost of capital for debt and equity. The equity costs are derived from the expected return of equity investors of the Fair Value REIT subgroup. Borrowing costs were derived from the average financing costs of comparable companies. The sector-specific risk was determined by applying individual beta factors. The beta factors were determined on the basis of publicly available market data. An increase in the discount rate of 0.5 % as at 31 December 2019 would not have resulted in the need for impairment.

1.1.2 Other intangible assets

Other intangible assets mainly contain mainly computer software. A useful life of three to five years is applied to other intangible assets. Amortisation of EUR 3 thousand (31 December 2018: EUR 25 thousand) is reported in the statement of income in the line item "other operating expenses".

1.2 Property, plant and equipment

Property, plant and equipment include office and operating equipment. These are carried at historical acquisition cost, less depreciation. Historical acquisition cost includes expenses that can be directly allocated to the acquisition of operating and office equipment. Straight-line depreciation is based on a useful life of 3 to 15 years. Depreciation is reported in the statement of income in the line item "other operating expenses" amounting to EUR 125 thousand in the reporting year (2018: EUR 178 thousand).

1.3 Investment properties

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

Valuation of properties

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

The fair value of DEMIRE's investment properties 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 (WertV), however, the cash flows during the period under consideration are explicitly quantified and not shown as annuity payments. Since the importance of future cash flows decreases as a result of discounting and the forecast uncertainty increases over the observation period, the stabilised net income of a property is usually capitalised using a growth implicit minimum interest rate (capitalisation rate) following a 10-year period (detailed observation period) and discounted to the valuation date when assessing investment decisions in real estate.

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

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

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

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

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

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

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").

A sensitivity analysis of the key unobservable input parameters showed the following effect on the fair value of investment properties: A substantial increase in maintenance costs or vacancy rates would lead to a lower fair value for the properties if the assumptions for the remaining input parameters remained unchanged. The sensitivity analysis can be found in Appendix 3.

Fair value development during the reporting period:

in EUR thousands	2019	OFFICE	RETAIL	LOGISTICS	OTHERS
Fair value at the beginning of the financial year	**1,139,869**	**784.686**	**263.304**	**65.436**	**26.442**
Additions of properties	304,204	147,552	151,603	86	4.962
Disposals	– 29,140	– 29,140	0	0	0
Reclassifications to non-current assets held for sale	– 5,843	– 3,690	– 2,153	0	0
Reclassifications from non-current assets held for sale to investment properties	1,800	0	1,800		0
Unrealised gains from fair value measurement	86,572	71,592	7,055	5,678	2,248
Unrealised losses from fair value measurement	– 3,550	– 2,550	– 1,000	0	0
Fair value at the end of the financial year	**1,493,912**	**968,450**	**420,609**	**71,200**	**33,652**

in EUR thousands	2018	OFFICE	RETAIL	LOGISTICS	OTHERS	2017
Fair value at the beginning of the financial year	**1,021,847**	**691,649**	**245,225**	**61,700**	**23,273**	**981,274**
Additions of properties	24,341	23,926	391	24	0	6,247
Reclassifications under IFRS 16	1,592	1,592	0	0	0	0
Disposals	– 970	– 662	– 23	0	– 285	0
Reclassifications to non-current assets held for sale	0	0	0	0	0	– 10,440
Unrealised gains from fair value measurement	97,956	72,846	17,923	3,713	3,475	49,005
Unrealised losses from fair value measurement	– 4,897	– 4,665	– 212	0	– 20	– 4,240
Fair value at the end of the financial year	**1,139,869**	**784,686**	**263,304**	**65,436**	**26,442**	**1,021,847**

The additions to investment properties totalling EUR 304,204 thousand resulted, above all, from the office property portfolio containing properties in Cologne, Aschheim-Dornach, Bad Vilbel and Essen (EUR 143,950 thousand), which was acquired during the second quarter; as well as from the completion of the purchase of five department stores (EUR 81,553 thousand) and the related capitalisation of rights-of-use from the leasehold contracts pursuant to IFRS 16. The carrying amount of these rights-of-use equalled EUR 16,079 thousand at the end of the reporting period.

In the fourth quarter of the reporting year, a fashion distribution center in Neuss (EUR 69,475 thousand) was acquired, and an advance payment of EUR 4,962 thousand was made for an exclusive design hotel in Frankfurt am Main.

During the reporting period, disposals made came to a total of EUR 29,140 thousand and concerned the following properties: Wahlstedt, Stahnsdorf, Rendsburg and Berlin-Marzahn. Notarised purchase agreements were concluded during the reporting period for the Genthin, Herzberg, Bremen and Wurzen properties. The transfer of benefits and obligations will take place in fiscal year 2020

1.4 Other assets

Financial assets are classified and recognised at the settlement date in accordance with the IFRS 9 categories. Further explanations are provided in section C.

The carrying amount of the assets amounts to EUR 19,433 thousand (previous year: EUR 9,007 thousand) and mainly includes the accrual of rent-free periods from the leases of the newly acquired department store portfolio amounting to EUR 7,143 thousand and operating equipment of EUR 2,859 thousand.

The loan receivables from Taurecon Real Estate Consulting GmbH, Berlin, in the amount of EUR 2,829 thousand (previous year: EUR 2,855 thousand) and from Taurecon Beteiligungs GmbH in the amount of EUR 1,764 thousand (previous year: EUR 2,428 thousand), which is a minority shareholder in some DEMIRE Group companies, are recorded as non-current. The prior year presentation was adjusted.

This item also includes the capitalised rental incentives (EUR 1,311 thousand) and the interests in companies accounted for using the equity method in the amount of EUR 257 thousand (previous year: EUR 185 thousand). This includes the investment in G+Q Effizienz GmbH, Berlin, in the amount of EUR 93 thousand and DEMIRE Assekuranz GmbH & Co. KG, Düsseldorf, in the amount of EUR 164 thousand with the assumption of annual profit of EUR 72 thousand.

2. CURRENT ASSETS

2.1 Trade accounts receivable and other receivables

The following table shows the composition of trade accounts receivable and other receivables as at 31 December 2019.

in EUR thousands	31/12/2019 GROSS	IMPAIRMENT	31/12/2019 NET	31/12/2018 GROSS	IMPAIRMENT	31/12/2018 NET
Purchase price receivables from sales of real estate	18,114	0	18,114	0	0	0
Trade accounts receivable	5,553	789	4,763	4,446	728	3,718
Receivables from the sales of the investment in SQUADRA Immobilien GmbH & Co. KG	8,387	0	8,387	7,543	0	7,543
Purchase price receivables from sales of legacy portfolio	2,874	2,874	0	2,874	2,874	0
Unbilled service charges	1,498	0	1,498	1,346	0	1,346
Purchase price receivables from BBV02	0	0	0	1,355	0	1,355
Receivables from processing value-added taxes	1,026	0	1,026	878	0	878
Creditors with net debit balances	2	0	2	86	0	86
Other	2,981	0	2,981	1,953	0	1,953
Total	**40,435**	**3,663**	**36,771**	**20,481**	**3,602**	**16,879**

The purchase price receivables from sales of real estate are primarily receivables from the sale of the Berlin-Marzahn property (EUR 17,600 thousand).

Other receivables in the amount of EUR 2,981 thousand (previous year: EUR 1,953 thousand) primarily relate to a savings bank certificate from Sparkasse Oberlausitz-Niederschlesien in the amount of EUR 2,000 thousand with a maturity date of 27 November 2020 and a fixed interest rate of 0.010 % p.a.

Impairments pursuant to IFRS 9 amounted to EUR 3,663 thousand (previous year: EUR 2,602 thousand) as at the 31 December 2019 reporting date. Impairment losses are recognised in the line item “Impairment of receivables.”

RECONCILIATION OF IMPAIRMENTS in EUR thousands	
Impairments pursuant to IAS 39 as at 31 December 2018	**3,602**
Increase in impairments through profit or loss in the financial year	92
Decrease in impairments through profit or loss in the financial year	31
Impairments pursuant to IFRS 9 as at 31 December 2019	**3,663**

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

All trade accounts receivable are current in nature and usually due within a period of less than three months.

The calculation of impairments on trade accounts receivable is presented within the scope of the accounting and valuation principles (section C).

2.2 Cash and cash equivalents

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

Cash and cash equivalents of EUR 102,139 thousand (31 December 2018: EUR 190,442 thousand) 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 generally carried at the lower of the carrying amount and the fair value less costs to sell. In accordance with the exceptions of IFRS 5.5d, real estate that is measured using the fair value model continues to be carried at fair value. The fair value of non-current assets held for sale is equal to their purchase price.

As of the reporting date, properties held for sale amounted to EUR 16,305 thousand (previous year: EUR 12,262 thousand). The properties are mainly located in Darmstadt (partial sale), Wurzen and Bremen. Notarised purchase agreements have been concluded and the transfer of benefits and obligations is expected to take place in the 2020 financial year.

4. EQUITY

SUBSCRIBED CAPITAL remained unchanged in the reporting period.

In the previous period, subscribed capital increased to EUR 107,777 thousand due to the conversion of the 2013 / 2018 convertible bond by a total of EUR 10,586 thousand, two cash capital increases by a total of EUR 39,939 thousand and the conversion of the mandatory convertible bond (EUR 3,000 thousand).

Capital reserves were unchanged during the reporting period.

In the previous year, capital reserves increased as a result of two cash capital increases of EUR 17,546 thousand and EUR 114,110 thousand (net of costs for raising equity of EUR 628 thousand for the first capital increase and EUR 1,517 thousand for the second capital increase). Due to the conversion of the 2015 / 2018 mandatory convertible bond, capital reserves were reduced by EUR 3,000 thousand and by EUR 97 thousand due to conversions of the convertible bonds. Expenses from the stock option plan reduced capital reserves by a total of EUR 1,357 thousand.

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

Authorised Capital 2019 / I

The following table shows the changes in authorised capital in the reporting period:

in EUR thousand	2019 / I	2018 / I
As at 1 January	0	36,532.42
Cancellation resolution of the AGM on 11 / 02 / 2019*	0	– 36,532.42
Resolution of the AGM on 11 / 02 / 2019* (authorisation for Executive Board to increase share capital until10 / 02 / 2024)	53,888.66	
As at 31 December	**53,888.66**	**0.00**

*The changes were entered in the commercial register on 14 March 2019.

The shareholders are generally entitled to subscription rights. The Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for fractional amounts, for cash capital increases of up to 10 % of the share capital at an issue price that is not significantly lower than the market price, to meet the obligations of option or conversion rights, and to execute capital increases against contribution in kind. The Authorised Capital 2019 / I had not been utilised by the reporting date.

Conditional Capital 2018 / II

At the Annual General Meeting of 27 June 2018, Conditional Capital 2018 / II of up to EUR 35,972,419.00, divided into up to 35,972,419 new no-par value bearer shares, was created with a corresponding amendment to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds or bonds with warrants, profit participation rights or profit participation bonds (or combinations of these instruments), which were issued or will be issued (i) on the basis of the authorisation passed by the Annual General Meeting on 23 October 2013 until Agenda Item 8 for granting convertible bonds and / or bonds with warrants, and / or (ii) on the basis of the authorisation passed by the Annual General Meeting on 29 June 2017 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) and / or (iii) on the basis of the authorisation passed by the Annual General Meeting of 27 June 2018 under Agenda Item 8 for the issue of convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect holding companies and that grant a conversion or option right or establish a conversion obligation to new no-par value bearer shares of the Company. The issue of new shares is carried out at the exercise or conversion price to be determined in accordance with the respective authorisation resolved by the Annual General Meeting. Up to 31 December 2018, EUR 199,783.00 of the Conditional Capital 2018 / II had been utilised through conversions.

The remaining Conditional Capital 2018 / II was cancelled at the Extraordinary General Meeting on 11 February 2019.

Conditional Capital 2019 / I

At the Extraordinary General Meeting on 11 February 2019, Conditional Capital 2018 / II, to the extent not yet used for the issue of new shares, was cancelled and Conditional Capital 2019 / I of up to EUR 53,328,662.00, divided into up to 53,328,662 new no-par value bearer shares, was created with a corresponding amendment to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and / or bonds with warrants, profit participation rights or profit participation bonds (or combinations of these instruments) which were issued or will be issued (i) on the basis of the authorisation resolved by the Annual General Meeting on 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) and / or (ii) on the basis of the authorisation resolved by the Annual General Meeting on 11 February 2019 under Agenda Item 2 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect subsidiaries and grant a conversion or option right to new no-par value bearer shares of the Company or establish a conversion or option 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 increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights or the holders with a conversion or option obligation fulfil their conversion or option obligation, unless cash compensation is granted or treasury shares or shares created from authorised capital are used for servicing. The shares participate in the profit – if they are created by the exercise of rights up to the beginning of the Annual General Meeting of the Company – from the beginning of the previous financial year, otherwise from the beginning of the financial year in which they are created by the exercise of subscription rights. The Executive Board is authorised, with the approval of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase. The conditional capital 2019 / I had not been utilised by the reporting date.

Authorisation to repurchase own shares

The Company is authorised to acquire own shares up to 10 % of the share capital existing on the date of the resolution – or if lower – up to 10 % of the share capital existing on the date when exercising the authorisation from the date of resolution of 29 May 2019 for five years. The authorisation may be exercised in whole or in part, once or several times. The Company does not hold any of its own shares as of the reporting date.

5. NON-CURRENT LIABILITIES

5.1 Deferred tax assets and liabilities

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the tax balance sheet or for unused tax loss carryforwards (liability method). In assessing the realisability of deferred tax assets, DEMIRE considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realised. The realisability of deferred tax assets depends on whether, at the time of reversal of the temporary differences, taxable income is generated from which the temporary differences can be deducted. The basis for this assessment is the tax planning of DEMIRE. Deferred tax assets for tax loss carryforwards were recognised in the amount of EUR 6,516 thousand (previous year: EUR 5,016 thousand). It is expected that no deferred taxes will be realised within the first twelve months, but after the first twelve months following the reporting date.

Deferred taxes are measured using the local tax rates expected to apply when the asset is realised or the liability is settled. The tax rates applicable on the reporting date are used as a basis. The effects of changes in tax law are recognised in profit or loss in the year in which the changes take effect. Deferred taxes relating to items recognised directly in equity are not recognised in the income statement but directly in equity. Deferred tax assets are impaired if it becomes unlikely that the future tax benefits will be realised. Deferred tax assets and liabilities are offset against each other if the claims and obligations relate to the same tax authority.

DEMIRE recognised deferred taxes for temporary differences of Fair Value REIT-AG by applying the company-specific tax rate as at the reporting date. As Fair Value REIT-AG is generally exempt from taxes, no taxes are incurred at the level of Fair Value REIT-AG as long as its status as a tax-exempt REIT (Real Estate Investment Trust) is maintained. Nevertheless, deferred taxes were 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 liabilities consist of temporary differences in the following balance sheet items:

in EUR thousands	31/12/2019	31/12/2018
Tax loss carryforwards	6,516	5,016
Financial liabilities	0	0
Deferred tax assets before offsetting	**6,516**	**5,016**
Investment properties	79,635	65,457
Financial liabilities	2,398	1,609
Deferred tax liabilities before offsetting	**82,031**	**67,066**
Offsetting of deferred tax assets with liabilities	– 6,516	– 5,016
Deferred tax liabilities	**75,518**	**62,050**

Regarding the deferred tax assets recognised on tax loss carryforwards before offsetting in the amount of EUR 6,516 thousand (previous year: EUR 5,016 thousand), the requirements of IAS 12.74 have been met.

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

in EUR thousands	01/01/2019	STATEMENT OF INCOME	31/12/2019
Investment properties	– 65,457	– 14,176	– 79,633
Tax loss carryforwards	5,016	1,500	6,516
Financial liabilities	– 1,609	– 789	– 2,398
Total	**– 62,050**	**– 13,465**	**– 75,515**

The item “financial liabilities” refers primarily to deferred taxes related to the 2019 / 2024 corporate bond.

Tax loss carryforwards and deductible temporary differences that were not considered when calculating deferred taxes and that generally do not expire, amounted to EUR 34,708 thousand (previous year: EUR 26,524 thousand). In the year under review, there are unrecognised deferred tax assets in the amount of EUR 5,492 thousand (previous year: EUR 4,199 thousand).

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

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

5.2 Minority interests

Minority interests reported under the Group’s liabilities concern the capital of limited partners, who are mainly natural persons, in real estate funds in the legal form of a GmbH & Co. KG totalling EUR 78,682 thousand as at the reporting date (previous year: EUR 73,085 thousand). The increase in minority interests mainly results from an increase in valuation gains. Please refer to the information on the statement of income in Note D.8.

5.3 Financial liabilities

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

The following table shows the nominal value of financial liabilities as at 31 December 2019:

FINANCIAL LIABILITIES in EUR thousands	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2019 / 2024 corporate bond	590,024	0	590,024
Other financial liabilities	192,321	24,624	216,945
Total	**782,345**	**24,624**	**806,969**

Financial liabilities as at 31 December 2018 consisted of the following:

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

The following table shows the nominal value of financial liabilities as at 31 December 2019:

FINANCIAL LIABILITIES in EUR thousands	FIXED INTEREST	VARIABLE INTEREST	TOTAL
2019 / 2024 corporate bond	600,000	0	600,000
Other financial liabilities	191,047	24,624	215,671
Total	**791,047**	**24,624**	**815,671**

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

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

The difference between the carrying amounts of financial liabilities and their nominal values is due to the subsequent measurement of financial liabilities at amortised cost using the effective interest method in accordance with IFRS 9.

The interest on variable interest-bearing bank loans is based on EURIBOR plus an appropriate margin.

Other financial liabilities mainly comprise financial liabilities to credit institutions at a weighted average nominal interest rate of 1.74 % (31 December 2018: 3.16 %). The weighted average nominal interest rate on all financial liabilities amounted to 1.84 % p. a. as at 31 December 2019 (31 December 2018: 3.00 % p. a.).

The promissory note with a nominal interest rate of 4.00 % was fully repaid in November 2019 within the scope of the issue of the new 2019 / 2024 corporate bond with a volume of EUR 600,000 thousand.

The new corporate bond represents a significant portion of financial liabilities. The bond has a nominal interest rate of 1.875 % and matures in 2024.

As at the reporting date, financial liabilities were collateralised by assets in the amount of EUR 215,671 thousand (previous year: EUR 434,624 thousand). As in the previous year, no assets of DEMIRE had been encumbered with a mortgage as a guarantee for third-party liabilities.

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

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

2017 / 2022 corporate bond

The 2017 / 2022 corporate bond was fully repaid early on 11 October 2019 in the course of the 2019 / 2024 bond issue.

As at the reporting date of 31 December 2017, the 2017 / 2022 unsecured corporate bond was issued for the full nominal amount of EUR 400,000,000 thousand.

In the 2017 financial year, DEMIRE AG placed an unsecured corporate bond with an issue volume of EUR 400,000 thousand. The corporate bond had a maturity of five years and was due on 15 July 2022. The bond had a coupon of 2.875 % p. a., which was paid to investors in arrears semi-annually. The bond was trading on the open market of the Luxembourg Stock Exchange under ISIN XS1647824173 (Sale under Regulation S) and XS1647824686 (Sale under Rule 144A). The corporate bond was awarded a BB+ and a Ba2 rating, respectively, from the Standard & Poor's and Moody's rating agencies.

2019 / 2024 corporate bond

As at the reporting date of 31 December 2019, the 2019 / 2024 unsecured corporate bond was issued for the full nominal amount of EUR 600,000 thousand.

DEMIRE AG placed an unsecured corporate bond with an issue volume of EUR 600,000 thousand in the 2019 financial year. The bond has a term of five years, maturing on 15 October 2024. The bond features a coupon of 1.875 %. p. a., which is paid out to investors every six months in arrears. On 11 October 2019, the corporate bond commenced trading on the open market of the Luxembourg Stock Exchange under ISIN: DE000A2YPAK1, with a total nominal amount of EUR 600,000 thousand. The corporate bond was awarded a "BB+" rating from the Standard & Poor's rating agency and a "Ba2" rating from Moody's rating agency.

If new financial liabilities are assumed in accordance with the terms and conditions of the 2019 / 2024 corporate bond, DEMIRE AG is obliged to comply with the requirements of the financial covenants. If these covenants are not complied with this would lead to extraordinary terminations by the bond creditors and consequently repayment obligations on the part of the Company. It would also result in additional restrictions on the distribution of dividends. The financial covenants include different financial ratios and, specifically, the net loan to value (net LTV), which may not exceed 60 % during the term of the bond. A further key ratio is the interest coverage ratio, which may be no less than 175 % during the period from the placement of the corporate bond until 31 March 2021 and no less than 200 % as from 1 April 2021. The obligation to review and calculate the financial covenants only applies in the course of further borrowings. The monitoring, compliance and reporting of the financial covenants was carried out by the management, treasury and asset management of DEMIRE. No financial covenants were breached as at the reporting date of 31 December 2019.

Changes in financial liabilities

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

in EUR thousands	FINANCIAL LIABILITIES
31 / 12 / 2018	**636,572**
Cash-effective changes	
Proceeds from the assumption of financial liabilities	704,883
Payments for the redemption of financial liabilities	– 540,885
Non-cash changes	
Valuation effects from the calculation of effective interest	– 6,846
Residual amortisation from redeemed financial liabilities	10,183
Accrued interest	2,809
Other valuation effects	253
31 / 12 / 2019	**806,969**

in EUR thousands	FINANCIAL LIABILITIES
31 / 12 / 2017	**694,914**
Cash-effective changes	
Proceeds from the assumption of financial liabilities	41,083
Payments for the redemption of financial liabilities	– 84,955
Non-cash changes	
Effect of the conversion of the convertible bond and mandatory convertible bond	– 10,735
Present value increase according to IFRS 9	– 8,048
Valuation effects from the calculation of effective interest	4,648
Accrued interest	– 388
Other valuation effects	92
31 / 12 / 2018	**636,572**

The net proceeds from the newly issued 2019 / 2024 corporate bond were mainly used for the early refinancing of the 2017 / 2022 corporate bond (volume: EUR 366.6 million, coupon 2.875 %, ISIN XS1647824173 / ISIN XS1647824686) and the promissory note (volume: EUR 142.1 million, coupon 4 %).

Of the other financial liabilities of EUR 216,936 thousand, a total of EUR 57,223 thousand were classified as current in the reporting period, as the maturity of these financial liabilities is expected to occur in the following period.

5.4 Other non-current liabilities

The other non-current liabilities of EUR 837 thousand (previous year: EUR 1,157 thousand) mainly relate to compensation payments to minority shareholders in accordance with Section 304 AktG as part of the profit and loss transfer agreements concluded in 2017 (EUR 830 thousand). Please refer to section C for further details.

6. CURRENT LIABILITIES

6.1 Provisions

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

DEMIRE assumes that the provisions will be fully utilised in the following 2020 financial year since they are all to be classified as current.

Provisions developed as follows during the reporting period:

in EUR thousands	31/12/2018	UTILISATION	REVERSALS	ADDITIONS	31/12/2019
Staff costs	952	-417	-482	1,801	1,854
Other provisions	350	0	0	0	350
Total	**1,302**	**-417**	**-482**	**1,801**	**2,204**

Provisions developed as follows during the previous year:

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

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

6.2 Trade payables and other liabilities

Liabilities are recognised at amortised cost after their initial recognition.

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

in EUR thousands	31/12/2019	31/12/2018
Purchase price liabilities	12,593	69
Trade payables	7,811	14,754
Accounting and audit costs	990	646
Compensation payments	945	675
Liabilities from value-added taxes	286	739
Debtors with net credit balances	280	13
Personnel-related expenses	55	68
Liabilities to former minority shareholders	0	4
Other	5,305	997
Total	**28,264**	**17,965**

The purchase price liability of EUR 12,593 thousand (previous year: EUR 69 thousand) consists primarily of the purchase price retention of EUR 5,000 thousand for the acquired fashion centre in Neuss, liabilities from real estate transfer tax for the acquired fashion centre in Neuss (EUR 4,225 thousand) and the design hotel in Frankfurt (EUR 2,700 thousand).

As was the case on 31 December 2018, all trade payables as at 31 December 2019 amounting to EUR 7,811 thousand (previous year: EUR 14,754 thousand) are current in nature.

Compensation payments concern guaranteed dividends to non-controlling shareholders under profit and loss transfer agreements.

6.3 Tax liabilities

Current income tax liabilities of EUR 4,948 thousand (previous year: EUR 2,486 thousand) are divided into trade taxes of EUR 836 thousand (previous year: EUR 697 thousand) and corporate taxes of EUR 4,112 thousand (previous year: of EUR 1,789 thousand). The increase in current tax liabilities is essentially due to taxable gains on the sale of the Stahnsdorf and Berlin-Marzahn properties.

7. LEASES

The amendments to IFRS 16 have a material effect on the current consolidated financial statements of DEMIRE due to the significant changes in accounting concerning lessees.

7.1 Operating leases – DEMIRE as lessor

Minimum lease payments consist of the net rents payable until the agreed end of the contract or the earliest possible termination date available to the lessee (tenant), regardless of whether a termination or non-utilisation of an extension option should 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 exist for leased commercial real estate.

in EUR thousands	31/12/2019	31/12/2018
Due within 1 year	85,159	72,399
Due between 1 and 5 years	211,227	196,692
Due after more than 5 years	92,487	66,600
Total future rental income	**388,873**	**335,691**

7.2 DEMIRE as lessee

The number of cases in which DEMIRE acts as lessees has increased over the prior year because of the acquisition of the four additional property companies. For this reason, total assets increased as at December 2019 to include leasehold contracts (EUR 16,079 thousand) and the corresponding lease liability of the newly acquired department store portfolio in the amount of EUR 17,549 thousand.

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

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

Lease assets and liabilities are initially recognised at present value.

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

The following amounts related to leases are shown in the balance sheet:

RIGHTS-TO-USE in EUR thousands	31/12/2019	31/12/2018
Rights-of-use for rented properties	17,671	1,592
Vehicles	56	52
Total	**17,727**	**1,644**

Additions to rights-of-use in the 2019 financial year amounted to EUR 16,079 thousand and relate to the rights from leasehold contracts of to the acquired department store portfolio.

The rights-of-use for leased property is reported under investment properties. The rights-of-use for vehicles are reported under property, plant and equipment

LEASE LIABILITIES in EUR thousands	31/12/2019	31/12/2018
Non-current	18,717	1,600
Current	492	137
Total	**19,209**	**1,737**

Lease liabilities essentially comprise the obligations from the leasehold contracts of the acquired department store portfolio (EUR 17,549 thousand), the obligations from the permanent right-of-use for an underground car park in Ulm (EUR 1,600 thousand) and the DEMIRE vehicle fleet (EUR 59 thousand).

The increase in lease liabilities resulted from the leasehold obligations of the acquired department store portfolio, EUR 17,200 thousand of which were classified as non-current and EUR 349 thousand as current at the end of the reporting period. The leasehold contracts are set to expire no later than November 2044. The present value of lease liabilities acquired in 2019 is calculated using an average incremental borrowing rate of 3.02 %.

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

AMORTISATION EXPENSE FOR RIGHTS-OF-USE in EUR thousands	2019	2018
Rights-of-use for leased properties	0	120
Vehicles	40	88
Total	**40**	**208**

OTHER LEASE EXPENSES in EUR thousands	2019	2018
Interest expense (included in financial expense)	239	65
Low-value lease expenses that are not short-term leases	**0**	**12**

Of the lease interest expense of EUR 239 thousand, a total of EUR 185 thousand concerns interest expenses on leasehold contracts of the acquired department store portfolio.

The cash outflows for leases in 2019 came to a total of EUR 641 thousand (previous year: EUR 341 thousand), of which EUR 466 thousand is attributable to leasehold payments.

OTHER LEASE EXPENSES OBLIGATIONS in EUR thousands	31/12/2019	31/12/2018
Due within one year	492	141
Due between 1 and 5 years	3,286	538
Due after more than 5 years	15,431	1,058
Total	**19,209**	**1,737**

8. CONTINGENT LIABILITIES

The following contingent liabilities existed as at the reporting date for matters for which DEMIRE AG or its subsidiaries have pledged guarantees in favour of third parties.

The contingent liabilities as at 31 December 2019 consist of mortgages under Section 1191 BGB in the amount of EUR 440,433 thousand (previous year: EUR 434,624 thousand). The maximum liability for these properties is limited to the carrying amount as at the reporting date of EUR 440,433 thousand (previous year: EUR 434,624 thousand).

In addition to the credit agreement with SÜDWESTBANK AG, Stuttgart, dated 8 April 2016, an agreement governing an additional funding requirement was concluded on that same date. The additional funding requirement relates to the pledging agreement contained in the credit agreement. Under this agreement, a total of 3,400,000 shares of Fair Value REIT-AG held in custody accounts of the subsidiaries FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, FVR Beteiligungsgesellschaft Siebente mbH & Co. KG and FVR Beteiligungsgesellschaft Achte mbH & Co. KG (all based in Frankfurt am Main) are pledged as guarantees. If the market price of the pledged shares falls below a total value of EUR 15,000 thousand, corresponding to EUR 4.41 per share, DEMIRE AG undertakes to provide additional guarantees to the lender providing up to EUR 15,000 thousand of total coverage. DEMIRE AG does not expect the pledged guarantees to be utilised because Fair Value REIT-AG's share price has been trading significantly above EUR 6.31 per share since 2015 (31 December 2019: EUR 8.15).

9. OTHER FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

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

OTHER FINANCIAL OBLIGATIONS in EUR thousands	**31/12/2019**	**31/12/2018**
Due within 1 year	55,196	2,180
Due between 1 and 5 years	0	400
Due in more than 5 years	4,485	620
Total	**59,681**	**3,200**

The real estate purchase agreements concluded in the 2019 financial year that were not still in effect as at the reporting date, resulted in financial obligations as at 31 December 2019 of EUR 42,950 thousand.

Contractual obligations exist for conversion and expansion measures at the real estate properties in Bad Vilbel (EUR 1,500 thousand), Leipzig Gutenberg-Galerie (EUR 500 thousand), Leipzig, Am Alten Flughafen (EUR 300 thousand) Kempten (EUR 900 thousand) and Bremen (EUR 500 thousand). These obligations are fixed in their scope.

The purchase order commitment from commissioned maintenance amounted to EUR 3,490 thousand (previous year: EUR 378 thousand).

As at the reporting date, obligations for future leasehold payments, from which the Group cannot withdraw, amounted to EUR 18,717 thousand (previous year: EUR 1,600 thousand), of which EUR 521 thousand (previous year: EUR 81 thousand) relates to the current portion of obligations due within one year.

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 reportable business segments "Core Portfolio" and "Fair Value REIT". The focus is on the sustainable management of the respective properties. These properties are held for the purpose of generating rental income and value appreciation.

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

Fair Value REIT is listed in the General Standard and, due to its status as a REIT company, is subject to the requirements of the REIT Act. When making management decisions, these requirements must be considered. As a result, a distinction is made between the Core Portfolio segment and the Fair Value REIT segment. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

2019 in EUR thousands	CORE PORTFOLIO	FAIR VALUE REIT	CORPORATE FUNCTIONS / OTHERS	GROUP
External revenues	118,286	28,268	1,000	147,554
Total revenues	**118,286**	**28,268**	**1,000**	**147,554**
Profit / loss from fair value adjustments in investment properties	70,500	12,523	0	83,022
Other income	3,836	323	167	4,327
Segment revenues	**192,622**	**41,114**	**1,167**	**234,903**
Expenses relating to the sale of real estate	– 28,127	– 1,200	0	– 29,327
Other expenses	– 27,452	– 14,949	– 8,005	– 50,407
Segment expenses	**– 55,579**	**– 16,149**	**– 8,005**	**– 79,734**
EBIT	**137,043**	**24,965**	**– 6,838**	**155,170**
Financial income	183	6	1,100	1,288
Financial expenses	– 26,177	– 2,351	– 22,331	– 50,860
Interests of minority shareholders	0	– 7,743	0	– 7,743
Income taxes	– 12,031	– 2,327	– 3,759	– 18,117
Net profit / loss for the period	**99,017**	**12,549**	**– 31,829**	**79,738**
Significant non-cash items	**– 74,311**	**– 10,190**	**3,759**	**– 80,742**
Impairment losses in net profit / loss for the period	**159**	**224**	**246**	**629**

31/12/2019 in EUR thousands	CORE PORTFOLIO	FAIR VALUE REIT	CORPORATE FUNCTIONS/OTHERS	GROUP
SEGMENT ASSETS	**1,242,695**	**356,543**	**78,178**	**1,677,416**
thereof tax refund claims	97	7	1,426	1,530
thereof additions to non-current assets	298,053	695	0	298,749
thereof non-current assets, held for sale	15,637	668	0	16,305
SEGMENT LIABILITIES	**811,543**	**199,429**	**5,661**	**1,016,633**
thereof non-current financial liabilities	691,195	46,637	0	737,832
thereof lease liabilities	19,150	0	59	19,209
thereof current financial liabilities	18,186	50,951	0	69,137
thereof tax liabilities	3,145	0	1,803	4,948

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

In the financial year, more than 10 % of total revenue in the amount of EUR 22,560 thousand (previous year: EUR 22,265 thousand) were generated with one customer in the “Core Portfolio” segment).

In the “Core Portfolio” segment, non-cash items mainly comprise fair value adjustments in investment properties in the amount of EUR 70,500 thousand (previous year: EUR 70,059 thousand), income taxes of EUR 2,868 thousand (previous year: EUR – 455 thousand) and the profit/loss from investments accounted for using the equity method in the amount of EUR 165 thousand (previous year: EUR 101 thousand).

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

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

31 / 12 / 2018 in EUR thousands	CORE PORTFOLIO	FAIR VALUE REIT	CORPORATE FUNCTIONS / OTHERS	GROUP
SEGMENT ASSETS	**873,156**	**345,813**	**159,723**	**1,378,692**
thereof tax refund claims	12	9	2,863	2,884
thereof additions to non-current assets	96,144	23,249	185	119,578
thereof non-current assets, held for sale	12,262	0	0	12,262
SEGMENT LIABILITIES	**566,604**	**205,466**	**24,284**	**796,354**
thereof non-current financial liabilities	514,602	91,802	0	606,404
thereof lease liabilities	1,683		54	1,737
thereof current financial liabilities	9,583	20,584	0	30,168
thereof tax liabilities	2,283	0	203	2,486

G. OTHER DISCLOSURES

1. FINANCIAL INSTRUMENTS

In general, please refer to the risk report in the combined management report.

Financial risk management

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

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

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

Loan agreements exist in the Group that contain certain financial covenants stipulated by the creditors. Non-compliance with these financial covenants could lead to extraordinary terminations of these agreements by the creditors. The financial covenants concern financial ratios of the respective real estate portfolio, particularly the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and the loan-to-value (LTV) debt ratio. The calculations are based on the specifications set by the creditors in the loan agreement. The monitoring, compliance and reporting of the financial covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and portfolio management areas. Depending on the type of financing, the financial covenants are reported to the creditors on a quarterly, semi-annual or annual basis, or the creditors are provided with the underlying economic ratios. Should DEMIRE fail to comply with the financial covenants, the creditors would be entitled to demand additional guarantees from

DEMIRE. In that case, the loans would be in default. If the default persisted for a longer period of time and could not permanently be resolved, the creditors have a special right of termination.

All financing obligations, including the financial covenants, were complied with during the reporting period (see Note E. 5.3).

Foreign currency risk

There is no foreign currency risk for the existing portfolio of commercial real estate in Germany because all transactions are conducted in euros.

Interest rate risk

To finance its German commercial real estate, the DEMIRE Group uses liabilities with fixed interest loans to a degree customary for the industry as well as tradeable instruments that contain options for conversion into shares of the Company or Fair Value REIT-AG.

Interest rate risk relating to cash flows exists with respect to liquid funds placed in deposit accounts as well as variable interest rates. The Company does not anticipate significant negative effects from interest rate changes over the long term because the liquid funds on the reporting date are only available until investments are made and will be subsequently tied up in projects according to plan.

DEMIRE uses liabilities, partly with variable interest rates, to finance its properties. DEMIRE is thus exposed to a risk of interest rate changes as a rise in interest rates increase the financing costs. Numerous loans with variable interest rates were redeemed in the previous financial year. Due to the limited amount of interest rate risk, there is no hedging.

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

MEASUREMENT OF INTEREST RATE SENSITIVITY in EUR thousands	2019	2018
Interest expense from variable interest loans	411	684
Increase in interest expenses from a fictitious rise of 100 bps in variable interest rates	253	387
Decrease in interest expenses from a fictitious decline of 100 bps in variable interest rates	– 253	– 385

Since transaction prices for real estate increase when interest rates are low, the level of interest rates also has an impact on the purchase prices of newly acquired real estate. In addition, interest rates play an important role in the valuation of investment properties.

The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board of DEMIRE AG.

Credit risk

The reported financial instruments represent the maximum credit risk and default risk. Counterparty risk is uniformly assessed and monitored within the framework of Group-wide risk management. The aim is to minimise the risk of defaults. Counterparty risk is not insured. There are generally no significant concentrations of credit risk at DEMIRE. Rental deposits amounting alltogether to EUR 1,050 thousand (previous year: EUR 1,327 thousand) are available as security in the event a tenant default. For an analysis of the impaired receivables, please refer to Note E.2.2.

Liquidity risk

Liquidity management serves the purpose of ensuring the Group's solvency at all times. In principle, there is the risk that the Company may not have sufficient liquidity at all times during the year to meet its current obligations, and that the refinancing of expiring financial liabilities may not be obtained or may only be obtained at less favourable conditions than planned. Additionally, liquidity requirements may also arise due to events beyond DEMIRE's control due to the operating and other risks mentioned below. The cash and cash equivalents available as at the reporting date and the cash flow planned for 2020 are sufficient for the current requirements of current business operations.

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 EPRA NAV), which is also an important indicator for investors, analysts and banks. For a detailed explanation, please refer to the combined management report.

Other disclosures on financial instruments

Financial assets and financial liabilities are classified and accounted for at the date of acquisition according to the categories of IFRS 9. The accounting policies are presented in section C of the Notes.

The classification of financial instruments required by IFRS 7 is in line with the respective items in the consolidated balance sheet. The tables below present the carrying amounts, valuations and fair values of the financial assets and liabilities for each individual category of financial instruments and reconcile these values to the measurement categories. Under IFRS 9, the relevant measurement category for DEMIRE is "at amortised cost".

Other financial liabilities (other liabilities) are non-derivative financial liabilities that are subsequently measured at amortised cost. Differences between the amount received and the expected repayment amount are spread over the term through profit or loss. DEMIRE allocates financial liabilities and other liabilities to this category.

31 DECEMBER 2019 in EUR thousands	MEASUREMENT CATEGORY	CARRYING AMOUNT UNDER IFRS 9	FAIR VALUE
Trade accounts receivable and other receivables	At amortised cost	36,771	36,771
Cash and cash equivalents	At amortised cost	102,139	102,139
Bonds	At amortised cost	590,024	611,046
Other non-current financial liabilities	At amortised cost	149,808	150,545
Trade payables	At amortised cost	10,041	10,041
Other liabilities	At amortised cost	19,060	19,060
Current financial liabilities	At amortised cost	69,137	69,137
Compensation payments to minority shareholders	FVTPL	1,774	1,774

31 DECEMBER 2018 in EUR thousands	MEASUREMENT CATEGORY	CARRYING AMOUNT UNTER IFRS 9	FAIR VALUE
Trade accounts receivable and other receivables	At amortised cost	16,879	16,879
Cash and cash equivalents	At amortised cost	190,442	190,442
Bonds	At amortised cost	361,208	358,156
Other non-current financial liabilities	At amortised cost	246,656	248,393
Trade payables	At amortised cost	15,413	15,413
Other liabilities	At amortised cost	2,552	2,552
Current financial liabilities	At amortised cost	28,708	28,708
Compensation payments to minority shareholders	FVTPL	1,831	1,831

Fair value is the amount at which financial assets and liabilities could be exchanged between independent business partners on the valuation date. For the purpose of determining the fair value of the bond and other non-current financial liabilities, please refer to section C. Due to the short maturity of cash and cash equivalents, trade accounts receivable and trade payables and other current receivables and liabilities, it is assumed that the respective fair value corresponds to the carrying amount. The lease liabilities of EUR 19,209 thousand are not recognised in accordance with IFRS 9, but in accordance with IFRS 16.

NET GAINS / LOSSES ON FINANCIAL INSTRUMENTS IN 2019 in EUR thousands		**OF WHICH INTEREST**
Assets		
At amortised cost	2,127	1,109
Liabilities		
At amortised cost	– 51,336	– 50,860

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

LaR: Loans and Receivables
AmC: Amortised Cost (financial liabilities recognised at amortised cost
n / a: non-applicable

The following table shows the future cash outflows for interest and repayment of nominal obligations from financial liabilities:

31/12/2019 in EUR thousands	2020	2021	2022	2023	2024	AFTER 31/12/2024
2019/2024 corporate bond	11,404	11,250	11,250	11,250	611,281	0
Bank liabilities	66,472	8,836	8,800	8,764	88,662	44,610
Lease liabilities	1,104	1,083	1,065	1,064	1,064	13,829
Trade payables	10,041	0	0	0	0	0
Other liabilities	20,161	0	0	0	0	0
Total	**109,182**	**21,169**	**21,115**	**21,078**	**701,007**	**58,439**

31/12/2018 in EUR thousands	2019	2020	2012	2022	2023	AFTER 31/12/2023
Debentures	10,540	10,540	10,540	377,599	0	0
Bank liabilities	22,166	17,017	7,429	31,818	4,641	53,750
Other financial debt	6,429	6,415	6,370	141,674	0	0
Lease liabilities	136	131	131	131	131	1,477
Trade payables	15,413	0	0	0	0	0
Other liabilities	5,310	789	414	137	0	0
Total	**59,994**	**34,892**	**24,884**	**551,359**	**4,772**	**55,227**

2. RELATED PARTY DISCLOSURES

Related companies and persons

Companies and persons are considered to be related if they have the ability to control DEMIRE and its subsidiaries or exercise significant influence over their financial and operating policies. The existing control relationships were taken into account to determine the degree of significant influence that related companies and persons have on the Company's financial and operating policies. As at the reporting date, AEPF III 15 S.à r.l. Luxembourg/Luxembourg held 64.07% of DEMIRE and is thus the direct parent company. The ultimate parent company is BRH Holdings GP Ltd., Grand Cayman, Cayman Islands. The consolidated financial statements of DEMIRE AG are the largest and the smallest scope of consolidation in which DEMIRE AG is included.

The group of related companies includes the fully consolidated subsidiaries, joint ventures and associated companies accounted for using the equity method.

Due to their significant influence, the following key personnel of the parent company are considered to be related persons as defined by IAS 24:

- Members of DEMIRE's Executive Board (see Note G.4.a.) and their close relatives and
- Members of DEMIRE's Supervisory Board (see Note G.4.b.) and their close relatives.

Legal transactions with related companies and persons

In the financial year under review, transactions with related parties were exclusively carried out at customary market conditions.

The transactions, revenues and rendering of services between DEMIRE AG and its subsidiaries are settled in the same manner as those between unrelated parties and eliminated in the context of consolidation. Therefore, they are not explained in the notes.

As in the prior year, no transactions were concluded with companies accounted for using the equity method in the reporting period (previous year. EUR 0 thousand).

For information on financial receivables and other financial assets, please refer to Note E.2.3.

3. AUDITOR'S FEE

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

in EUR thousands	**2019**	2018
Auditing services	480	401
Other assurance services	165	367
Tax consultation services	0	0
Other services	0	0
	645	**768**

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has been appointed as the auditor starting in the 2018 financial year.

In addition to the auditing services, other assurance services (non-audit services) were provided in the financial year 2019 in connection with the granting of comfort letters within the scope of the issue of the new 2019/2024 bond.

4. EXECUTIVE BOARD, SUPERVISORY BOARD AND EMPLOYEES

a. Executive Board

The Executive Board consisted of the following members as of the 2018 financial year:

- Ingo Hartlief (Chairman of the Executive Board since 20 December 2018)
- Tim Brückner (Member of the Executive Board since 1 February 2019)
- Ralf Kind (CEO / CFO until 3 January 2019)

In the 2019 financial year, DEMIRE AG recognised variable remuneration in the amount of EUR 240 thousand (previous year: EUR 180 thousand), fixed remuneration of EUR 1,083 thousand (previous year: EUR 396 thousand) and share-based payments of EUR 159 thousand (previous year: EUR 302 thousand) for the members of the Executive Board. In the prior year, the Executive Board at times consisted of two members.

in EUR thousands	2019	2018
Short-term benefits	1,323	572
Post-employment benefits	0	0
Other long-term benefits	0	0
Benefits related to termination of employment	0	0
Share-based remuneration	159	302
Total	**1,482**	**874**

As at the reporting date, EUR 461 thousand (previous year: EUR 302 thousand) of share-based payments and EUR 920 thousand (previous year: EUR 180 thousand) of bonus payments were still outstanding.

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

in EUR thousands	FIXED REMUNERATION	VARIABLE REMUNERATION	SHARE-BASED PAYMENTS	TOTAL 2019
Ingo Hartlief	835*	190	126	1,151
Tim Brückner	245	50	33	328
Ralf Kind	3	0	0	3
Total	**1,083**	**240**	**159**	**1,482**

*This amount includes a one-time payment for the waiver of the special termination right in the amount of EUR 500 thousand.

The remuneration of the active Executive Board members in the prior year consisted of the following:

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

The amount of any remaining compensation to which Mr. Ralf Kind may still be entitled is open, as these issues are currently the subject of pending legal proceedings; however, a provision amounting to EUR 420 thousand has been recognised in accordance with IAS 19.

Reference is made to the explanations in the remuneration report contained in the combined management report.

No loans or advances were granted to members of the Executive Board and no contingencies were assumed for the benefit of Executive Board members.

b. Supervisory Board

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

NAME	POSITION	PROFESSION	PERIOD	2019	2018
Prof Dr Alexander Goepfert	Chair	Attorney at Law	Since 27 June 2018	90	46
Prof Dr Hermann Anton Wagner	Chair	Auditor and tax consultant	Since 17 April 2013 to 27 June 2018	0	44
Diplom-Volkswirt Frank Hölzle	Deputy Chair	Managing Director	Since 14 February 2017	60	60
Dr Thomas Wetzel	Member	Attorney at Law	Since 14 February 2017 to 29 May 2019	12.5	30
Prof Dr Kerstin Hennig	Member	Honorary Professor	Since 29 May 2019	17.5	0
Total				**180**	**180**

Supervisory Board members were also reimbursed for travel expenses in the amount of EUR 15 thousand (previous year: EUR 9 thousand).

The members of the Executive Board were not granted any loans or advances, and no contingencies were assumed for their benefit.

c. Employees

The number of employees is listed in the following table:

	31/12/2019	31/12/2018
Executive Board members	2	2
Permanent employees	41	74
Trainees	**0**	0
Total	**43**	**76**

The average number of employees in the 2019 financial year was 38 (previous year: 91).

The decrease in the number of employees in 2019 is primarily due to the deconsolidation of Praedia GmbH, Berlin, and DEMIRE Immobilien Management GmbH, Berlin, in the previous reporting period.

For the first time in the reporting period, the employees of PANACEA Property GmbH, which was not consolidated for reasons of materiality, were not included in the calculation of the number of employees. In the prior period, PANACEA Property GmbH had eight employees and five employees on average.

d. Share-based payments

2015 Stock option programme

In the 2015 financial year, share-based payments were issued in the form of subscription rights (stock options) to the Executive Board of DEMIRE AG as well as to a selected group of persons within the DEMIRE Group. The stock option programme is an option plan, which is settled with equity instruments (equity-settled share option plan). The option plan only provides for the possibility of settling the stock option programme in shares of DEMIRE AG. Accounting for the share-based payments issued is in accordance with IFRS 2.

The dilutive effect of the outstanding stock options is taken into account as an additional dilution in the calculation of earnings per share, provided that the stock options and the underlying conditions result in a notional dilution for the existing shareholders.

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.

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 200,000 to selected DEMIRE AG and Group employees. The fair value of each option from the first tranche was EUR 2.74. In a second tranche, a total of 60,000 stock options were newly issued, net of stock options that were returned by employees who had left the Company (90,000 stock options). The fair value of each option from the second tranche was EUR 1.99. As at the reporting date, the first tranche still contains an entitlement to 400,000 stock options for one former member of the Executive Board and to 110,000 stock options for selected employees. In the reporting period, there were no changes in the number of shares issued in comparison to the previous period.

Staff costs from the "2015 Stock Option Plan" recognised in the reporting period amounted to EUR 4 thousand (previous year: EUR 1,357 thousand) and were reported under general and administrative expenses. The costs concern the pro-rata granted entitlement of one employee who left the Company in the reporting year.

2017 and 2018 virtual stock option programmes

The 2017 and 2018 virtual stock option programmes concerned the former Executive Board member Ralf Kind. The amount of any remaining compensation to which Mr. Ralf Kind may still be entitled is open, as these issues are currently the subject of pending legal proceedings; however, a provision amounting to EUR 420 thousand has been recognised in accordance with IAS 19.

2019 virtual stock option programme

This stock option programme was issued to the Executive Board with effect from 17 January 2019. Under this programme, each member of the Executive Board is annually granted “Performance Share Units” (PSUs) with an allocation amount of EUR 190 thousand for Ingo Hartlief and EUR 50 thousand for Tim Brückner. The number of PSUs granted is determined based on the allocation amount divided by the average share price of DEMIRE AG 60 trading days prior to the grant date. Granting takes place on 1 January of each year, and for the first time on 17 January 2019.

The PSUs are paid out after a performance period of 4 years from the grant date, depending on the achievement of performance targets. The performance targets consist of 50 % annual stock price increases and 50 % relative total shareholder return (TSR). The relative TSR compares the development of the DEMIRE TSR with the return of the EPRA / NAREIT Developed Europe Index UK over the four-year performance period. The entitlement forfeits if the respective member of the Executive Board resigns from office during the performance period.

As at 31 December 2019, the provision for the virtual stock option programme valid as of 2019 amounts to EUR 159 thousand and corresponds to the expenses for the 2019 financial year. In addition to the 2019 tranche, the 2020 and 2021 tranches were also taken into account. The 60-day average price before granting the 2019 tranche is EUR 4.21 for Ingo Hartlief and EUR 4.33 for Tim Brückner. With regard to the 2020 and 2021 tranches, a 60-day average of EUR 5.08 was used, which corresponds to the price on the last reporting date.

5. SUBSEQUENT EVENTS

No events of particular importance for DEMIRE’s net assets, financial position and results of operations occurred after the end of the reporting year.

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 to DEMIRE AG shareholders once per calendar year. The DECLARATION OF CONFORMITY with the German Corporate Governance Code was issued on 11 February 2020 and made permanently available to shareholders on the WEBSITE OF DEMIRE AG under the section titled “Company”.

Frankfurt am Main, 17 March 2020
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO)

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

www.demire.ag

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

COMPANY	INTEREST IN CAPITAL %	EQUITY 31/12/2019, EUR	NET PROFIT/LOSS 2019, EUR
GERMANY			
DEMIRE Apolda Wurzen GmbH (formerly: Glockenhofcenter Objektgesellschaft mbH), Berlin	94.9	2,978,803.44	281,415.93
DEMIRE HB HZ B HST GmbH (formerly: Hanse-Center Objektgesellschaft mbH), Berlin	94.9	19,667,339.95	11,036,417.88
DEMIRE Leipzig Am alten Flughafen 1 GmbH (formerly: Logistikpark Leipzig GmbH), Leipzig	94	3,282,959.28	0.00
DEMIRE Immobilien Management GmbH i.L., Berlin [4, 5]	100	238,683.10	191,442.08
Panacea Property GmbH, Berlin [1, 7]	51	1,212.94	5,446.12
Fair Value REIT-AG, Munich	79.39	84,616,828.96	3,997,622.39
IC Fonds & Co. Büropark Teltow KG, Munich [2]	62.05	1,057,098.38	−64,954.18
IC Fonds & Co. SchmidtBank-Passage KG, Munich [2]	42.93	7,014,590.43	−143,643.74
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich [22]	40.61	12,989,506.47	2,318,545.53
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich [2]	49.41	848,038.68	−42,669.01
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich [22]	46.27	6,591,665.48	1,118,728.11
GP Value Management GmbH, Munich	79.39	173,541.20	−5,478.60
BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich	79.39	26,242.08	−631.83
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	79.39	92,470.37	10,775.64
BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich	79.39	38,098.77	−4,665.85
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	79.39	80,653.76	8,081.25
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	79.39	71,802.42	8,103.27
BBV Immobilien-Fonds Erlangen GbR, Munich [2]	33.36	173,767.51	−69,751.34
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich [2]	41.47	6,409,843,69	−925.338.09
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich [2]	38.38	14,075,810.85	776,658.63
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt am Main	100	10,627,432.87	0.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Vierte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00

COMPANY	INTEREST IN CAPITAL %	EQUITY 31/12/2019, EUR	NET PROFIT/LOSS 2019, EUR
GERMANY			
FVR Beteiligungsgesellschaft Siebente mbH Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Achte mbH & Co. KG, Frankfurt am Main	100	8,750,356.15	0.00
FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main	100	–29,465.16	–24,945.43
DEMIRE Holding II GmbH (formerly: DEMIRE Commercial Real Estate GmbH), Frankfurt am Main	100	44,271,673.56	966,160.31
DEMIRE Unterschleißheim Ohmstraße 1 GmbH (formerly: DEMIRE Real Estate München 1 GmbH), Frankfurt am Main	100	151,825.15	130,594.90
DEMIRE Köln Leverkusen-Opladen GmbH (formerly: CAM Commercial Asset Management EINS GmbH), Frankfurt am Main	100	10,079,741.22	0.00
DEMIRE Hamburg Kandinskyallee GmbH (formerly: CAM Commercial Asset Management ZWEI GmbH), Frankfurt am Main	100	–709,919.65	10,974.95
DEMIRE Meckenheim Merl GmbH (formerly: CAM Commercial Asset Management DREI GmbH), Frankfurt am Main	100	91,926.49	0,00
DEMIRE Wismar Wuppertal GmbH (formerly: CAM Commercial Asset Management VIER GmbH) Frankfurt am Main	100	–1,242,702.48	527,953.03
Schwerin Margaretenhof 18 GmbH, Frankfurt am Main	94.9	–233,439.98	126,061.80
DEMIRE Holding III GmbH (formerly: DEMIRE Commercial Real Estate ZWEI GmbH), Frankfurt am Main	100	–81,906.15	0.00
DEMIRE Worms Liebenauer Straße GmbH (formerly: DEMIRE Objektgesellschaft Worms GmbH), Frankfurt am Main	94	310,324.66	–119,639.76
DEMIRE Schwerin Am Margaretenhof 22–24 (formerly: TGA Immobilien Erwerb 1 GmbH), Berlin	94	186,554.57	9,986.75
DEMIRE Holding IV GmbH (formerly: DEMIRE CONDOR Properties Management GmbH), Frankfurt am Main	100	–6,893,714.18	0.00
DEMIRE Holding V GmbH (formerly: DEMIRE Holding EINS GmbH), Frankfurt am Main	100	–4,906,789.41	0.00
DEMIRE Holding VI GmbH (formerly: Condor Real Estate Management EINS GmbH), Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VII GmbH (formerly: Condor Real Estate Management ZWEI GmbH), Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VIII GmbH (formerly: Condor Real Estate Management DREI GmbH, Frankfurt am Main	100	–54,662.65	0.00
DEMIRE Eschborn Frankfurter Straße GmbH (formerly: CONDOR Objektgesellschaft Eschborn GmbH), Frankfurt am Main	94	90,578.06	0.00
DEMIRE Bad Kreuznach Brückes Hochstr. GmbH (formerly: CONDOR Objektgesellschaft Bad Kreuznach GmbH), Frankfurt am Main	94	75,376.69	0.00
DEMIRE Holding IX GmbH (formerly: Condor Real Estate Management FÜNF GmbH), Frankfurt am Main	100	25,001.00	0.00
DEMIRE Düsseldorf Wiesenstraße 70 GmbH (formerly: CONDOR Objektgesellschaft Düsseldorf GmbH), Frankfurt am Main	94	17,896.00	0.00
DEMIRE Rendsburg Jungfernstieg 15 GmbH (formerly: CONDOR Objektgesellschaft Rendsburg GmbH), Frankfurt am Main	94	66,526.87	0.00
DEMIRE Bad Oeynhausen Dr. Neuhäußer Straße 4 GmbH (formerly: CONDOR Objektgesellschaft Bad Oeynhausen GmbH), Frankfurt am Main	94	37,528.89	0.00
DEMIRE Lichtenfels Bamberger Straße 20 GmbH (formerly: CONDOR Objektgesellschaft Lichtenfels GmbH), Frankfurt am Main	94	140,337.09	0,00
DEMIRE Holding I GmbH (formerly: DEMIRE Einkauf GmbH,) Frankfurt am Main	100	110,898.80	49,884.17

COMPANY	INTEREST IN CAPITAL %	EQUITY 31/12/2019, EUR	NET PROFIT/LOSS 2019, EUR
GERMANY			
DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf	47.5	1,050.00	143,888.75
G+Q Effizienz GmbH, Berlin	49	391,843.17	202,235.03
DEMIRE Kassel Kölnische Str. Mauerstr. Spohrstr. GmbH (formerly: Kurfürster Immobilien GmbH), Leipzig	94.9	473,226.03	0.00
DEMIRE Betriebsvorrichtungen Nr. 2 GmbH (formerly: Ritterhaus Immobilienverwaltungs GmbH), Düsseldorf	100	– 74,853.70	– 31,396.30
DEMIRE Limbach Oberfrohna Moritzstraße 13 GmbH (formerly: CONDOR Objektgesellschaft YELLOW GmbH), Frankfurt am Main	94	25,000.00	0.00
DEMIRE Betriebsvorrichtungen Nr. 1 GmbH (formerly: Condor Yellow BV GmbH), Frankfurt am Main	100	– 147,496.68	– 54,731.82
DEMIRE Holding XI GmbH (formerly: DEMIRE Commercial Real Estate DREI GmbH), Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding X GmbH (formerly: DEMIRE Commercial Real Estate VIER GmbH), Frankfurt am Main	100	18,980.41	0.00
DEMIRE Holding XII GmbH (formerly: DEMIRE Commercial Real Estate FÜNF GmbH), Frankfurt am Main	100	– 4,624,668.55	– 355,662.04
DEMIRE Holding XIII GmbH (formerly: DEMIRE Commercial Real Estate SECHS GmbH), Frankfurt am Main	100	– 127,734.77	– 54,050.13
DEMIRE AN BN R PM FR FL GmbH (formerly: DEMIRE Objektgesellschaft Germavest GmbH), Frankfurt am Main	94.9	39,395,085.67	0.00
DEMIRE Ulm Bahnhofplatz Olgastr. Zeitblomstr. GmbH (formerly: DEMIRE Objektgesellschaft Armstripe GmbH), Frankfurt am Main	94	– 18,245,192.26	– 3,646,983.68
DEMIRE Kempten Bahnhofstr. Hirschstr. Alpenstr. GmbH (formerly: DEMIRE Objektgesellschaft Briarius GmbH), Frankfurt am Main	94	– 3,839,184.54	– 980,179.63
DEMIRE Köln Max-Glomsda-Straße 4 GmbH (formerly: DEMIRE Ankauf 1 GmbH), Frankfurt am Main	100	– 32,250.22	– 49,107.47
DEMIRE Bad Vilbel Konrad Adenauer Allee 1 – 11 GmbH (formerly: DEMIRE Ankauf 2 GmbH), Frankfurt am Main	100	– 2,101,421.47	– 2,112,563.04
DEMIRE Essen Hatzper Str. Theodor-Althoff-Str. GmbH (formerly: DEMIRE Ankauf 3 GmbH), Frankfurt am Main	100	224,354.74	234,282.07
DEMIRE Aschheim Max-Planckstraße GmbH (formerly: DEMIRE Ankauf 4 GmbH), Frankfurt am Main	100	– 18,778.17	– 32,422.92
DEMIRE Ankauf 5 GmbH, Frankfurt am Main	100	100,372.92	76,621.59
DEMIRE Ankauf 6 GmbH, Frankfurt am Main	100	3,983.67	– 19,767.66
DEMIRE Ankauf 7 GmbH, Frankfurt am Main	100	4,015.25	– 19,736.08
DEMIRE Ankauf 8 GmbH, Frankfurt am Main	100	4,015.25	– 19,736.08
DEMIRE Ankauf 9 GmbH, Frankfurt am Main	100	3,613.49	– 20,137.84
DEMIRE Ankauf 10 GmbH, Frankfurt am Main	100	4,055.19	– 19,696.14
DEMIRE Trier Celle GmbH, Frankfurt am Main	94.9	– 2,794,365.32	308,804.74
DEMIRE Goslar, Rosentorstraße 1 GmbH, Frankfurt am Main	94.9	– 220,686.05	147,282.31
DEMIRE Memmingen, Königsgraben 3 GmbH, Frankfurt am Main	94.9	– 483,880.77	67,307.23
DEMIRE Offenburg, Lindenplatz 3 GmbH, Frankfurt am Main	94.9	– 581,603.80	184,632.50

COMPANY	INTEREST IN CAPITAL %	EQUITY 31/12/2019, EUR	NET PROFIT/LOSS 2019, EUR
LUXEMBOURG			
Blue Ringed S. à r. l., Luxembourg	94.00	– 3,748,658.78	– 698,320.84
Reubescens S. à r. l., Luxembourg	94.00	– 4,939,875.86	– 697,257.46
DENMARK			
GO Leonberg ApS, Copenhagen	94.00	– 5,250,820.39	– 463,753.51
GO Bremen ApS, Copenhagen	94.00	– 27,529,003.35	– 3,511,834.74
GO Ludwigsburg ApS, Copenhagen	94.00	– 4,843,670.36	– 351,046.60
SWITZERLAND			
Sihlegg Investments Holding GmbH, Wollerau	94.00	– 2,618,082.60	– 145,736.79
CYPRESS			
Denston Investments Ltd., Nikosia	94.00	– 3,591,904.33	– 1,030,360.16
NETHERLANDS			
MAGNAT Investment I B.V., Hardinxveld Giessendamm [1]	100.00	2,329,986.00	168,242.00
BULGARIA			
R-Quadrat Bulgaria EOOD, Sofia [5]	100.00	– 3,403,000.00	– 8,000.00
ROMANIA			
SC Victory International Consulting s.r.l., Bucharest [5]	100.00	962,329.32	– 9,971.82
GEORGIA			
Irao Magnat 28/2 LLC, Tbilisi [3]	50.00	173,501.02	1,314.16
AUSTRIA			
MAGNAT AM GmbH, Vienna [5]	100.00	558,784.85	– 2,995.01

1 Not fully consolidated due to its insignificance for the Group
2 Fully consolidated because factual control is exercised through quorum majority at the shareholder meeting
3 Investment consolidated using the equity method
4 Companies deconsolidated during the financial year
5 Equity and net profit/loss as at 31/12/2018
6 Equity and net profit/loss as at 31/12/2017
7 Equity and net profit/loss as at 31/12/2016

APPENDIX 2: REAL ESTATE VALUATION PARAMETERS

	31/12/2019	31/12/2018
Average market rent (in EUR per m² per year)	92.41	87.04
Range of market rents (in EUR per m²)	30.15–224.64	33.20–220.43
Lettable space as at reporting date (in m²)	1,103,060	894,718
Vacant space as at reporting date (in m²)	113,582	84,974
Value-based vacancy rate according to EPRA (in %)	9.42	7.47
Average vacancy rate based on lettable space (in %)	10.30	9.50
Range of vacancy rates based on lettable space (in %)	0.00–100	0.00–100
Weighted average lease term – WALT (in years)	4.78	4.59

The year-on-year increase in total lettable space and vacant space resulted from the addition of the departmemt store portfolio (roughly 74,000 m²) with properties in Essen, Bad Vilbel, Aschheim and Cologne (total of roughly 90,000 m²) and the property in Neuss (roughly 56,000 m²).

The basis for rental income planning is the rental payments contractually agreed with the tenants as well as prevailing customary local market rents for unleased space on the valuation date. The contractually agreed monthly rents per m² on the valuation date for the various types of use are shown in the following table:

CONTRACTUAL RENTS in EUR		31/12/2019	31/12/2018
Office	Min.	3.52	3.32
	Max.	19.63	13.22
	Avg.	8.63	8.14
Retail	Min.	3.20	3.20
	Max.	19.71	19.77
	Avg.	8.79	10.49
Other	Min.	2.35	2.89
	Max.	10.05	10.05
	Avg.	2.83	3.35
Total	Min.	2.35	2.32
	Max.	19.71	19.35
	Avg.	**7.55**	**7.27**

APPENDIX 3: SENSITIVITY ANALYSIS OF REAL ESTATE VALUATION AS AT 31/12/2019:

TOTAL in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	IN %	±0.00%	IN %	+0.50%	IN %
+0.50%	−133,980,000	−9%	−56,770,000	−4%	+36,060,000	+2%
±0.00%	−81,180,000	−6%	–	–	+97,200,000	+7%
−0.50%	−25,490,000	−2%	+58,950,000	+4%	+161,260,000	+11%

OFFICE in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	IN %	±0.00%	IN %	+0.50%	IN %
+0.50%	−91,610,000	−9%	−38,010,000	−4%	+26,390,000	+3%
±0.00%	−56,120,000	−6%	–	–	+67,600,000	+7%
−0.50%	−18,930,000	−2%	+39,650,000	+4%	+110,700,000	+11%

RETAIL in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	IN %	±0.00%	IN %	+0.50%	IN %
+0.50%	−34,200,000	−8%	−15,200,000	−4%	+8,000,000	+2%
±0.00%	−20,420,000	−5%	–	–	+24,030,000	+6%
−0.50%	−5,460,000	−1%	+15,520,000	+4%	+40,880,000	+10%

LOGISTICS in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+ 0.50 %	IN %	± 0.00 %	IN %	+ 0.50 %	IN %
+ 0.50 %	– 5,700,000	– 8 %	– 2,600,000	– 4 %	+ 1,000,000	+ 1 %
± 0.00 %	– 3,200,000	– 4 %	—	—	+ 3,800,000	+ 5 %
– 0.50 %	– 600,000	– 1 %	+ 2,700,000	+ 4 %	+ 6,700,000	+ 9 %

OTHER in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+ 0.50 %	IN %	± 0.00 %	IN %	+ 0.50 %	IN %
+ 0.50 %	– 2,470,000	– 9 %	– 960,000	– 3 %	+ 670,000	+ 2 %
± 0.00 %	– 1,440,000	– 5 %	—	—	+ 1,770,000	+ 6 %
– 0.50 %	– 500,000	– 2 %	+ 1,080,000	+ 4 %	+ 2,980,000	+ 10 %

A difference in the market rent led to the following changes.

TOTAL in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10 %	1,336,850,000	– 136,390,000	– 9 %
– 5 %	1,405,210,000	– 68,030,000	– 5 %
± 0 %	1,473,240,000	–	–
+ 5 %	1,540,530,000	+ 67,290,000	+ 5 %
+ 10 %	1,608,960,000	+ 135,720,000	+ 9 %

LOGISTICS in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10 %	64,000,000	– 7,200,000	– 10 %
– 5 %	67,600,000	– 3,600,000	– 5 %
± 0 %	71,200,000	–	–
+ 5 %	74,800,000	+ 3,600,000	+ 5 %
+ 10 %	78,400,000	+ 7,200,000	+ 10 %

OFFICE in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10 %	878,200,000	– 90,900,000	– 9 %
– 5 %	923,700,000	– 45,400,000	– 5 %
± 0 %	969,100,000	–	–
+ 5 %	1,014,020,000	+ 44,920,000	+ 5 %
+ 10 %	1,059,600,000	+ 90,500,000	+ 9 %

OTHER in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10 %	26,190,000	– 2,500,000	– 9 %
– 5 %	27,500,000	– 1,190,000	– 4 %
± 0 %	28,690,000	–	–
+ 5 %	29,900,000	+ 1,210,000	+ 4 %
+ 10 %	31,200,000	+ 2,510,000	+ 9 %

RETAIL in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10 %	368,640,000	– 35,790,000	– 9 %
– 5 %	386,600,000	– 17,830,000	– 4 %
± 0 %	404,430,000	–	–
+ 5 %	422,000,000	+ 17,570,000	+ 4 %
+ 10 %	439,940,000	+ 35,510,000	+ 9 %

AS AT 31/12/2018

TOTAL in EUR

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

OFFICE in EUR

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

RETAIL in EUR

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

LOGISTICS in EUR

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

OTHER in EUR

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

APPENDIX 4: SCHEDULE OF NON-CURRENT ASSETS

in EUR thousands	GOODWILL		OTHER INTANGIBLE ASSETS		OPERATING AND OFFICE EQUIPMENT		TECHNICAL EQUIPMENT		ADVANCE PAYMENTS	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Acquisition costs at the beginning of the financial year	7,246	7,246	222	298	1,023	851	1	1,370	0	0
Accumulated depreciation / amortisation / impairment as at beginning of the financial year	463	463	121	96	559	346	0	0	0	0
Carrying amounts as at the beginning of the financial year	6,783	6,783	101	202	464	505	1	1,370	0	0
Additions	0	0	0	0	61	269	0	1	4,512	0
Reclassifications	0	0	0	0	85	2	0	– 1,370	– 4,512	0
Disposals	0	0	0	76	0	99	0	0	0	0
Depreciation / amortisation	0	0	3	25	165	213	0	0	0	0
Acquisition costs at the end of the financial year	7,246	7,246	222	222	1,173	1,023	0	1	0	0
Accumulated depreciation / amortisation / impairment as at end of the financial year	463	463	124	121	728	559	0	0	0	0
Carrying amounts as at the end of the financial year	6,783	6,783	98	101	445	464	1	1	0	0

Responsibility Statement

As a member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, I hereby affirm that, to the best of my knowledge, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operation in accordance with the applicable accounting principles and that the group management report gives a true and fair view of the development and performance of the business, including the business results and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Frankfurt am Main, 17 March 2020

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO)

Independent auditor's report

To DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main

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

AUDIT OPINION

We have audited the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DEMIRE Deutsche Mittelstand Real Estate AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINION

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

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

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

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. MEASUREMENT OF INVESTMENT PROPERTIES

1. In the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG as of 31 December 2019 investment properties amounting to EUR 1,493,912 thousand (89.1% of total assets) are reported. DEMIRE exercises the option set out in IAS 40.30 of accounting for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realised when properties are sold, as well as unrealised changes in the fair value (market value), are recognised at fair value through profit or loss. In the past financial year, EUR 83,022 thousand (prior year EUR 93,059 thousand) in unrealised changes in market value were recognised through profit or loss in the consolidated statement of income.

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

The measurement of investment properties is based on a large number of relevant parameters, which are in general subject in some respects to uncertainties with regard to estimates and judgements. Significant measurement parameters include in particular expected cash flows, the assumed vacancy rate and the discount and capitalisation rate. Even slight changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance for our audit, because the measurement of investment properties is in general subject to substantial judgement and estimation uncertainties and there is the risk that the changes in fair value which are recognised through profit or loss do not fall within an appropriate range.

2. As part of our audit, in collaboration with specialists from our Valuation & Strategy department, we assessed the measurement models used with respect to their compliance with IAS 40 in conjunction with IFRS 13, the correctness and completeness of the property portfolio data used and the appropriateness of the valuation parameters used, such as the expected cash flows (market rent per m^2, planned maintenance per m^2), the assumed vacancy rate and the discount and capitalisation rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we examined the plausibility of calculations based on a comparison of results at the level of the individual properties as well as at the portfolio level against our expectations to the change in value.

As part of our audit procedures, we prepared a comparison calculation for specific properties on a sample basis using the standardised German income approach [Ertragswertverfahren] pursuant to the German Property Valuation Regulation [Immobilienwertermittlungsverordnung; ImmoWertV)].

The valuation technique applied is appropriately designed and suitable for calculating fair values in accordance with IFRS. The underlying assumptions reflect the current market level.

3. The Company's disclosures relating to investment properties are contained in sections C. and E.1.3.

2. PRESENTATION, MEASUREMENT AND RELATED DISCLOSURES OF FINANCIAL LIABILITIES

1. In the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG as of 31 December 2019 financial liabilities amounting to EUR 806,969 thousand (48.1% of total assets) are reported. The financial liabilities relate to the corporate bond 2019/2024 amounting to EUR 590,556 thousand and financial liabilities to credit institutions in the amount of EUR 216,413 thousand.

   The main part of financial liabilities by far has fixed interest rates. There were no hedging activities made for interest volatilities.

   Financial liabilities are initially recognised at fair value, taking into account transaction costs as well as premiums and discounts. The fair value at the grant date is equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk. In case of derivatives requiring separate accounting on initial recognition, these are accounted for separately from the underlying contract. There was no derivative requiring separate accounting for the bond issued. Subsequent measurement takes place at amortised cost using the effective interest method. The effective interest rate is determined at the date on which the financial liabilities are recognised initially.
   The matters presented above were of particular significance for our audit due to the amount of financial liabilities and the risk related therewith.

2. We involved experts from our Corporate Treasury Solutions (CTS) department in the audit of the accounting treatment and measurement of the financial liabilities. With their assistance, among other things we assessed the established internal control system.

   For the audit of financial liabilities, related agreements were selected according to specific risk-oriented criteria and evaluated whether the relevant measurement parameters and any embedded derivatives were properly recorded. In addition, a recalculation of amortised costs was carried out on a sample basis and analytical audit procedures were carried out for all financial liabilities.

   As part of our audit of the fair values disclosed in the notes to the financial statements for the financial liabilities, which are valued at amortised costs, we assessed the valuations based on the relevant market data (yield curves) and the base data used on a selective sample basis.

   We obtained bank confirmations to assess whether all financial liabilities were recognised in full.

   The reporting of the financial liabilities by DEMIRE's legal representatives is appropriate. The valuation method applied and the underlying assumptions and valuation parameters are, in our opinion, appropriate overall.

3. The Company's disclosures relating to financial liabilities are contained in sections C., E.5.3 and G.1.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- contain material inconsistencies with the consolidated financial statements, the group management report or the knowledge gained from our audit, or
- appear otherwise materially misrepresented.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 EU Audit Regulation

We were elected as group auditor by the annual general meeting on 29 May 2019. We were engaged by the supervisory board on January 8, 2020. We have been the group auditor of the DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, without interruption since the financial year 2018

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

RESPONSIBLE AUDITOR

The German Public Auditor responsible for the engagement is Gregory Hartman.

Berlin, 17 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Gregory Hartman
Auditor

Dr Frederik Mielke
Auditor

Imprint

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Scan the QR code with a smartphone
and a corresponding app
to go directly to the company website
of our homepage.