DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

DEMIRE Deutsche Mittelstand Real Estate AG

SEPARATE FINANCIAL STATEMENTS 2016

Financial year January 1 – December 31, 2016

AUDITOR'S REPORT

We have audited the financial statements prepared by DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, comprising the balance sheet, the income statement and the notes to the financial statements, together with the management report for the fiscal year from January 1st, 2016, to December 31st, 2016. The preparation of the financial statements and the group management report in accordance with German commercial law is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development.

Eschborn/Frankfurt am Main, 27 April 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schmitt	**Rücker**
Auditor	Auditor

Disclaimer:

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

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG, FRANKFURT/MAIN
BALANCE SHEET AS AT DECEMBER 31, 2016

ASSETS

EUR		31/12/2016	31/12/2015
A.	**Fixed assets**		
I.	**Intangible assets**		
	Software licenses	18,277.00	0.00
		18,277.00	**0.00**
II.	**Tangible assets**		
1.	Buildings on third-party property	35,955.00	2,699.00
2.	Other equipment, operating and office equipment	105,411.00	25,071.00
		141,366.00	**27,770.00**
III.	**Financial assets**		
1.	Investments in affiliated companies	147,520,718.00	149,303,286.32
2.	Loans to affiliated companies	183,319,219.57	140,682,584.01
3.	Investments	0.00	4,527,232.08
		330,839,937.57	**294,513,102.41**
		330,999,530.57	**294,540,872.41**
B.	**Current assets**		
I.	**Receivables and other assets**		
1.	Trade accounts receivable	13,988,245.04	9,293,159.33
2.	Receivables due from affiliated companies	3,092,687.89	2,839,484.77
3.	Receivables due from investments	18,424.19	1,003,974.69
4.	Other assets	14,747,456.72	29,392,926.92
		31,846,813.84	**42,529,545.71**
II.	**Cash on hand, bank deposits**	**287,878.57**	**1,328,806.40**
		32,134,692.41	**43,858,352.11**
C.	**Prepaid expenses**	**2,837,508.54**	**2,066,019.71**
		365.971.731.52	**340.465.244.23**

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR		31/12/2016	31/12/2015
A.	**SHAREHOLDERS' EQUITY AND LIABILITIES**		
I.	**Subscribed Capital**	**54,246,944.00**	**49,292,285.00**
	Conditional capital EUR 18,359,523.00 (previous year EUR 13,662,622.00)		
II.	**Capital reserves**	**207,748,641.29**	**195,668,372.39**
III.	**Accumulated loss**	**-142,677,471.45**	**-133,453,403.58**
		119,318,113.84	**111,507,253.81**
B.	**Provisions**		
	Other provisions	4,602,475.54	7,390,766.44
		4,602,475.54	**7,390,766.44**
C.	**Liabilities**		
1.	Bonds	125,637,763.00	125,661,700.00
	Of which with a remaining term of up to one year: EUR 0.00 (previous year: EUR 0.00)		
	Of which convertible: EUR 25,637,763.00 (previous year: EUR 25,661,700.00)		
2.	Bank liabilities	7,920,516.92	0.00
	Of which with a remaining term of up to one year: EUR 7,920,516.92 (previous year: EUR 0.00)		
3.	Trade payables	737,483.29	2,445,918.06
	Of which with a remaining term of up to one year: EUR 737,483.29 (previous year: EUR 2,445,918.06)		
4.	Liabilities due to affiliated companies	73,019,484.88	59,798,019.58
	Of which with a remaining term of up to one year: EUR 35,863,356.08 (previous year: EUR 33,174,619.19)		
5.	Other liabilities	34,735,894.05	33,661,586.34
	Of which with a remaining term of up to one year: EUR 2,735,894.05 (previous year: EUR 1,661,586.34)		
	Of which tax liabilities EUR 317,816.75 (previous year: EUR 122,010.21)		
	Of which relating to social security: EUR 4,680.32 (previous year: EUR 2,861.71)		
		242,051,142.14	**221,567,223.98**
		365,971,731.52	**340,465,244.23**

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG, FRANKFURT/MAIN
STATEMENT OF INCOME FOR THE FISCAL YEAR FROM JANUARY 1, 2016 TO DECEMBER 31, 2016

EUR			01/01/2016 –31/12/2016	01/01/2015 –31/12/2015
1.	Revenue		5,774,092.35	3,213,432.07
2.	Other operating income		3,117,510.42	2,461,082.92
		Of which income from currency translation: EUR 105.20 (previous year: EUR 4,100.48)		
			8,891,602.77	**5,674,514.99**
3.	Staff costs			
	a)	Wages and salaries	2,351,173.12	1.461.893.26
	b)	Social security contributions and expenses for pension schemes and related benefits Of which pensions expenses: EUR 9,514.46 (previous year: EUR 392.05)	210,496.43	155.148.03
4.	Amortisation of intangible fixed assets and depreciation of tangible assets		38,711.13	11,047.27
5.	Other operating expenses			
		Of which expenses from currency translation: EUR 2,774.08 (previous year: EUR 4,533.84)	9,290,074.77	22.047.060.93
			11,890,455.45	**23.675.149.49**
6.	Income from investments		658,446.55	0.00
		Of which from affiliated companies: EUR 658,446.55 (previous year: EUR 0.00)		
7.	Income from loans of financial fixed assets		12,302,621.95	6,347,808.84
		Of which from affiliated companies: EUR 12,302,621.95 (previous year: EUR 6,347,808.84)		
8.	Financial income		912,683.03	612,845.71
		Of which from investments: EUR 163,320.82 (previous year: EUR 334,702.92)		
9.	Depreciation of financial assets		1,034,632.57	3,957,133.10
10.	Expenses from the assumption of losses		3,520,507.56	4,689,634.86
11.	Financial expenses		15,829,706.69	6,911,060.41
		Of which from affiliated companies: EUR 2,310,162.80 (previous year: EUR 408,021.76)		
			-6,511,095.29	**-8,597,173.82**
12.	**Earnings before taxes**		**-9,509,947.97**	**-26,597,808.32**
13.	Income taxes		23.20	-208,692.67
14.	**Earnings after taxes**		**-9,509,971.17**	**-26,389,115.65**
15.	Other taxes		-285,903.30	-113,134.88
16.	**Net loss**		**-9,224,067.87**	**-26,275,980.77**
17.	**Loss carried forward from previous year**		**-133,453,403.58**	**-107,177,422.81**
18.	**Accumulated loss**		**-142,677,471.45**	**-133,453,403.58**

DEMIRE Deutsche Mittelstand Real Estate AG
Frankfurt am Main
Notes to the annual financial statements for the fiscal year from January 1, 2016 to December 31, 2016

GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS AND BASIS OF PRESENTATION

The annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG („DEMIRE AG" or „the Company") as at December 31, 2016 were prepared in accordance with the provisions of the German Commercial Code (HGB) in the version of the Accounting Directives Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz [BilRUG]) concerning the accounting of corporations and the supplementary regulations of the German Stock Corporation Act. There were no additional provisions with regard to accounting arising from the Company's Articles of Association. The balance sheet and the statement of income were prepared according to the classification requirements of Sections 266 and 275 HGB. The annual financial statements were prepared in Euro and all amounts are generally specified in EURk.

DEMIRE AG is the parent company of the DEMIRE Group. In its function as the Group management holding company, DEMIRE AG is responsible for determining the overall strategy and implementing the corporate objectives. The Company assumes financing, service and coordination tasks for the group companies and is also responsible for the Group's management, control and risk management systems.

On the reporting date, the Company fulfilled the size criteria for small corporations pursuant to Section 267 (1) HGB. Because the Company makes use of an organised market as defined by Section 264d HGB in conjunction with Section 2 (5) WpHG through securities issued, the Company is considered a large corporation pursuant to Section 267 (3) sentence 2 HGB. Therefore, the Company is required to apply the regulations for large corporations under commercial law.

The balance sheet classifications comply with the classification format under commercial law in accordance with Section 266 HGB, while the statement of income has been prepared in a single-column format using the nature of cost method in accordance with Section 275 (2) HGB.

The Company is headquartered in Frankfurt/Main. The Company's business address and head management office changed from Frankfurt/Main to Langen (state of Hesse) upon entry into the commercial register of the District Court of Frankfurt/Main on December 23, 2016. The Company is recorded under HRB 89041 in the commercial register in Frankfurt/Main.

DEMIRE AG's shares are listed in the Prime Standard segment of the Regulated Market of the Frankfurt Stock Exchange.

As the Group's parent company, DEMIRE AG has prepared the consolidated financial statements as at December 31, 2016 according to International Financial Reporting Standards (IFRS), as adopted by the European Union, and the supplementary provisions of the German Commercial Code pursuant to Section 315a (1) HGB. The consolidated financial statements have been published in the Federal Gazette and can also be downloaded from the Company's website (http://www.demire.ag/en/home).

A statement of cash flows and a statement of changes in equity under Section 264 (1) sentence 2 HGB are not included in the annual financial statements because consolidated financial statements have been prepared.

The Company's management report was combined with the group management report by applying the provisions of Section 315 (3) HGB in conjunction with Section 298 (3) HGB.

The Company's annual financial statements were prepared under the going concern assumption.

Control and profit transfer agreements have been concluded between DEMIRE AG and its subsidiaries DEMIRE Commercial Real Estate GmbH and DEMIRE Commercial Real Estate VIER GmbH. DEMIRE Real Estate München I GmbH is also included in the income tax group through DEMIRE Commercial Real Estate GmbH. The Company is also the parent company of the value-added tax group with some subsidiaries.

The 2016 annual financial statements were prepared applying the provisions of the Accounting Directives Implementation Act (BilRUG]) for the first time. Portions of „other operating income“ were reclassified to revenue as a result of the expanded revenue definition as defined by Section 277 (1) in the version of BilRUG. The Company's revenue under BilRUG include income from providing services less of sales deductions, sales taxes and other taxes directly related to revenue. When providing services, revenue is recognised when the service is rendered. In cases where the first-time application of BilRUG resulted in deviations, the previous year's revenue figure that would have resulted from the retroactive application of the new provision is explained in the section on the statement of income. Other adjustments resulting from BilRUG were of minor importance.

ACCOUNTING AND VALUATION PRINCIPLES

The accounting and valuation principles are as follows:

Fixed assets

Intangible assets

Acquired intangible assets are measured at acquisition cost and amortised on a straight-line basis over their estimated useful economic life of three years. Internally generated intangible assets are not capitalised. If intangible assets are expected to be permanently impaired, their carrying amount is reduced to the fair value while recognising an impairment loss.

Tangible assets

Tangible assets are carried at acquisition cost pursuant to Section 255 (1) HGB, including incidental costs, less scheduled straight-line depreciation over their expected useful lives pursuant to Section 253 (1) HGB. The deprecation of the individual groups of tangible assets is based on their useful lives ranging from 3 to 13 years. Additions to tangible assets during the year are depreciated on a pro rata temporis basis.

Low-value assets

Moveable fixed assets with finite useful lives that can be used independently and have an acquisition cost of up to EUR 410 are fully depreciated in the year of acquisition. Fixed assets with an acquisition cost of more than EUR 410 are depreciated over their expected useful lives.

Financial assets

Investments in affiliated companies are carried at acquisition cost. The cost for raising equity in the context of a capital increase that is related to the acquisition of subsidiaries are not capitalised as an incidental acquisition cost of the interests in affiliated companies in accordance with Section 248 (1) no. 2 HGB. If companies are acquired in the context of capital increases against a mixed contribution in kind, the incidental acquisition cost for the cash component is capitalised on a pro rata basis of the total expenses of the capital increase.

Loans to affiliated companies are generally carried at their nominal values.

If financial assets are expected to be permanently impaired, their carrying amount is reduced to the fair value recognising an impairment loss. These are recorded under „depreciation of financial assets" in statement of income. If the reasons for the expected permanent impairment no longer exist, the impairment loss is reversed and recorded under „other operating income" in statement of income.

Current assets

Receivables and other assets

Trade accounts receivable, receivables due from affiliated companies, receivables due from companies in which participations are held and other assets are carried at their nominal values. All identified risks are taken into account using appropriate impairment charges. The amount of the impairment charge is based on the expect default risk.

Cash on hand, bank deposits

Cash on hand and bank deposits are carried at their nominal values as at the balance sheet date.

Prepaid expenses

Payments prior to the balance sheet date that relate to expenses that will occur at a certain point after the balance sheet date, and discounts related to the issue of financial debt are capitalised as prepaid expenses in accordance with Section 250 (1) HGB and Section 250 (3) HGB respectively. Discounts are amortised by scheduled annual depreciation spread over the total term of the financial debt.

Deferred taxes

The amount of deferred taxes arising from temporary differences between the carrying amounts of assets, liabilities as well as prepaid expenses and deferred income in the commercial accounts and the tax carrying amounts or as a result of tax loss carryforwards is determined by applying the Company's individual tax rate at the time of the elimination of the difference. The resulting tax expenses or tax benefits are not discounted. In addition, temporary differences between the carrying amounts of assets, liabilities as well as prepaid expenses and deferred income in the commercial accounts and the tax carrying amounts of entities included in the tax group are recognised to the extent that the reversal of temporary differences is expected to result in future tax expenses or tax benefits at the Company as the tax group's parent company.

Any resulting net tax expenses are recognised in the balance sheet as deferred tax liabilities. Any resulting net tax income is not recognised applying the respective capitalisation option. A non-recognised deferred tax asset resulted for the reporting year.

Deferred taxes are calculated based on the Company's combined income tax rate of 28.78 % (December 31, 2015: 31.93 %) expected to be applicable at the time the differences will be reversed. The change of the tax rate resulted from the relocation of the Company's headquarters in the reporting year from Frankfurt/Main to Langen (state of Hesse). The combined income tax rate includes corporate taxes, trade taxes and the solidarity surcharge.

Shareholders' equity

Subscribed capital is carried at its nominal value and is fully paid in.

Capital reserves result from various capital increases carried out in prior periods and in the reporting year and recognised at their nominal amount.

Subscription rights resulting from stock option programmes as defined by Section 192 (2) no. 3 AktG are not accounted for upon issuance. When options from conditional capital are exercised, subscribed capital is increased by the number of exercised shares multiplied with the shares' nominal value. The premium paid is allocated to capital reserves.

Other provisions

Other provisions take into account all identifiable risks and uncertain obligations. They are carried at amounts deemed necessary to settle the future payment obligation based on a reasonable commercial assessment including future cost and price increases.

Provisions with a term of more than one year are initially recognised applying the net method. Their measurement is based on the average market interest rate of the previous seven fiscal years in accordance with their maturity. For subsequent measurement, non-current provisions are to be reassessed and the accrued interest is recorded under „financial expenses".

Liabilities

Liabilities are recognised at their repayment amount. When a liability's repayment amount is higher than its issuance amount, the difference is recognised as prepaid expenses and written down over the term of the liability.

Principles of currency translation

Assets and liabilities denominated in foreign currencies with a remaining term of up to one year are translated at the rate prevailing on the balance sheet date. Assets and liabilities denominated in foreign currencies with a remaining term of more than one year are generally translated at the rate prevailing when the transaction occurred or, in the case of assets, at the lower mean spot rate prevailing at the reporting date and, in the case of liabilities, at the higher mean spot rate prevailing at the reporting date. The notes on currency translation reported in the income statement contain both realised and unrealised foreign currency translation differences.

Contingent liabilities

The carrying amount of contingent liabilities corresponds to the liability's scope as at the balance sheet date.

NOTES TO THE BALANCE SHEET

Fixed assets

The classification and development of fixed assets during the January 1 to December 31, 2016 fiscal year are shown together with the depreciation in the statement of changes in fixed assets (Appendix 1 of the notes to the annual financial statements).

Financial assets

Investments in affiliated companies amounted to EURk 147,521 (December 31, 2015: EURk 149,303).

The decline resulted from the following disposals during the reporting year:

	Affiliated company	Explanation
1.	Lumpsum Eastern Participations C.V.	Disposal through liquidation
2.	MAGNAT Asset Management GmbH	Disposal through sale
3.	MAGNAT Investment II B.V.	Disposal through merger with MAGNAT Investment I B.V.
4.	MAGNAT Investment IV B.V.	Disposal through merger with MAGNAT Investment I B.V.
5.	Demire Einkauf GmbH	Disposal through sale within the Group
6.	FVR Beteiligungsgesellschaft Erste mbH & Co. KG	Disposal through private withdrawal
7.	FVR Beteiligungsgesellschaft Zweite mbH & Co. KG	Disposal through private withdrawal
8.	FVR Beteiligungsgesellschaft Dritte mbH & Co. KG	Disposal through private withdrawal
9.	FVR Beteiligungsgesellschaft Vierte mbH & Co. KG.	Disposal through private withdrawal
10.	FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG	Disposal through private withdrawal
11.	FVR Beteiligungsgesellschaft Sechste mbH & Co. KG	Disposal through private withdrawal
12.	FVR Beteiligungsgesellschaft Siebte mbH & Co. KG	Disposal through private withdrawal
13.	FVR Beteiligungsgesellschaft Achte mbH & Co. KG.	Disposal through private withdrawal

Furthermore, all of the eight FVR investment entities changed their legal form from that of a „GmbH“ to a „GmbH & Co. KG“ during the reporting year.

The decline in investments of EURk 4,527 resulted from the sale of SQUADRA Immobilien GmbH & Co. KGaA at a price of EURk 7,184, which led to a disposal gain in the reporting year of EURk 2,614 and was recorded under „other operating income“.

Loans to affiliated companies of EURk 183,319 (December 31, 2015: EURk 140,683) mainly relate to loans granted to the Company’s subsidiaries and sub-subsidiaries to finance the acquisition of real estate companies and properties. These loans are granted within the Group and include a management premium on the interest rate.

The increase in loans to affiliated companies of EURk 42,636 primarily resulted from the grant of a loan to DEMIRE Commercial Real Estate GmbH totalling EURk 20,170 for the redemption of the HFS bond, the grant of a loan to DEMIRE Commercial Real Estate FÜNF GmbH amounting to EURk 12,715 for the acquisition of Kurfürstengalerie and higher deferred interest expenses as at the balance sheet date.

DEMIRE AG recognised an impairment loss of EURk 1,035 (December 31, 2015: EURk 3,957) on interests in and loans to affiliated companies in the 2016 fiscal year.

In the previous year, receivables due from affiliated companies amounting to EURk 234 were reclassified from current assets to financial assets (loans to affiliated companies). The reclassification was the result of the amended terms of the loans regarding their maturities as at December 31, 2015.

With regard to disclosures regarding shareholdings, we refer to the schedule of shareholdings as at December 31, 2016 attached to the notes as Appendix 2 in accordance with Section 285 nos. 11, 11a and 11b HGB.

Current assets
Current assets consisting of receivables and other assets, as well as cash on hand and bank deposits, totalled EURk 32,135 as at the balance sheet date (December 31, 2015: EURk 43,858).

Receivables and other assets
Trade accounts receivable of EURk 13,988 (December 31, 2015: EURk 9,293) mainly concern claims from service agreements with affiliated companies

Receivables due from affiliated companies of EURk 3,093 (December 31, 2015: EURk 2,839) relate to receivables from settlement transactions, recharged expenses and current loans. Receivables are due within one year, as in the previous year.

Receivables due from companies in which participations are held amounted to EURk 18 (December 31, 2015: EURk 1,004) and consisted exclusively of interest receivables. In the prior year, receivables consisted of receivables from settlement transactions, current loans and interest receivables. Receivables are due within one year, as in the previous year.

Other assets totalled EURk 14,747 as at the balance sheet date (December 31, 2015: EURk 29,393). The decline of EURk 14,646 mainly resulted from the retransfer of 2014/2019 corporate bonds. As of December 31, 2015, a receivable in the amount of EURk 14,375 was recognised against T6 HoldCo S.à.r.l., the seller of the Germavest shares. This receivable was settled by the retransfer of the 2014/2019 corporate bond into the Company's securities account. In addition, the decline in other assets is attributable to the settlement to the receivable relating from the appropriated an fiducial portion of the Loan given by Signal Credit Opportunities (LUX) Investco II S.à.r.l. in an amount of EURk 9,733. This amount was used to settle a portion of the purchase price of Kurfürstengalerie Kassel, which was purchased by a DEMIRE subsidiary January 2016.

Contrary to the decline in other assets, the loans against Taurecon Invest II GmbH, Berlin, increased by EURk 7,184, those against Taurecon Real Estate Consulting GmbH, Berlin, increased by EURk 881 and those against Taurecon Beteiligungs GmbH, Berlin, rose by EURk 163. The interest-bearing loans were granted for the acquisition of minority interests in subsidiaries and interests in one of the Company's investment vehicles. Receivables from sales taxes also increased by EURk 495. Furthermore, a receivable against tax authorities was recognised in the amount of EURk 723. This concerns a refund claim of 95 percent of the capital yields taxes, which was withheld in relation to the dividend distributed by Fair Value REIT-AG.

Of the other assets in the amount of EURk 14,747, a total of EURk 7,379 (December 31, 2015: EURk 29,118) is due within one year and a total of EURk 7,368 (December 31, 2015: EURk 275) has a remaining term that exceeds one year.

Cash and cash equivalents

Cash and cash equivalents of EURk 288 (December 31, 2015: EURk 1,329) include cash on hand and current bank deposits.

Prepaid expenses

Prepaid expenses primarily include a discount of EURk 2,264 (December 31, 2015: EURk 1,388) from the issue of the 2014/2019 corporate bond, which is to be amortised over the remaining term of the bond. Prepaid expenses also include a discount of EURk 454 (December 31, 2015: EURk 676) resulting from the difference between the issue price and the settlement amount of the 2013/2018 convertible bond issued in the 2013/2014 fiscal year.

Deferred tax assets

Deferred tax assets resulted primarily from corporate and trade tax loss carryforwards and interest carryforwards under the interest barrier rule. Based on the applicable tax law in Germany, these tax loss carryforwards may be carried forward perpetually and used to offset future taxable income while taking into account the minimum taxation provisions. There are no material temporary differences related to assets and liabilities that could result in deferred tax assets or liabilities.

Due to the fact that deferred tax assets from valuation differences and tax loss carryforwards exceeded the corresponding liabilities as at the balance sheet date and the capitalisation option under Section 274 (1) sentence 2 HGB was not utilised, no deferred tax assets were recorded.

Shareholders' equity

Subscribed capital

On December 31, 2016, the Company had subscribed capital in the amount of EUR 54,246,944.00 (December 31, 2015: EUR 49,292,285.00) divided into 54,246,944 (December 31, 2015: 49,292,285) no-par value bearer shares with a notional interest in subscribed capital of EUR 1.00.

The increase in subscribed capital during the reporting year resulted from a cash capital increase and conversions of the 2013/2018 convertible bond.

Cash capital increase

Based on the authorisation granted by the Annual General Meeting of June 30, 2016, the Company's share capital was increased by EUR 4,930,722.00 to EUR 54,237,944.00 through a cash capital increase. The capital increase was entered into the commercial register on August 31, 2016. Shareholder subscription rights were excluded. A large portion of the 4,930,722 new no-par value ordinary bearer shares (no-par value shares) were placed with institutional investors by way of a private placement. The issue price was EUR 3.45 per new share. The premium from the share issue of EURk 12,080 was allocated to capital reserves. The new shares are entitled to dividends as at January 1, 2016. A total of EURk 10,000 of the total proceeds of EURk 17,011 was used to redeem the high-yield HFS bond. DEMIRE plans to use the remaining proceeds to finance property acquisitions and strengthen its financial position.

Conversions of the 2013/2018 convertible bond

Subscribed capital increased by 23,937 shares or EURk 24 from conversions of the 2013/2018 convertible bond during the 2016 reporting year.

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

Authorisation of the Executive Board to issue new shares

Authorised Capital I/2013

By resolution of the Annual General Meeting of October 23, 2013 and with the consent of the Supervisory Board, the Executive Board is authorised to increase the Company's subscribed capital until October 22, 2018, by issuing up to 6,947,325 new, ordinary, no-par value bearer shares each with a notional par value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions in partial amounts of up to EUR 6,947,325.00 (Authorised Capital I/2013). Shareholders are generally entitled to subscription rights. The conditional capital increase serves to grant subscription and/or conversion rights to the holders of the 2013/2018 convertible bond, which was issued based on the authorisation of the Company's Annual General Meeting on October 23, 2013.

Since the creation of the Authorised Capital, the Company's subscribed capital has been conditionally increased by EUR 662,237 to EUR 6,285,088 divided into 662,237 no-par value bearer shares with a notional par value of EUR 1.00, through the exercise of conversion rights from the 2013/2018 convertible bond.

Authorised Capital II/2015

By resolution of the Annual General Meeting of August 28, 2015 and with the consent of the Supervisory Board, the Executive Board is authorised to increase the Company's subscribed capital until August 27, 2020, by issuing up to 13,675,702 new, ordinary, no-par value bearer shares each with a notional par value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions in partial amounts of up to EUR 13,675,702.00 (Authorised Capital II/2015). Shareholders are generally entitled to subscription rights. The Company's Annual General Meeting of June 30, 2016, resolved to cancel the unutilised portion of Authorised Capital II/2015.

Authorised Capital III/2015

By resolution of the Extraordinary General Meeting of September 14, 2015 and with the Supervisory Board's consent, the Executive Board is authorised to increase the Company's subscribed capital until September 13, 2020 by issuing up to 7,069,272 new, ordinary, no-par value bearer shares each with a notional interest of EUR 1.00 against cash contribution or contribution in kind on one or several occasions in partial amounts of up to EUR 7,069,272.00 (Authorised Capital III/2015). Shareholders are generally entitled to subscription rights.

With respect to the authorised capital above and with the Supervisory Board's consent, the Executive Board is authorised to exclude shareholders' subscription rights in the following cases:

- Fractional shares
- Capital increases against cash contribution where the proportional amount of the share capital attributed to the new shares for which the subscription right is excluded does not exceed 10 % of the share capital existing at the time the new shares are issued and the issue price of the new shares is not significantly less than the stock market prices of shares of the same class and entitlements already listed at the time of the final determination of the issue price by the Executive Board according to Section 203 (1) and (2) and Section 186 (3) sentence 4 AktG

- To the extent necessary to grant holders or creditors of bonds with option or convertible rights issued by the Company or Group companies, subscription rights to new shares to the extent to which the holders or creditors would be entitled after exercising their option or convertible rights

- For capital increases against contribution in kind

The Company's Annual General Meeting of June 30, 2016, resolved to cancel the unutilised portion of Authorised Capital III/2015.

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

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

Conditional Capital II/2015
The Extraordinary General Meeting of March 6, 2015, resolved to conditionally increase the Company's subscribed capital by up to EUR 1,000,000.00 by issuing up to 1,000,000 new, ordinary, no-par value bearer shares (Conditional Capital II/2015). The conditional capital increase serves to grant sub¬scription rights from stock options that were issued pursuant to the authorisation of the Extraordinary General Meeting on March 6, 2015 in the context of the Company's 2015 Stock Option Programme. The conditional capital increase will be carried out only to the extent that stock options are issued and the holders of stock options exercise their subscription rights for shares of the Company and the Company does not grant its own shares to meet the obligations of the subscription rights. The option to issue and subscribe to stock options was fully utilised by December 31, 2015.

Conditional Capital I/2016
The Annual General Meeting of June 30, 2016, resolved to create new conditional capital amounting to EUR 3,000,000.00. The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds.

Conditional Capital II/2016
The Annual General Meeting of June 30, 2016, resolved to create new conditional capital amounting to EUR 14,359,523.00. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or profit participation bonds (or a combination of these instruments).

Authorisation to repurchase own shares
The Company has been authorised by the Extraordinary General Meeting of October 15, 2014 pursuant to Section 71 (1) no. 8 AktG to acquire up to 10 % of the existing subscribed capital outstanding as at the date of authorisation from the date of the resolution for a period of five years, i.e. until October 14, 2019. The number of shares acquired under this authorisation, together with other Company shares already purchased by the Company or already owned, may not exceed 10 % of the Company's respective existing subscribed capital. The Company has not purchased any of its own shares prior to the balance sheet date.

Stock option programme
Under the existing stock option programme, stock options have been and may be granted to members of the Executive Board in office and senior executives of the Company.

As detailed in the following provisions under the 2015 stock option plan and with the consent of the Supervisory Board, the Executive Board is authorised until December 31, 2015 („issue period") to issue up to 1,000,000 stock options with subscription rights for DEMIRE AG shares with a vesting period of four years and an exercise period of a further five years („the exercise period") provided that each stock option entitles its holder to subscribe to one share of the Company. With regard to the issue of stock options to members of the Executive Board of the Company, this authorisation is limited to the Supervisory Board only. For this purpose, the Extraordinary General Meeting of March 6, 2015, resolved to conditionally increase the Company's subscribed capital by up to EUR 1,000,000.00 by issuing up to 1,000,000 no-par value bearer shares (Conditional Capital II/2015).

The beneficiaries and the amount of stock options for subscription offered to these beneficiaries are to be determined by the Company's Executive Board with the consent of the Supervisory Board. To the extent members of the Company's Executive Board are to receive stock options, the determination and the issue of these options will be governed by the Supervisory Board.

The following number of stock options can be issued under the authorisation:

- a total of up to 800,000 stock options (80 %) to Executive Board members
- a total of up to 200,000 stock options (20 %) to selected employees of the Company or directors or employees of Group companies.

The subscription rights arising from the stock options can be exercised for the first time upon the expiration of the statutory vesting period of four years according to Section 193 (2) no. 4 AktG. The vesting period starts after the stock options are issued (the day the Company or the credit institution commissioned by the Company for the settlement receives the beneficiary's statement of subscription).

The exercise price to be set for one share of the Company upon the exercise of the stock options corresponds to at least 100 % of the basis price. The basis price is the Company's share price at the time of the Executive Board's resolution on the issue of stock option rights and, in the case of the issue of stock options to members of the Executive Board, at the time of the Supervisory Board's resolution.

The relevant share price is 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 ten stock exchange trading days before the resolution is made on the issue of stock options.

The exercise of subscription rights is subject to the Company's share price in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) being at least 10 % higher than the basis price on the day preceding the exercise of the subscription rights.

The accounting of share-based payments is governed by IFRS 2 „Share-based Payment". The 2015 stock option plan is to be classified as „equity-settled share-based payments". Under IFRS 2, the total staff costs arising from the stock options are to be distributed over the four-year vesting period starting from the grant date. In the case of DEMIRE AG, the grant date is the day the approval is given by the Executive Board and/or Supervisory Board.

The value of compensation based on real stock options according to the Black-Scholes Model is determined by the fair value of the options at the grant date pursuant to IFRS 2.10. In the case of DEMIRE AG, the grant date is the day the options were issued (April 7, 2015 and December 9, 2015).

The following vesting conditions are relevant for the accounting of the stock-based compensation programme:

- The four-year vesting period represents a "service condition" because only a specified period of service at the Company must be completed.
- The exercise condition of a closing share price exceeding the basis price by at least 10 % on the day preceding the exercise is classified as a performance condition since meeting the condition is based on a performance target. The performance conditions are to be divided into market conditions and non-market conditions. In the case of DEMIRE AG, the exercise condition is to be classified as a market performance condition as it is specifically related to the Company's share price. Such a market performance condition is reflected in the option's valuation exclusively by means of a probability calculation performed at the grant date.

In the prior year, a total of 1,000,000 stock options were granted of which 800,000 were granted in a first tranche to members of the Executive Board and 160,000 to selected Company and Group company employees. The fair value of each option from the first tranche was EUR 2.74. In the fourth quarter, a total of 60,000 stock options were newly issued in a second tranche, net of stock options that were returned by employees who had left the Company (20,000 stock options). The fair value of each option from the second tranche was EUR 1.99.

The calculation of an option's fair value as at the date of issue of the first and second tranches was based on the following parameters:

BERECHNUNGSPARAMETER	1ST TRANCHE	2ND TRANCHE
Dividend yield (%)	0.00	0.00
Expected volatility (%)[1]	60.40	46.25
Risk-free interest rate (%)	0.50	0.80
Term of the option (years)	9.00	9.00
Weighted average share price (EUR)	4.258	3.76
Option price (EUR)	2.74	1.99

[1] 180-day historic volatility

As in the previous year, the stock option programme did not have an effect on the statement of income because no subscription rights arising from the stock options have yet been exercised.

Capital reserves

As at December 31, 2016, capital reserves amounted to EURk 207,749 (December 31, 2015: EURk 195,668).

The increase in capital reserves of EURk 12,080 resulted from a cash capital increase.

As at the balance sheet date, capital reserves include amounts pursuant to Section 272 (2) no. 1 HGB of EURk 164,109 (December 31, 2015: EURk 152,028) and amounts pursuant to Section 272 (2) no. 4 HGB of EURk 43,640 (December 31, 2015: EURk 43,640).

Accumulated loss

The Company's accumulated loss as at the balance sheet date is derived as follows:

IN EURK	DECEMBER 31, 2016	DECEMBER 31, 2015
Net loss as at December 31	9,224	26,276
Loss carried forward from previous year	133,453	107,177
Accumulated loss as at December 31	**142,677**	**133,453**

Overview of changes in equity

Based on the capital increases from conditional capital, the individual components of equity developed as follows during the reporting year:

IN EUR	Subscribed capital	Capital reserves	Authorised capital		Accumulated loss
As at January 1, 2016	**49,292,285**	**195,668,372**			**133,453,404**
Conversions from 2013/2018 CB	23,937	0	-23,937	I/2013	0
Cash capital increase to redeem HFS bond	4,930,722	12,080,269	-4,930,722	I/2016	0
Loss for the period					9,224,068
As at December 31, 2016	**54,246,944**	**207,748,641**			**142,677,472**

Other provisions

Other provisions amounted to EURk 4,602 (December 31, 2015: EURk 7,391) and include mainly obligations for outstanding invoices, accounting and audit costs, legal and consulting fees, staff costs and discounted financing costs related to a debt raising measure concluded at the end of 2015.

The high level of other provisions as at December 31, 2015 was mainly the result of deferred legal and consulting fees in the context of acquiring the shares of in Fair Value REIT-AG in 2015. There were no similar circumstances at the end of the reporting period that would have required a deferral of the corresponding expenses.

Liabilities

Bonds

The line item „bonds“ totalling EURk 125,638 (December 31, 2015: EURk 125,662) includes the convertible bond (2013/2018 CB; Securities Identification Number A1YDDY2013) amounting to EURk 10,638 (December 31, 2015: EURk 10,662) issued on December 30, 2013; a debenture (2014/2019 corporate bond; Securities Identification Number DE000A12T135) amounting to EURk 100,000 (December 31, 2015: EURk 100,000) issued on September 16, 2014; and the mandatory convertible bond (2015/2018 MCB; Securities Identification Number DE000A13R863) amounting to EURk 15,000 (December 31, 2015: EURk 15,000) issued on May 22, 2015.

2013/2018 convertible bond (2013/2018 CB)

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

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

The details of the convertible bonds are as follows:

- The bonds are divided into a maximum of 11,300,000 fractional bearer bonds, each with a nominal amount of EUR 1.00 carrying equal rights.

- During the bond’s term, holders have the irrevocable right to initially convert each convertible bond with a nominal amount of EUR 1.00 within the conversion period into one no-par value share of DEMIRE Deutsche Mittelstand Real Estate AG with a notional interest in subscribed capital of EUR 1.00 each. By resolution of the creditors‘ meeting on September 30, 2014, the terms and conditions of the convertible bond were amended so that a cash settlement is no longer provided for.

- In case of the effective exercise of the conversion right, the conversion price will amount to EUR 1.00 per ordinary bearer share, each with a notional interest in the subscribed capital of EUR 1.00. The conversion price may be subject to adjustments due to adjustment provisions included in the terms and conditions of the bonds. These correspond to a conversion ratio of 1:1. A cash settlement is not provided for.

- The issue price per convertible bond is EUR 1.00 and corresponds to the nominal value and initial conversion price.

- The convertible bond bears 6.00 % interest per annum. The interest is payable on March 30, June 30, October 30 and December 30 of each year during the convertible bond's term.

As a result of the issue of 23,937 conversion shares in the 2016 fiscal year due to the exercise of subscription rights from the 2013/18 convertible bond, there was an increase in the Company's subscribed capital in the amount of 23,937 bearer shares, each with a notional interest of EUR 1.00.

2014/2019 corporate bond

In the 2014 fiscal year, DEMIRE AG placed a corporate bond with an issue volume of EURk 50,000. The corporate bond has a term of five years and is due on September 16, 2019. The bond bears 7.50 % interest per annum payable semi-annually in arrears to investors. The bond was admitted for trading on the Open Market of the Frankfurt Stock Exchange under ISIN DE000A12T135 on September 16, 2014. The senior unsecured bond issued in a private placement is divided into 50,000 fractional bearer bonds with a nominal value of EURk 1,00 per fractional bond.

By resolution of March 24, 2015, and with the approval of the Supervisory Board, DEMIRE's Executive Board increased the 2014/2019 corporate bond from September 2014 by a further EURk 50,000 to a total of EURk 100,000. The 2014/2019 corporate bond amounts to EURk 100,000 (December 31, 2015: EURk 100,000) as at the balance sheet date.

The terms and conditions of the 2014/2019 bond contain provisions regarding required financial covenants, which, if not met, could result in extraordinary termination by the bondholders and thus repayment obligations for the Company as well as restrictions on distributions made by the Company. The financial covenants concern financial ratios; particularly, the loan-to-value ratio (LTV) and the Company's equity ratio. Monitoring, compliance and reporting of financial covenants is conducted by DEMIRE's management and its Treasury and Asset Management departments. Should DEMIRE fail to comply with the covenants, the creditors would be entitled to demand additional guarantees from the debtor. In that case, the loans would be in default. If the default persisted for a longer period of time and could not be permanently resolved, the creditors would have a special right of termination. As at the balance sheet date, the Company had complied with all financial covenants and, therefore, was not in default.

Mandatory convertible bond (2015/2018 MCB)

In May 2015, a mandatory convertible bond with a volume of EURk 15,000 was issued with the exclusion of shareholders' subscription rights against contribution in kind. In the context of the transaction, an investor in the 2014/2019 corporate bond (Open Market of the Frankfurt Stock Exchange; ISIN DE000A12T135/ WKN: A12T13; volume EURk 100,000) subscribed to the mandatory convertible bond issued with a term of three years (maturing in 2018) by contributing fractional bonds from the 2014/2019 corporate bond. The bonds carry an interest coupon of 2.75 % per annum starting from the date of issue and may be converted into shares as at September 1, 2015 at an initial conversion price of EUR 5.00 per share, subject to adjustments. The mandatory convertible bond is equipped with a conversion obligation of the respective creditor upon the bond's maturity. No conversions took place during the reporting period.

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

The details of the convertible bonds are as follows:

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

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

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

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

The bonds may be callable by the convertible bond holders under certain conditions, in which case a prepayment penalty in the amount of 15.00 % on the principal amount plus accrued interest until the date of actual redemption becomes due. Justifications for calling the bonds include, among others, the non-delivery of shares, the failure to meet key obligations under the respective 2015/2018 mandatory convertible bond, the failure to meet payment obligations under other financial liabilities (cross default), bankruptcy or the initiation of insolvency proceedings by the Company or its significant subsidiaries and falling below an equity ratio of 20 % after December 31, 2016. In the case of a change in control or a merger of the issuer, the bonds may be callable and redeemed early with a prepayment penalty equal to 15 % of the principal amount plus accrued and unpaid interest. The issuer may redeem the bonds early when the aggregate principal amount of the outstanding bonds falls below 25 % of the bonds' originally issued aggregate principal amount.

Bank liabilities
As at the balance sheet date, bank liabilities amounted to EURk 7,921 (December 31, 2015: EURk 0).

DEMIRE AG has concluded the following credit agreements with banks during the reporting year:

- The credit agreement with Baader Bank AG, Unterschleißheim, dated April 22, 2016, in the amount of EURk 5,000 bears 5 % interest per annum and matures on April 30, 2017. As at the balance sheet date, the bank liability amounted to EURk 2,957.

- The credit agreement with SÜDWESTBANK AG, Stuttgart, dated April 8, 2016, in the amount of EURk 5,000 bears 2.5 % interest per annum and matures on March 30, 2017. As at the balance sheet date, the bank liability amounted to EURk 4,964.

The proceeds of liquid funds from both credit agreements were mainly passed on to the subsidiary DEMIRE Commercial Real Estate GmbH to redeem the HFS bond.

Liabilities due to affiliated companies
Liabilities due to affiliated companies amounted to EURk 73,019 as at the balance sheet date (December 31, 2015: EURk 59,798), of which EURk 35,863 (December 31, 2015: EURk 33,175) had maturities of up to one year. Liabilities due to affiliated companies mainly include liabilities from settlement transactions, assignment of receivables in the context of real estate portfolio acquisitions, financing of loan repayments and the loss transfer from DEMIRE Commercial Real Estate GmbH due to the profit and loss transfer agreement.

Other liabilities
Other liabilities totalling EURk 34,736 (December 31, 2015: EURk 33,662) mainly include a loan from Signal Capital of EURk 32,000 (December 31, 2015: EURk 32,000), interest deferrals of EURk 1,875 from the 2014/2019 corporate bond (December 31, 2015: EURk 1,228) and tax liabilities of EURk 318 (December 31, 2015: EURk 122).

Signal Capital loan
On December 30, 2015, DEMIRE Deutsche Mittelstand Real Estate AG concluded a three-year loan agreement with Signal Credit Opportunities (Lux) Investco II S.à.r.l. involving other parties (a loan agent, among others) for a volume of EURk 32,000. Under this agreement, DEMIRE Deutsche Mittelstand Real Estate AG is entitled to repay the loan after a minimum term of two years. The loan's interest rate is equal to EURIBOR plus a margin of 9.5 %, but not less than 9.5 %. Interest payments are to be made quarterly at the end of

each quarter. A fee of EURk 1,920 has already been paid to the loan agent for negotiating the loan. The agent is due to receive a further fee of EURk 3,200 at the time of the loan's repayment (equivalent to a present value of EURk 3,096 [December 31, 2015: EURk 2,985] as at the balance sheet date).

The loan agreement with Signal Credit Opportunities (Lux) Investco II S.à.r.l stipulates compliance with financial covenants according to which the „debt service cover" (DSC), „interest cover" (IC) and „loan-to-value" (LTV) ratios based on the Group must reach or may not exceed the specified thresholds. In addition, minimum liquidity of EURk 4,000 must be maintained by the Group over the term of the loan and certain transactions and management measures may not be carried out without the lender's prior consent, whereby the permissible scope for action is defined in detail for the companies included.

The structure and the remaining term of the liabilities and details on collateralisation are shown in Appendix 3 („Schedule of Liabilities") in the notes to the annual financial statements.

Creation of valuation units in accordance with Section 254 HGB
From an economic perspective, there was a hedging relationship between the receivables reported under other assets on December 31, 2015 of EURk 14,375 from the retransfer of 2014/2019 corporate bonds against T6 HoldCo S.à.r.l, the seller of the shares in Germavest, and the respective amount reported under bonds. This hedging relationship was accounted for on December 31, 2015 by creating valuation units (micro hedges) under Section 254 HGB. This means that the risk of the underlying transaction for recognising depreciation on the fair value of these receivables as at the balance sheet date is fully offset by offsetting the receivables against the bonds following their retransfer to the Company. The net hedge presentation method is applied to account for opposing valuation changes within the valuation units and, thus, the effective portion of the created valuation units. In the 2016 financial statements, valuation units are no longer recognised due to the retransfer of the fractional bonds into the Company's custody account completed in early 2016.

Contingent liabilities
Through the conclusion of credit and loan agreements, DEMIRE AG has pledged liens and other guarantees of EURk 104,992 (December 31, 2015: EURk 99,113) to affiliated companies:

Under the loan agreement with Signal Credit Opportunities (Lux) Investco II S.à.r.l., Luxembourg, dated December 30, 2015, DEMIRE AG has pledged all of the interests held in its subsidiaries DEMIRE Commercial Real Estate DREI GmbH, DEMIRE Commercial Real Estate FÜNF GmbH, Hanse-Center Objektgesellschaft mbH and Glockenhofcenter Objektgesellschaft GmbH with a total carrying amount of EURk 14,522 (December 31, 2015: EURk 14,522) and a bank account at Deutschen Kreditbank AG for all payments of the preceding companies with a balance of EUR 371.85 as at the balance sheet date (December 31, 2015: EURk 6) as collateral in favour of the lender. In addition, DEMIRE AG ceded its claims to all group loans granted to these subsidiaries totalling EURk 65,533 as at the balance sheet date (December 31, 2015: EURk 60,698) and Logistikpark Leipzig GmbH ceded its claims to all loans granted to DEMIRE AG totalling EURk 24,937 as at the balance sheet date (December 31, 2015: EURk 23,892) as collateral in favour of the lender. Furthermore, the claims arising from group loans between the subsidiaries above were made subordinate to the lender's claims. DEMIRE AG does not expect the pledged guarantees to be utilised because the underlying financial liabilities will likely be met. The risk assessment is based on the corporate planning.

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

The following contingent liabilities existed as a result of granting guarantees to third-party liabilities. As at the reporting date, contingent liabilities in the amount of EURk 20,049 (December 31, 2015: EURk 43,983) were in favour of affiliated companies:

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

DEMIRE AG assumed guarantees for liabilities of its subsidiary Hanse-Center Objektgesellschaft mbH. These guarantees resulted from an overdraft facility of EURk 10,000 provided by Internationales Bankhaus Bodensee AG, Friedrichshafen, drawn down on November 14, 2016. DEMIRE AG issued a letter of comfort dated November 14, 2016 stipulating that DEMIRE AG would provide its subsidiary the sufficient equity and liquidity required to meet the obligations under the credit agreement, primarily the current interest service and principal payment. Furthermore, DEMIRE AG issued a subordination and loan maintenance agreement dated November 14, 2016 with regard to group loans granted to the subsidiary of EURk 17,896 (December 31, 2016: EURk 19,109). The obligations assumed are not recognised as a liability because the underlying financial liabilities will likely be met by the affiliated company and utilisation of the guarantee is not expected. The risk assessment is based on the corporate planning of Hanse-Center Objektgesellschaft mbH.

The following contingent liability existed as at the balance sheet date:

Under the control and profit transfer agreements concluded with the subsidiaries DEMIRE Commercial Real Estate GmbH in 2014 and DEMIRE Commercial Real Estate VIER GmbH in 2016, and the income tax group including DEMIRE Real Estate München I GmbH through DEMIRE Commercial Real Estate GmbH, DEMIRE AG has a generally unlimited liability for the losses of these subsidiaries under commercial law. The control and profit transfer agreements are concluded for an indefinite period and may be terminated for the first time after ten and six full calendar years, respectively, after the end and the beginning of the controlled entity's fiscal year in which the contract was entered into or became effective.

No further contingent liabilities existed.

Other financial obligations and off-balance-sheet transactions

As at the balance sheet date, other financial obligations according to Section 285 no. 3a HGB totalling EURk 760 (December 31, 2015: EURk 323) mainly consisted of rental and leasing contracts with the following terms:

IN EURK	Total	Thereof up to one yearr	Between one and five years	More than five years
Rental and leasing contracts	760	180	580	0
thereof due to affiliated companies	687	142	545	0

Rental and leasing contracts concern an office building at the Company's headquarters rented from a subsidiary, leased fixed assets and operating and office equipment.

Off-balance-sheet transactions represent the rental and leasing contracts described. Because the Company is not obliged to purchase the assets, such transactions help optimise the balance sheet ratios. The future financial effects of the rental and leasing contracts concluded are not material in assessing the Company's financial position.

NOTES TO THE STATEMENT OF INCOME

Revenue

Revenues amounting to EURk 5,774 (previous year: EURk 3,213) comprise domestic revenues of EURk 5,595 (previous year: EURk 3,077) and international revenues of EURk 179 (previous year: EURk 136). Revenues mainly include income from service agreements with affiliated companies.

The revenue definition under Section 277 (1) HGB in the version of BilRUG was applied to the 2016 fiscal year for the first time making the prior year's revenues not fully comparable.

If Section 277 (1) HGB in the version of BilRUG had been applied to the 2015 fiscal year, revenues would have developed as shown in the following table:

IN TEUR	2016	2015
Domestic revenues	5,595	3,495
International revenues	179	136
Total	5,774	3,631

Due to the first-time application of BilRUG in the 2016 fiscal year, total costs of EURk 169 charged to subsidiaries based on the exchange of services were reclassified from other operating income to revenues. This amount concerns income from expenses recharged on to affiliated companies under cost-allocation agreements.

If BilRUG had been applied to the 2015 fiscal year, total costs of EURk 418 charged to subsidiaries based on the exchange of services would have been reclassified from other operating income to revenues.

Other operating income

Other operating income of EURk 3,118 (previous year: EURk 2,461) mainly includes income of EURk 2,646 (previous year: EURk 0) from the disposal of financial assets and write-ups of financial assets of EURk 0 (previous year: EURk 1,547). The disposal in the reporting year refers to the sale of the investment in SQUADRA Immobilien GmbH & Co. KGaA. In the 2015 fiscal year, there was a write-up on the carrying amount of this investment.

Other operating income includes income of EURk 411 relating to other periods (previous year: EURk 67), of which EURk 240 (previous year: EURk 50) resulted from the release of provisions and EURk 171 (previous year: EURk 0) resulted from credit notes.

Other operating income also includes income of EURk 105 (previous year: EURk 4) from currency translation.

Depreciation of financial assets

Depreciation of financial assets include impairments of interests in affiliated companies and loans to affiliated companies due to expected permanent impairment of EURk 1,035 (previous year: EURk 3,957).

Other operating expenses

Other operating expenses totalling EURk 9,290 (previous year: EURk 22,047) comprised mainly legal and consulting fees of EURk 1,731 (previous year: EURk 5,476); third party services of EURk 1,527 (previous year: EURk 1,117); expenses of EURk 1,079 (previous year: EURk 3,201) for the accounting, preparation and audit of the annual and consolidated financial statements; expenses of EURk 526 (previous year: EURk 667) for the preparation of real estate assessments and non-deductible input taxes of EURk 519 (previous year: EURk 1,696).

A total of EURk 1,105 for raising equity in a cash capital increase was recognised as an expense of extraordinary scope and importance.

Other operating expenses include non-periodic expenses of EURk 349 (previous year: EURk 601). These resulted from the disposal of financial fixed assets.

Other operating expenses include expenses from currency translation of EURk 3 (previous year: EURk 5).

The year-on-year decline in other operating expenses resulted mainly from one-time transaction-related expenses for the acquisition of subsidiaries recognised in 2015 that included a total of EURk 11,742 in legal and consulting fees, financing fees and costs for the preparation and audit of the financial statements.

Income from investments

Income from investments of EURk 658 (previous year: EURk 0) relates to a dividend payment from MAGNAT Asset Management GmbH, Vienna, Austria.

Income from loans of financial fixed assets

Income from loans of financial fixed assets of EURk 12,303 (previous year: EURk 6,348) solely relates to income from loans granted to affiliated companies to finance the acquisition of real estate companies and properties by direct and indirect subsidiaries.

Interest result

Interest income results from financing arrangements between DEMIRE Deutsche Mittelstand Real Estate AG and third parties in the amount of EURk 17 (previous year: EURk 20) as well as accrued interest from the 2014/2019 corporate bond of EURk 328 (previous year: EURk 145). Interest income also includes income from investments of EURk 174 (previous year: EURk 335) as well as income from Taurecon RE Consulting GmbH and Taurecon Beteiligungs GmbH of EURk 394 (previous year: EURk 113).

Interest and similar expenses of EURk 15,830 (previous year: EURk 6,911) concern mainly the interest to be paid over the term of existing financial liabilities and trading losses related to the 2014/2019 corporate bond issued below the nominal amount.

Financial expenses due to affiliated companies amounted to EURk 2,310 (previous year: EURk 408).

Financial and similar expenses include expenses of EURk 110 (previous year: EURk 0) from compounding of non-current provisions.

The year-on-year increase of EURk 8,919 in interest and similar expenses primarily resulted from interest expenses under the Signal Capital loan concluded at the end of 2015. Additionally, interest expenses for the 2014/2019 corporate bond rose by EURk 3,897 because the period during which the bond was fully issued was longer in the year 2016 than in the prior year.

Expenses from the assumption of losses

Expenses from the assumption of losses of EURk 3,521 (previous year: EURk 4,690) relate to a losses assumed under existing control and profit transfer agreements with subsidiaries, of which EURk 3,516 (previous year: EURk 4,690) is attributable to DEMIRE Commercial Real Estate GmbH and EURk 5 (previous year: EURk 0) is attributable to DEMIRE Commercial Real Estate VIER. The lower amount of losses assumed resulted from lower interest expenses from the HFS bond, which was repaid by DEMIRE Commercial Real Estate GmbH in 2016.

The retroactive amendment of the DEMIRE Commercial Real Estate GmbH financial statements as at December 31, 2015 resulted in an increase in the net loss of EURk 690. The effect of the amended net loss on the Company's result in the reporting period was recognised as an assumed loss relating to other periods (previous years) with extraordinary scope.

Income taxes

As the parent company of the tax group, the Company is also subject to taxation on subsidiaries included in the income tax group through control and profit transfer agreements. Income taxes consist of current taxes and taxes for prior years. The previous year's income taxes related to income tax benefits for prior years of EURk 209.

Income taxes do not include deferred taxes because the capitalisation option for deferred taxes was not utilised.

Other taxes

Other taxes amounting to EURk 286 (previous year: EURk 113) include mainly sales tax refunds for prior years.

Net loss / accumulated loss

The net loss for the 2016 fiscal year amounted to EURk 9,224 (previous year: EURk 26,276). Based on the loss carried forward from the previous year of EURk 133,453, the accumulated loss as at the balance sheet date totalled EURk 142,677.

OTHER NOTES

Governing bodies

Executive Board members and remuneration

In the year under review, the Company's Executive Board consisted of the following members:

- Hon.-Prof. Andreas Steyer, Speaker of the Executive Board (CEO), Ginsheim
- Mr Markus Drews, COO, Mülheim/Ruhr
- Mr Frank Schaich, CFO, Gräfelfing, from February 1 until October 31, 2016

The members of the Company's Executive Board held positions in the following statutory supervisory boards or other comparable governing bodies at domestic or foreign commercial enterprises in the reporting year:

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

Mr Frank Schaich did not hold positions in any statutory supervisory boards or other comparable supervisory bodies at domestic or foreign commercial enterprises during the reporting year or at the time of his appointment to the Executive Board.

The remuneration of the Executive Board members in office during the fiscal year is listed in the table below.

in EURk	Fixed remuneration	Variable remuneration	Share-based payments	Total 2016	Total 2015
Hon.-Prof. Andreas Steyer	267	125	296	688	660
Markus Drews	264	125	296	685	561
Frank Schaich	383	32	-	415	-
Total	**914**	**282**	**592**	**1,788**	**1,221**

The Executive Board's fixed remuneration consists of a fixed salary and fringe benefits that include mainly the use of a company car. Variable remuneration consists of a bonus based on the business performance in the reporting year.

As a result of Mr Frank Schaich terminating his employment and leaving the Company, DEMIRE AG recognised a liability of EURk 253, which is included under fixed remuneration in the table above. The benefits agreed to upon terminating his employment include continued remuneration, fringe benefits, and the contractually agreed bonus for the 2016 fiscal year.

In the previous year, Hon.-Prof. Andreas Steyer and Markus Drews each received 400,000 stock options for a total of 800,000 as a remuneration component with long-term incentive. The options were granted as part of a multi-year stock options programme under which entitlements are earned on a pro rata basis. The fair value of one stock option at the grant date was EUR 2.74 and is a component of the Executive Board's remuneration reported in the above table under „share-based payments". The share-based payments granted had no effect on the accounting under commercial law.

There were no pension obligations or post-employment benefits existing or granted to active or former Executive Board members in the reporting year.

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

Supervisory Board members and remuneration

The following table provides the names and professions of the Company's Supervisory Board members.

Name	Function	Profession	Member since/until
Prof Dr Hermann Wagner	Chairman	Independent auditor and tax consultant, professor at the Frankfurt School of Finance and Management, Frankfurt/Main	
Frank Hölzle	Deputy Chairman	Graduate economist, CEO of Care4 AG, Basel/Switzerland	Since February 14, 2017 by judicial appointment
Dr Thomas Wetzel	Member	Specialist lawyer and official expert for real estate and construction law	Since February 14, 2017 by judicial appointment
Dr Peter Maser	Deputy Chairman	Attorney at Law	until February 13, 2017
Günther Walcher	Member	Entrepreneur	until January 23, 2017

The Supervisory Board's total remuneration for the fiscal year amounted to EURk 270 (previous year: EURk 270). In addition, Supervisory Board members were reimbursed by the Company for travel expenses of EURk 9 (previous year: EURk 5) incurred in the context of Supervisory Board meetings.

The following members of the Company's Supervisory Board held positions in other supervisory boards or other supervisory bodies as defined by Section 125 (1) sentence 5 AktG:

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

Average number of employees in the fiscal year

The average number of employees in the 2016 fiscal year was 13 (previous year: 10).

Related party transactions

A related party is a person or entity that can exercise influence over the Company or is subject to control or significant influence exercised by the Company.

Parties related to DEMIRE AG include the members of the Executive and Supervisory Boards, shareholders and governing bodies of subsidiaries, including their closely associated family members, and such entities over which the members of the Company's Executive and Supervisory Boards and their closely associated family members can exert significant influence or entities in which they hold significant voting rights. Related parties also include entities in which the Company holds an interest that allows it to significantly influence the investee's operating policies. Finally, the Company's major shareholders are also considered related parties.

Transactions with related parties are carried out mainly by subsidiaries. All transactions with related parties conducted during the reporting year were based on market standard terms.

Statement with regard to the German Corporate Governance Code
DEMIRE AG Executive and Supervisory Boards are committed to corporate management focused on responsible, transparent and sustainable value creation. The statement required under Section 161 AktG with regard to the German Corporate Governance Code was last submitted by the Company's Executive and Supervisory Boards on April 26, 2017 and made available to DEMIRE AG shareholders. The Declaration of Conformity with the German Corporate Governance Code was made permanently available to shareholders on DEMIRE Deutsche Mittelstand Real Estate AG's website under the section titled „Company" (http://www.demire.ag/files/demire_ag_entsprechenserklaerung____161_aktg_2015-de.pdf).

Auditor's fee
The disclosure on the auditor's total fee (Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn branch) in accordance with Section 285 sentence 1 no. 17 HGB is provided in the notes to the consolidated financial statement, which are published in the electronic Federal Gazette.

Information on the parent company
As the Group's parent company, DEMIRE AG has prepared consolidated financial statements according to International Financial Reporting Standards (IFRS) as adopted by the European Union and the supplementary provisions of the German Commercial Code pursuant to Section 315a (1) HGB. The consolidated financial statements have been published in the electronic Federal Gazette.

Disclosures under Section 160 (1) no. 8 HGB
Under Section 160 (1) no. 8 AktG, the Company must disclose information about existing shareholdings that it received pursuant to Section 21 (1) or Section 21 (1a) WpHG during the reporting period and in the period prior to the preparation of the financial statements.

The Company received the following notifications:

2016:
Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 4, 2016
On January 4, 2016, Wecken & Cie., Basel, Switzerland, notified us under Section 21 (1) WpHG that its voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 10 % threshold on December 21, 2015 and amounted to 6.09 % (corresponding to 3,000,000 voting rights).

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 4, 2016
On January 4, 2016, Mr Klaus Wecken of Switzerland, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 10 % threshold on December 21, 2015 and amounted to 6.09 % (corresponding to 3,000,000 voting rights).

A total of 6.09 % of the voting rights (corresponding to 3,000,000 voting rights) are attributed to Mr Wecken in accordance with Section 22 (1), sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Wecken & Cie.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 4, 2016
On January 4, 2016, Wecken & Cie., Basel, Switzerland, notified us under Section 21 (1) WpHG that its voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the threshold of 10 % on December 23, 2015 and amounted to 12.91 % (corresponding to 6,365,500 voting rights).

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 4, 2016
On January 4, 2016, Mr Klaus Wecken of Switzerland, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the threshold of 10 % on December 23, 2015 and amounted to 12.91 % (corresponding to 6,365,500 voting rights).

A total of 12.91 % of the voting rights (corresponding to 6,365,500 voting rights) are attributed to Mr Wecken in accordance with Section 22 (1), sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Wecken & Cie.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 4, 2016
On January 4, 2016, Mr Rolf Elgeti notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the thresholds of 3 %, 5 % and 10 % on December 23, 2015 and amounted to 12.6747 % (corresponding to 6,247,630 voting rights).

A total of 12.6747 % % of the voting rights (corresponding to 6,247,630 voting rights) are attributed to Mr Elgeti in accordance with Section 22 (1), sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Jägersteig Beteiligung GmbH; Försterweg Beteiligung GmbH; Obotritia Beteiligung GmbH.

Correction of the release from January 4, 2016
Release according to Section 26 (1) WpHG with the objective of Europe-wide distribution
Frankfurt/Main, January 7, 2016
On January 7, 2016, Mr Rolf Elgeti notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the thresholds of 3 %, 5 % and 10 % on December 23, 2015 and amounted to 12.6747 % (corresponding to 6,247,630 voting rights).

A total of 12.6747 % % of the voting rights (corresponding to 6,247,630 voting rights) are attributed to Mr Elgeti in accordance with Section 22 (1) sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Jägersteig Beteiligung GmbH; Försterweg Beteiligung GmbH; Obotritia Beteiligung GmbH.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 8, 2016
On January 8, 2016, DeGeLog Deutsche Gewerbe-Logistik Holding GmbH, Berlin, Germany, notified us under Section 21 (1) WpHG that its voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 10 % threshold on December 21, 2015 and amounted to 8.32 % (corresponding to 4,100,000 voting rights).

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 8, 2016
On January 13, 2016, Mr Willem Rozendaal of Switzerland, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 10 % threshold on December 21, 2015 and amounted to 6.62 % (corresponding to 3,261,002 voting rights).

A total of 6.62 % of the voting rights (corresponding to 3,261,002 voting rights) are attributed to Mr Rozendaal in accordance with Section 22 (1) sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Alpine Real Estate Invest GmbH.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 13, 2016
On January 13, 2016, Ketom AG, Wollerau, Switzerland, notified us under Section 21 (1) WpHG that its voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 5 % threshold on December 21, 2015 and amounted to 4.43 % (corresponding to 2,182,567 voting rights).

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, January 13, 2016
On January 13, 2016, Mr Norbert Ketterer of Switzerland, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 5 % threshold on December 21, 2015 and amounted to 4.43 % (corresponding to 2,182,567 voting rights).

A total of 4.43 % of the voting rights (corresponding to 2,182,567 voting rights) are attributed to Mr Ketterer in accordance with Section 22 (1) sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Ketom AG.

Release regarding the aim of the purchase and the origin of the funds used according to Article 27a WpHG
Frankfurt/Main, January 25, 2016
On January 22, 2016, Wecken&Cie, Basel, Switzerland, informed us pursuant to Section 27a (1) WpHG thereby making reference to the exceedance of the 10 % or a higher threshold on December 23, 2015, as follows:

- The investment is used to pursue strategic objectives.
- The notifying person intends to obtain further voting rights by means of a purchase or by other means within the next twelve months.
- The notifying person intends to influence the composition of the issuers' administration, management or supervisory bodies.
- The notifying person does not currently intend to significantly change the capital structure of the company, especially with regard to the ratio of equity and debt capital and the dividend policy.
- With regard to the source of funds, the notifying person has used equity capital to finance the acquisition of the voting rights.

Release regarding the aim of the purchase and the origin of the funds used according to Article 27a WpHG
Frankfurt/Main, January 25, 2016
On January 22, 2016, Mr Klaus Wecken of Switzerland, informed us pursuant to Section 27a (1) WpHG thereby making reference to the exceedance of the 10 % or a higher threshold on December 23, 2015, as follows:

- The investment is used to pursue strategic objectives.
- The notifying person intends to obtain further voting rights by means of a purchase or by other means within the next twelve months.
- The notifying person intends to influence the composition of the issuers' administration, management or supervisory bodies.
- The notifying person does not currently intend to significantly change the capital structure of the company, especially with regard to the ratio of equity and debt capital and the dividend policy.

- With regard to the source of funds, the notifying person has used equity capital to finance the acquisition of the voting rights.

Release regarding the aim of the purchase and the origin of the funds used according to Article 27a WpHG
Frankfurt/Main, January 25, 2016
On January 22, 2016, Mr Rolf Elgeti, Germany, informed us pursuant to Section 27a (1) WpHG thereby making reference to the exceedance of the 10 % or a higher threshold on December 23, 2015, as follows. At the time of the exceedance of the threshold, the holding amounted to 12.67 % and is attributed to Mr Rolf Elgeti as general partner of Obotritia Capital KGaA through its three investment entities Jägersteig Beteiligungs GmbH, Obotritia Beteiligungs GmbH, Försterweg Beteiligungs GmbH.

- The investment is used to pursue strategic objectives.
- The notifying person intends to obtain further voting rights by means of a purchase or by other means within the next twelve months.
- The notifying person does not intend to influence the composition of the issuers' administration, management or supervisory bodies.
- The notifying person does not currently intend to significantly change the capital structure of the company, especially with regard to the ratio of equity and debt capital and the dividend policy.
- With regard to the source of funds, the notifying person has used equity capital to finance the acquisition of the voting rights.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, February 11, 2016
On February 11, 2016, Mr Alan James Lynch, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 5 % threshold on December 21, 2015 and amounted to 2.71 % (corresponding to 1,340,000 voting rights).

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, September 2, 2016
On September 2, 2016, Mr Klaus Wecken of Switzerland, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the threshold of 15 % on August 31, 2016 and amounted to 16.96 % (corresponding to 9,200,000 voting rights).

A total of 16.96 % of the voting rights (corresponding to 9,200,000 voting rights) are attributed to Mr Wecken in accordance with Section 22 (1), sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Wecken & Cie.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, September 5, 2016
On September 5, 2016, Mr Rolf Elgeti notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, amounted to 11.8959 % on August 31, 2016 (corresponding to 6,452,630 voting rights).

A total of 11.8959 % % of the voting rights (corresponding to 6,452,630 voting rights) are attributed to Mr Elgeti in accordance with Section 22 (1) sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Jägersteig Beteiligung GmbH; Försterweg Beteiligung GmbH; Obotritia Beteiligung GmbH.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, September 6, 2016
On September 6, 2016, Mr Günther Walcher, Turkey, and Dr Martin Zuffer, Austria, notified us under Section 21 (1) WpHG that their voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the threshold of 3 % on August 31, 2016 and amounted to 4.89 % (corresponding to 2,654,699 voting rights).

A total of 4.89 % of the voting rights (corresponding to 2,654,699 voting rights) are attributed to Mr Walcher and Dr Zuffer in accordance with Section 22 (1) sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by them whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: M1 Beteiligungs GmbH.

Release regarding the aim of the purchase and the origin of the funds used according to Article 27a WpHG
Frankfurt/Main, September 23, 2016
On September 23, 2016, Wecken&Cie, Basel, Switzerland, informed us pursuant to Section 27a (1) WpHG thereby making reference to the exceedance of the 10 % or a higher threshold on August 31, 2016, as follows:

- The investment is used to pursue strategic objectives.
- The notifying person intends to obtain further voting rights by means of a purchase or by other means within the next twelve months.
- The notifying person intends to influence the composition of the issuers' administration, management or supervisory bodies.

- The notifying person does not intend to significantly change the capital structure of the company, especially with regard to the ratio of equity and debt capital and the dividend policy.
- With regard to the source of funds, the notifying person has used 100 % equity capital to finance the acquisition of the voting rights.

Release regarding the aim of the purchase and the origin of the funds used according to Article 27a WpHG
Frankfurt/Main, September 23, 2016
On September 23, 2016, Mr Klaus Wecken of Switzerland, informed us pursuant to Section 27a (1) WpHG thereby making reference to the exceedance of the 10 % or a higher threshold on August 31, 2016, as follows:

- The investment is used to pursue strategic objectives.
- The notifying person intends to obtain further voting rights by means of a purchase or by other means within the next twelve months.
- The notifying person intends to influence the composition of the issuers' administration, management or supervisory bodies.
- The notifying person does not intend to significantly change the capital structure of the company, especially with regard to the ratio of equity and debt capital and the dividend policy.
- With regard to the source of funds, the notifying person has used 100 % equity capital to finance the acquisition of the voting rights.

Release according to Section 26 (1) WpHG with the objective of Europe-wide distribution
Frankfurt/Main, November 18, 2016
On November 18, 2016, Mr Rolf Elgeti notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, amounted to 11.8959 % on August 16, 2016 (corresponding to 6,452,630 voting rights).

A total of 11.8959 % % of the voting rights (corresponding to 6,452,630 voting rights) are attributed to Mr Elgeti in accordance with Section 22 (1) sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Obotritia Beteiligung GmbH.

Notification of voting rights pursuant to Section 21 (1) WpHG
Frankfurt/Main, December 30, 2016
On December 30, 2016, Mr Klaus Wecken of Switzerland, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the threshold of 20 % and 25 % on December 30, 2016 and amounted to 26.53 % (corresponding to 14,393,157 voting rights).

A total of 26.53 % of the voting rights (corresponding to 14,393,157 voting rights) are attributed to Mr Wecken in accordance with Section 22 (1), sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Wecken & Cie.

2017:

Notification of voting rights pursuant to Section 21 (1) WpHG

Langen (Hesse), January 3, 2017

On January 3, 2017, DeGeLog Deutsche Gewerbe-Logistik Holding GmbH, Berlin, Germany, notified us under Section 21 (1) WpHG that its voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 3 % threshold on December 30, 2016 and amounted to 0 % (corresponding to 0 voting rights).

Notification of voting rights pursuant to Section 21 (1) WpHG

Langen (Hesse), January 3, 2017

On January 13, 2016, Mr Willem Rozendaal of Switzerland, notified us under Section 21 (1) WpHG that his voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had fallen below the 5 % threshold on December 30, 2016 and amounted to 4.67 % (corresponding to 2,534,714 voting rights).

A total of 4.67 % of the voting rights (corresponding to 2,534,714 voting rights) are attributed to Mr Rozendaal in accordance with Section 22 (1) sentence 1, no. 1 WpHG. Attributed voting rights are held by the following companies controlled by him whose share of the voting rights in DEMIRE Deutsche Mittelstand Real Estate AG amounts to 3 % or more: Alpine Real Estate Invest GmbH.

Release regarding the aim of the purchase and the origin of the funds used according to Article 27a WpHG

Langen (Hesse), January 18, 2017

On January 16, 2017, Mr Klaus Wecken of Switzerland, informed us pursuant to Section 27a (1) WpHG thereby making reference to the exceedance of the 10 % or a higher threshold on December 30, 2016, as follows:

- The investment is used to pursue strategic objectives.
- The notifying person intends to obtain further voting rights by means of a purchase or by other means within the next twelve months.
- The notifying person intends to influence the composition of the issuers' administration, management or supervisory bodies.
- The notifying person intends to significantly change the capital structure of the company, especially with regard to the ratio of equity and debt capital and the dividend policy.
- With regard to the source of funds, the notifying person has used 100 % equity capital to finance the acquisition of the voting rights.

Release regarding the aim of the purchase and the origin of the funds used according to Article 27a WpHG
Langen (Hesse), January 20, 2017
On January 16, 2017, Wecken&Cie, Basel, Switzerland, informed us pursuant to Section 27a (1) WpHG thereby making reference to the exceedance of the 10 % or a higher threshold on December 30, 2016, as follows:

- The investment is used to pursue strategic objectives.
- The notifying person intends to obtain further voting rights by means of a purchase or by other means within the next twelve months.
- The notifying person intends to influence the composition of the issuers' administration, management or supervisory bodies.
- The notifying person intends to significantly change the capital structure of the company, especially with regard to the ratio of equity and debt capital and the dividend policy.
- With regard to the source of funds, the notifying person has used 100 % equity capital to finance the acquisition of the voting rights.

Notification of voting rights pursuant to Section 26 (1) WpHG
Frankfurt/Main, April 26, 2017
On April 26, 2017, Ms Sigrid Wecken notified the Company under Section 26 (1) WpHG that her voting rights in DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, Germany, had exceeded the threshold of 5 % on April 13, 2017, and amounted to 5.002 % (corresponding to 2,713,880 voting rights).

Executive Board's proposal for the appropriation of profits/losses
The Executive Board proposes to carry forward the Company's accumulated loss for the 2016 fiscal year.

Responsibility statement under Section 264 (2) sentence 3 HGB
As the governing body of DEMIRE AG, the Executive Board's hereby assures to the best of his knowledge and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the Company's net assets, financial position and results of operations.

Subsequent events

After the end of the fiscal year, the following events of particular importance occurred, which have not been recognised in the statement of income or balance sheet:

After Mr Günther Walcher and Dr Peter Maser have retired from the Company's Supervisory Board on January 23, 2017 and February 13, 2017, DEMIRE AG was able to welcome Mr Frank Hölzle und Dr Thomas Wetzel as new Supervisory Board members. By order of the District of Frankfurt/Main dated February 14, 2017, both were judicially appointed to the Supervisory Board. The appointment of Frank Hölzle and Dr Thomas Wetzel is limited until the next Annual General Meeting scheduled for June 29, 2017. The DEMIRE AG plans to propose its shareholders to conform Mr Hölzle and Dr Wetzel as Supervisory Board members until June 2021.

In the constituent meeting of the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG on February 17, 2017, Mr Frank Hölzle was elected as Deputy Chairman of the Board. The Supervisory Board also appointed Mr Ralf Kind as the Company's new CFO. Mr Ralf Kind assumed his position at DEMIRE AG with effect from March 1, 2017 and joined the Executive Board consisting of Prof Andreas Steyer (CEO) and Markus Drews (COO). At the meeting on February 17, 2017, the Supervisory Board also extended Markus Drews (CFO) Executive Board contract by an additional three years until the end of 2020.

In mid-February 2017, the property in Pancharevo, Bulgaria, which is part of the legacy portfolio, was sold at a profit of EUR 0.5 million.

At the end of February, DEMIRE Deutsche Mittelstand Real Estate AG extended the promissory note at Deutschen Bank maturing in 2019 with a volume of EUR 148 million until 2022 at improved terms. The interest rate was reduced from 5 % to 4 % per annum with retroactive effect from January 1, 2017 without being charged an early repayment fee. As a result, DEMIRE Group's average interest on total borrowings was reduced from 4.4 % p.a. to 4.1 % p.a. and the Funds from Operations (FFO) will increase by EUR 1.45 million annually from 2017. DEMIRE also has the one-time option to cut the interest rate to 3.5 % p.a. in case of a partial repayment of the promissory note. This would lead to a potential further reduction in average interest on total borrowings to 4 % and an increase in FFO of EUR 2.2 million annually.

In early March 2017, DEMIRE Deutsche Mittelstand Real Estate AG extended the agreement with Baader Bank AG for a credit facility in the amount of EUR 5.0 million until April 30, 2018 at a fixed interest rate of 5.0 % interest per annum. At the end of March 2017, the agreement with Südwestbank AG for a credit facility in the amount of EUR 5.0 million was extended until March 30, 2018 at a variable interest rate of 3-month EURIBOR plus a margin of 250 basis points and a minimum interest rate of 2.5 % per annum.

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

On April 13, 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that the 2016 fiscal year funds from operations (“FFO”), excluding gains from disposals, will clearly fall short of the Company’s FFO forecast. The FFO forecast for the 2017 fiscal year was also withdrawn. A new FFO forecast for the 2017 fiscal year will be announced after the Company’s internal planning has been updated.

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

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

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

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

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

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG, FRANKFURT/MAIN
STATEMENT OF FIXED ASSETS FOR THE FISCAL YEAR FROM JANUARY 1, 2016 TO DECEMBER 31, 2016

EUR		Acquisition cost				Accumulated depreciation and amortisation				Carrying amounts	
		01/01/2016 EUR	Additions EUR	Disposals EUR	31/12/2016EUR	01/01/2016 EUR	Additions EUR	Disposals EUR	31/12/2016 EUR	31/12/2016 EUR	31/12/2015 EUR
I.	**Intangible assets**										
	Software licenses	0.00	25,623.20	0.00	25,623.20	0.00	7,396.20	0.00	7,396.20	18,227.00	0.00
		0.00	**25,623.20**	**0.00**	**25,623.20**	**0.00**	**7,396.20**	**0.00**	**7,396.20**	**18,227.00**	**0.00**
II.	**Tangible assets**										
	1. Buildings on third-party property	2,807.66	34,567.41	0.00	37,375.07	108.66	1,311.41	0.00	1,420.07	35,955.00	2,699.00
	2. Other equipment. operating and office equipment	45,576.57	110,919.52	1,259.02	155,237.07	20,505.57	30,003.52	683.02	49,826.07	105,411.00	25,071.00
		48,384.23	**145,486.93**	**1,259.02**	**192,612.14**	**20,614.23**	**31,314.93**	**683.02**	**51,246.14**	**141,366.00**	**27,770.00**
III.	**Financial assets**										
	1. Investments in affiliated companies	226,809,718.26	0.00	7,298,099.64	219,511,618.62	77,506,431.94	1,034,637.57	6,550,163.89	71,990,900.62	147,520,718.00	149,303,286.32
	2. Loans to affiliated companies	143,062,713.67	51,527,708.23	8,891,072.67	185,699,349.23	2,380,129.66	0.00	0.00	2,380,129.66	183,319,219.57	140,682,584.01
	3. Investments	7,794,054.13	43,027.89	7,837,082.02	0.00	3,266,822.05	0.00	3,266,822.05	0.00	0.00	4,527,232.08
		377,666,486.06	51,570,736.12	24,026,254.33	405,210,967.85	83,153,383.65	1,034,637.57	9,816,985.94	74,371,030.28	330,839,937.57	294,513,102.41
		377,714,870.29	**51,741,846.25**	**24,027,513.35**	**405,429,203.19**	**83,173,997.88**	**1,073,343.96**	**9,817,668.96**	**74,429,672.62**	**330,999,530.57**	**294,540,872.41**

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG, FRANKFURT AM MAIN
SCHEDULE OF SHAREHOLDINGS PURSUANT TO SECTION 313 (2) HGB

Schedule of shareholdings of the DEMIRE Group pursuant to Section 313 (2) HGB

COMPANY	INTEREST IN EQUITY (%)
GERMANY	
DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt a. M.	
Glockenhofcenter Objektgesellschaft mbH, Berlin	94.90
Hanse-Center Objektgesellschaft mbH, Berlin	94.90
Logistikpark Leipzig GmbH, Berlin	94.00
Demire Immobilien Management GmbH, Berlin	100.00
Panacea Property GmbH, Berlin [1]	51.00
Praedia GmbH, Berlin	51.00
Fair Value REIT-AG, Gräfelfing	77.70
IC Fonds & Co. Büropark Teltow KG, Munich [2]	39.86
IC Fonds & Co. Gewerbeportfolio Deutschland 13. KG, Munich [2]	29.26
IC Fonds & Co. SchmidtBank-Passage KG, Munich [2]	41.92
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich [2]	39.63
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich [2]	48.35
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich [2]	45.08
GP Value Management GmbH, Munich	77.70
BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	77.70
BBV Immobilien-Fonds Erlangen GbR, Munich [2]	32.65
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich [2]	34.31
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich [2]	37.43
FVR Beteiligungsgesellschaft Erste mbH, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Zweite mbH, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Dritte mbH, Frankfurt a. M.	100.00

COMPANY	INTEREST IN EQUITY (%)
GERMANY	
FVR Beteiligungsgesellschaft Vierte mbH, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Fünfte mbH, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Sechste mbH, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Siebente mbH, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Achte mbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate GmbH, Frankfurt a. M.	100.00
DEMIRE Real Estate München 1 GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management EINS GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management ZWEI GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management DREI GmbH, Frankfurt a. M.	100.00
CAM Commercial Asset Management VIER GmbH, Frankfurt a. M.	100.00
Schwerin Margaretenhof 18 GmbH, Frankfurt a. M.	94.90
DEMIRE Commercial Real Estate ZWEI GmbH, Frankfurt a. M.	100.00
DEMIRE Objektgesellschaft Worms GmbH, Frankfurt a. M.	94.00
TGA Immobilien Erwerb 1 GmbH, Berlin	94.00
DEMIRE Condor Properties Management GmbH, Frankfurt a. M.	100.00
DEMIRE Holding EINS GmbH, Frankfurt a. M.	100.00
Condor Real Estate Management EINS GmbH, Frankfurt a. M.	100.00
Condor Real Estate Management ZWEI GmbH, Frankfurt a. M.	100.00
Condor Real Estate Management DREI GmbH, Frankfurt a. M.	100.00
Condor Objektgesellschaft Eschborn GmbH, Frankfurt a. M.	94.00
Condor Objektgesellschaft Bad Kreuznach GmbH, Frankfurt a. M.	94.00
Condor Real Estate Management FÜNF GmbH, Frankfurt a. M.	100.00
Condor Objektgesellschaft Düsseldorf GmbH, Frankfurt a. M.	94.00
Condor Objektgesellschaft Rendsburg GmbH, Frankfurt a. M.	94.00
Condor Objektgesellschaft Bad Oeynhausen GmbH, Frankfurt a. M.	94.00

Condor Objektgesellschaft Lichtenfels GmbH, Frankfurt a. M.	94.00
DEMIRE Einkauf GmbH, Frankfurt a. M.	51.00
Demire Assekuranzmakler GmbH & Co. KG, Düsseldorf [3]	47.50
G + Q Effizienz GmbH, Berlin [3]	49.00
Demire Parkhaus Betriebsgesellschaft mbH, Berlin	100.00
Kurfürster Immobilien GmbH, Leipzig	94.90
Ritterhaus Immobilienverwaltung GmbH, Düsseldorf	100.00
Condor Objektgesellschaft Yellow GmbH, Frankfurt a. M.	94.00
Condor Yellow BV GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate DREI GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate VIER GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate FÜNF GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate SECHS GmbH, Frankfurt a. M.	100.00
LUXEMBOURG	
Germavest Real Estate S.à.r.l., Luxembourg	94.00
Armstripe S.à.r.l., Luxembourg	94.00
Blue Ringed S.à.r.l., Luxembourg	94.00
Briarius S.à.r.l., Luxembourg	94.00
Reubescens S.à.r.l., Luxembourg	94.00
DENMARK	
GO Leonberg ApS, Copenhagen	94.00
GO Bremen ApS, Copenhagen	94.00
GO Ludwigsburg ApS, Copenhagen	94.00
SCHWEIZ SWITZERLAND	
Sihlegg Investments Holding GmbH, Wollerau	94.00
CYPRUS	
Denston Investments Ltd., Nicosia	94.00
NETHERLANDS	
MAGNAT Investment I B.V., Hardinxveld Giessendamm	99.64
BULGARIA	
R-Quadrat Bulgaria EOOD, Sofia	100.00
ROMANIA	
SC Victory International Consulting s.r.l., Bucharest	100.00
GEORGIA	
Irao Magnat Digomi LLC, Tbilisi	75.00
Irao Magnat 28/2 LLC, Tbilisi [3]	50.00
AUSTRIA	
MAGNAT AM GmbH, Vienna	100.00

1) Not fully consolidated due to its immaterial importance for the Group

2) Fully consolidated because factual control is exercised through quorum majority at shareholder meeting

3) Consolidated using the equity method

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG, FRANKFURT/MAIN
SCHEDULE OF LIABILITIES AS AT DECEMBER 31, 2016

	31/12/2016						31/12/2015					
	Total	Remaining term of up to one year	Remaining term between one and five years	Remaining term of more than five years	Secured by liens or similar rights		Total	Remaining term of up to one year	Remaining term between one and five years	Remaining term of more than five years	Secured by liens or similar rights	
	EUR	EUR	EUR	EUR	EUR	Type	EUR	EUR	EUR	EUR	EUR	Type
1. Bonds	125,637,763.00	0.00	125,637,763.00	0.00	0.00		125,661,700.00	0.00	125,661,700.00	0.00	0.00	
2. Bank liabilities	7,920,516.92	7,920,516.92	0.00		0.00		0.00	0.00	0.00	0.00	0.00	
3. Trade payables	737,483.29	737,483.29	0.00	0.00	0.00		2,445,918.06	2,445,918.06	0.00	0.00	0.00	
4. Liabilities due to affiliated companies	73,019,484.88	35,863,356.08	37,156,128.80	0.00	0.00		59,798,019.58	33,174,619.19	26,623,400.39	0.00	0.00	
5. Other liabilities	34,735,894.05	2,735,894.05	32,000,000.00	0.00	80,055,487.01	Intragroup interests and receivables pledged as collateral	33,661,586.34	1,661,586.34	32,000,000.00	0.00	14,522,489.84	Intragroup interests and receivables pledged as collateral
	242,051,142.14	**47,257,250.34**	**194,793,891.80**	**0.00**	**80,055,487.01**		**221,567,223.98**	**37,282,123.59**	**184,285,100.39**	**0.00**	**14,522,489.84**	

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

The following presents the combined Management Report for DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, („the Company") and the Group („DEMIRE" or the „DEMIRE Group") for the 2016 fiscal year from January 1 to December 31, 2016. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the special provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared according to the principles of International Financial Reporting Standards (IFRS), as applicable in the European Union. The scope of consolidation is presented in detail in the notes under Item B (1).

I. GROUP PRINCIPLES

1. Business model

DEMIRE Deutsche Mittelstand Real Estate AG is a public stock corporation under German law, headquartered in Frankfurt/Main, Germany, with no other branch offices. With the entry in the commercial register on December 23, 2016, the Company's main office address was changed to Robert-Bosch-Straße 11, 63225 Langen. The shares of DEMIRE Deutsche Mittelstand Real Estate AG (ISIN DE000A0XFSF0) are listed in the Prime Standard of the Frankfurt Stock Exchange and on the regulated unofficial market of the Stuttgart, Berlin and Düsseldorf stock exchanges.

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

Following the takeover of Fair Value REIT-AG at the end of 2015, DEMIRE's business activities and its segment reporting are organised under three segments: Core Portfolio, Fair Value REIT and Corporate Functions/Others.

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

2. Strategy and Objectives

Strategy

Since the Company's realignment in 2013, the DEMIRE Group's objective has been to become one of the leading holders of commercial real estate in Germany listed on the stock exchange. On the road to becoming „first in secondary locations", the Company believes it has since made considerable progress by acquiring individual commercial properties and real estate portfolios and, above all, as a result of its acquisition of a majority interest in Fair Value REIT-AG at the end of 2015.

The Company's investment strategy is based on a balanced risk-opportunity profile, which is reflected in the fact that DEMIRE intends to hold or acquire only those properties that generate positive cash flow from the outset and have several financially sound tenants, especially when they permit the alternative use of property or the potential for value appreciation through active portfolio management. The Company prefers prime locations in medium-sized cities and up-and-coming areas bordering metropolitan centres throughout Germany. This is also designed to take regional differentiation into account. To diversify the risk of the real estate holdings, DEMIRE seeks to build a total portfolio, structured exclusively around office, retail and logistics properties. A very marketable volume of EUR 10 million to EUR 50 million is envisioned for each investment.

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

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

Objectives

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

3. Control system

To achieve the targets DEMIRE has set itself in line with the strategic direction described, the Company has designated operating cash flow (funds from operations - FFO) as its key performance indicator. To increase FFO, the Company's in-house asset, property and facility management is tasked with improving the cash flow of the existing real estate portfolio over time. On an operating level, the trend in occupancy rates, actual net rents per square metre excluding utilities, ongoing maintenance and operating costs, allocable ancillary costs, delinquent rents and marketing costs are all monitored and managed using periodic target-performance comparisons. Integrated cash flow planning links the business segments to the individual properties. Continuous monitoring of the liquidity and the occupancy rate is carried out in addition to the use of the financial performance indicators already described. For more information, please see the comments in the notes under „Investment Properties".

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

4. Research and development

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

II. ECONOMIC REPORT

1. Macroeconomic and industry environment

1.1. Macroeconomic environment

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

1.2 Sector environment

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

1.2.1. Transaction volumes for commercial real estate

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

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

1.2.2. The market for office property

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

1.2.3. The market for retail property

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

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

1.2.4. The market for logistics property

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

1.2.5 Effect of commercial property development on DEMIRE

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

2. Business performance

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

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

Chronological business development

January 2016

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

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

On February 9, 2016, due to the change in control on December 21, 2015 at Fair Value REIT-AG, creditors requested the payment of the early redemption amount of 103 % of the nominal value plus accrued interest on the effective date (February 19, 2016) in accordance with the terms of the convertible bond with a total nominal value of EUR 8.46 million and an interest coupon of 4.5 % p.a. issued by Fair Value REIT-AG on January 19, 2015 and maturing on January 19, 2020. The corresponding amount of approximately EUR 8.75 million was paid on time on February 19, 2016. The repayment was financed by two loans: a bullet loan from CapitalBank – GRAWE Group AG, Graz, to Fair Value REIT-AG maturing in three years on February 15, 2019 in the amount of EUR 7.0 million less a processing fee of 1 % at a variable interest rate of 3-month EURIBOR plus a margin of 400 basis points, and a minimum interest rate of 4.0 % per annum, which is approximately 25 % secured by a mortgage and the pledge of interests in subsidiaries and other assets; and a mortgage-secured loan from Stadt-Sparkasse Langenfeld to Fair Value REIT-AG of EUR 2.0 million maturing on March 30, 2020, with an interest coupon of 1.69 % p.a. to be repaid initially at a rate of 3 % p.a.

February 2016

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

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

March 2016

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

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

April 2016

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

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

June 2016

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

July 2016

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

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

August 2016

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

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

September 2016

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

October 2016

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

November 2016

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

December 2016

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

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

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

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

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

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

3.1. Results of operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2. Segment reporting

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

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

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

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

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

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

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

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

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

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

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

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

Adjusted Group earnings (FFO)

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

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

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

3.3. Net assets and capital structure

Overview of real estate holdings

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

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

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

Selected information from the consolidated balance sheet

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.4. Net Asset Value („NAV“)

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

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

3.5. Loan-to-value ratio (LTV)

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

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

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

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

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

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

3.6. Financial position and liquidity

Financial management

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

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

Selected information from the consolidated statement of cash flows

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

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

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

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

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

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

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

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

4. Employees

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

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

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

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

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

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

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

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

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

6. General statement concerning the Group's business performance and financial position
In just three years since the Group's realignment and focus on the German commercial real estate market in the summer of 2013, DEMIRE has succeeded in building a property portfolio with a market value of roughly EUR 1.0 billion, thereby creating the basis for profitable business development going forward. Taking into account the acquisition of Kurfürsten-Galerie in Kassel in January 2016 and the sale of individual, non-strategic real estate, the DEMIRE Group's contractual annual rental income from

investment properties has grown to roughly EUR 76.4 million allowing DEMIRE to strengthen its position as one of the leading holders of commercial real estate in Germany while at the same time continuing to streamline the legacy portfolio. The sale of interests and properties contained in the legacy portfolio has led to a positive contribution to the Group's profit/loss.

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

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

III. CHANGES IN THE COMPOSITION OF THE GOVERNING BODIES

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

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

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

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

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

IV. REMUNERATION REPORT

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

1. Remuneration of the Executive Board

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

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

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

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

The variable and fixed components of the remuneration of Executive Board members have maximum limits in terms of absolute value. Remuneration in excess of the amount intended for the remaining term of the employment contract will not be granted.

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

Existing employment contracts

(1) Herr Hon.-Prof. Andreas Steyer

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

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

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

(2) Herr Markus Drews

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

(3) Herr Ralf Kind

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

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

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

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

Terminated employment contracts

Mr Frank Schaich

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

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

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

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

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

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

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

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

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

2. Remuneration of the Supervisory Board

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

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

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

V. REPORT ON OPPORTUNITIES, RISKS AND OUTLOOK

1. Opportunities report

1.1. Macroeconomic and sector opportunities

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

1.2. Business opportunities

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

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

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

1.3. Financial opportunities

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

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

1.4. Summarised assessment of DEMIRE's opportunities

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

2. Risk report

The decision in 2013 to shift the Company's focus towards German commercial real estate has been successfully implemented over the past two fiscal years through a number of strategic investments. In 2016, the portfolio was thoroughly analysed and the non-core properties that were identified were disposed of. This has had a significantly positive effect on the DEMIRE Group's risk profile.

2.1. Risk management system

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

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

The risk management process is documented in a risk management handbook that is reviewed regularly and revised as necessary. A risk catalogue lists all of the significant risks DEMIRE is subject to or could be subject to in the future.

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

2.2. Risks

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

2.2.1. Macroeconomic, market and sector risks

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

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

2.2.2. Financial risk

2.2.2.1. Liquidity risk

Liquidity management serves to guarantee the Group's solvency at all times. Based on conservative assumptions, the funds necessary for the Group's operational management are planned and dispersed at the level of the group companies and the parent company. At the level of the respective property holding companies, liquidity is affected by revenues from real estate less management, administrative and financing costs and at the company level, by proceeds from Group companies in the form of dividends, profit distributions and withdrawals.

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

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

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

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

2.2.2.2. Risks resulting from covenants

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

2.2.2.3. Interest rate risk

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

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

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

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

2.2.2.4. Currency risk

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

2.2.3. Operating risk

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

2.2.3.1. Rental and property management risks

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

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

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

2.2.3.2. Valuation risk

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

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

2.2.4. Other risks

2.2.4.1. Legal risk

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

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

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

2.2.4.2. Tax risk

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

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

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

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

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

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

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

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

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

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

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

Their purpose is to achieve the following:

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

DEMIRE Deutsche Mittelstand Real Estate AG, as the legal parent company, prepares the consolidated financial statements. Before this process, the bookkeeping and preparation of the Group companies' annual financial statements are carried out mostly by external specialists.

The required monthly reports and the preparation of the annual financial statements are fully and promptly communicated and internally monitored. Each process is based on a detailed timetable. For risk management purposes, the plausibility, accuracy and completeness of postings are monitored and reviewed by the Group's own employees. The employees involved in this process meet the qualitative requirements and are trained periodically. The two-man rule is an important control principle used in this process.

Other essential tools include:

- Uniform accounting policies by selecting one external service provider for the majority of Group companies
- The clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process
- The use of external specialists to the extent necessary, for example, to provide an expert opinion on the market value of real estate

Together with our external service providers, new laws, accounting standards and other official pronouncements are continuously analysed for their relevance and their impact on the annual and consolidated financial statements and the combined management report. The Group makes adjustments to Group accounting policies when necessary. In fiscal year 2016, this occurred to the extent required under new accounting provisions.

To ensure the adequacy of the accounting and the relevant overall presentation of the consolidated and annual financial statements, including the combined management report, the following measures and controls are regularly implemented, evaluated and further developed in a structured process with together our service providers:

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

2.4. Overall assessment of the risk situation

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

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

3. Report on outlook

3.1 Economic environment with some uncertainty

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

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

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

3.2. Sector economy not setting any records

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

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

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

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

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

3.3. Anticipated development of the most important key performance indicators

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

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

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

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

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

3.4. General statement on the Group's expected performance

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

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

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

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

VI. ACQUISITION-RELATED INFORMATION

1. Composition of subscribed capital

a.) On December 31, 2016

On December 31, 2016, the Company had fully paid-up subscribed capital in the amount of EUR 54,246,944.00 divided into 54,246,944 no-par value bearer shares with a notional interest in share capital of EUR 1.00. The Group held 5,000 of these shares. A total of 9,000 no-par value bearer shares were not recorded in the commercial register until the end of January 2016. The shares of DEMIRE Deutsche Mittelstand Real Estate AG have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

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

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

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

b) Development after December 31, 2016

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

2. Restrictions on voting rights and the transfer of shares

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

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

a.) On December 31, 2016

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

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

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

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

b.) Development after December 31, 2016

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

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

Such shares do not exist.

5. Type of voting right control when employees hold an interest in share capital and do not exercise their control rights directly

Such interests do not exist.

6. Legal regulations and provisions of the Articles of Association governing the appointment and replacement of members of the Executive Board and amendments to the Articles of Association

6.1. Appointment and replacement of Executive Board members

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

6.2. Amendments to Articles of Association

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

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

7.1. Authorised Capital

a.) On December 31, 2016

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

b.) Development after December 31, 2016

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

7.2. Conditional capital

a.) On December 31, 2016

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

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

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

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

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

b.) Development after December 31, 2016

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

7.3. Authorisation to issue convertible bonds or bonds with warrants

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

By resolution of the Annual General Meeting of August 28,2015 and the Supervisory Board's consent, the Executive Board was authorised to issue bearer and/or registered convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments – together referred to as „bonds") on one or several occasions until August 27, 2020, for a total nominal amount of up to EUR 125,000,000.00 with or without a limitation on the duration and to offer holders or creditors of bonds conversion or warrant rights for no-par value bearer shares of the Company with a notional interest in the share capital of up to a total of EUR 25,000,000.00 according to the bond's terms and conditions.

7.4. Authority to repurchase own shares

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

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

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

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

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

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

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

This authorisation has not yet been utilised.

8. Material agreements of the Company that are conditional upon a change of control following a takeover bid and the resulting effects

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

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

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

VII. CORPORATE GOVERNANCE REPORT / STATEMENT ON CORPORATE GOVERNANCE

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

VIII. MANAGEMENT REPORT OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG

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

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

The Company's financial statements as at December 31, 2016 were prepared in accordance with the German Stock Corporation Act (AktG), the German Commercial Code (HGB) and the first-time application of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG). Supplementary provisions from the Articles of Association did not arise.

Results of operations, financial position, liquidity position and net assets

Results of operations

In the 2016 fiscal year, DEMIRE Deutsche Mittelstand Real Estate AG incurred a net loss of EUR 9.2 million.

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

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

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

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

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

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

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

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

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

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

Financial position

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

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

Liquidity position

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

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

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

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

Net assets

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

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

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

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

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

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

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

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

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

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

Comparison of prior year forecasts with actual business development

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

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

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

Report on outlook

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

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

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

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Speaker of the Executive Board
(CEO)

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