



DEMIRE Deutsche Mittelstand Real Estate AG

FIRST QUARTER 2017 INTERIM STATEMENT

Fiscal Year January 1 – Dezember 31 2017

Foreword of the Executive Board

Dear Shareholders,

With the quarterly statement for Q1 2017 we converted our future financial reporting for three months' and nine months' result to a focused presentation layout in line with the Prime Standard's requirement published by the German Stock Exchange. We inform highly transparently on the development of our real estate portfolio and on net assets and financial position as well as results of operations of our company.

DEMIRE has made a successful start with improvement of essential key performance indicators in the first quarter of 2017:

- » Due to active portfolio management the EPRA vacancy rate in the current portfolio fell by another 70 basis points to 10.9 % as of March 31, 2017 considering the properties already sold.
- » By successful refinancing in 2016 and the extensions of the promissory note loan the average interest on financial debt p.a. declined by around 30 basis points to 4.1 % as of the end of the first quarter; same applies to loan-to-value (Net-LTV) with 62.5 %.
- » Rental income increased by 4.1 % in the first quarter despite the sale of non-strategic properties

Mid-term we are still focusing on further growth of our real estate properties in secondary locations of Germany and concurrent steady optimisation of our finance and cost structures.

The strategic review of the company started in the first quarter of 2017 is making good progress. A comprehensive package of measures to optimise costs, to streamline the Group structure and to reduce financing costs is being prepared. Once the analysis stage is complete, the Executive Board will publish a new FFO forecast at the Annual General Meeting on 29 June 2017 at the latest.

Frankfurt am Main, May 31, 2017



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

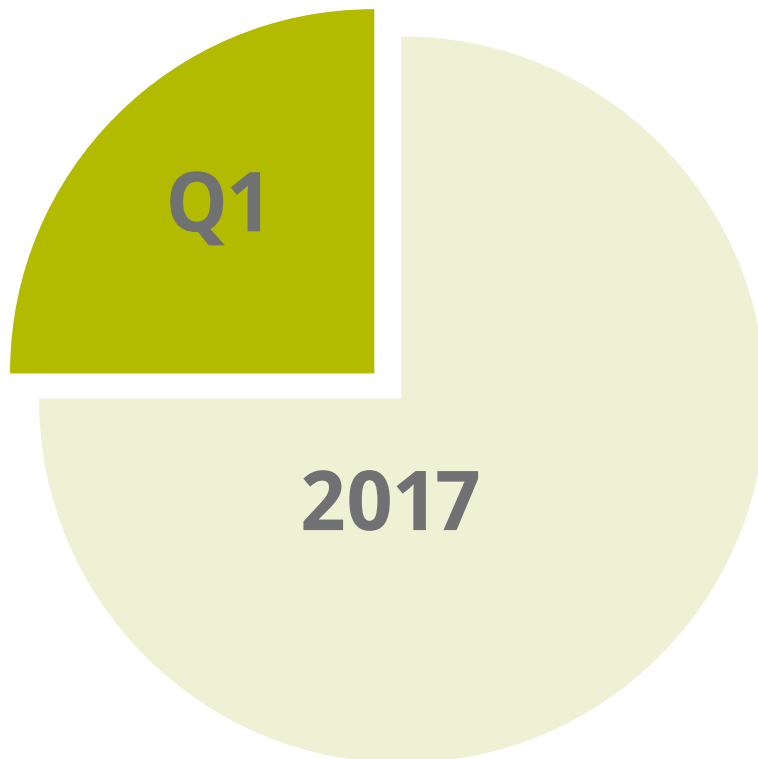


**Dipl.-Kfm. (FH)
Markus Drews**
Executive Board
Member (COO)



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

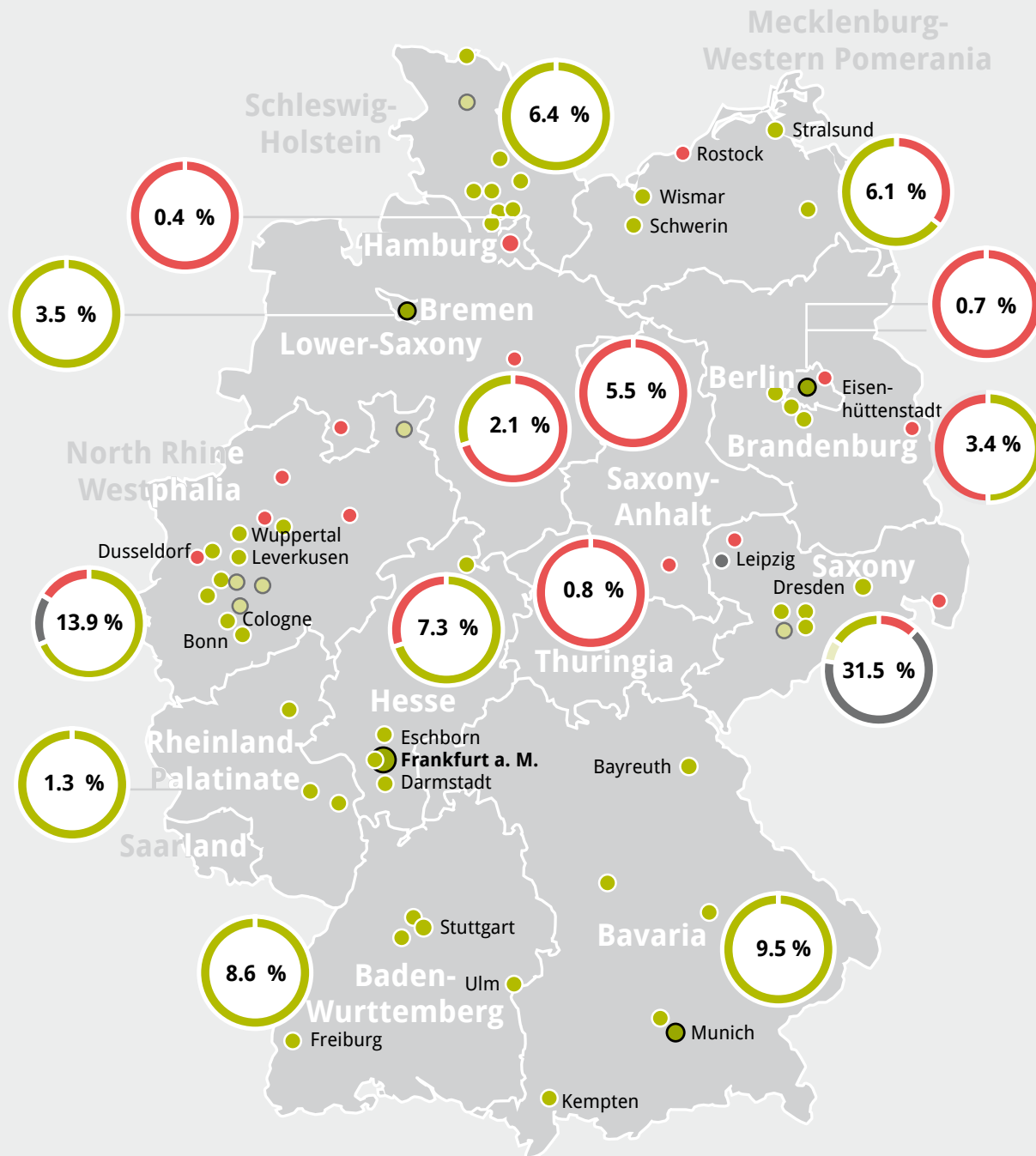
Highlights Q1 2017



- » Net-LTV falls by 30 basis points to 62.5 %
- » Average cost of financial debt reduced from 4.4 % p.a. to 4.1 % p.a.
- » Financial result improved from EUR -9.5 million in Q1 2016 to EUR -5.5 million in Q1 2017
- » EPRA vacancy rate falls from 11.6 % as of December 31, 2016 to 10.9 % considering real estate already sold
- » WALT as of March 31, 2017 still at 5.3 years

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.



Development of Portfolio

TOP 10 Tenants

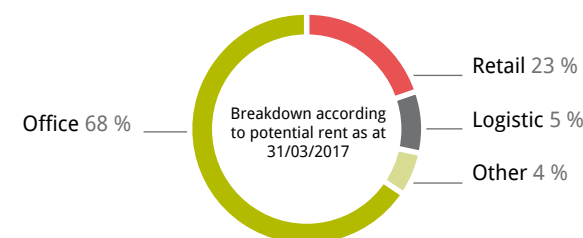
TOP 10 TENANTS (AS OF 31/03/2017)				
#	Tenant	Asset Class	GRI p.a. (EUR m) ⁽¹⁾	% of total ⁽²⁾
1	GMG (Telekom)	Office	21.6	30.0
2	BIMA	Office	1.9	2.6
3	Sparkasse	Office	1.8	2.5
4	RIMC	Office	1.5	2.1
5	HPI Germany	Office	1.4	1.9
6	BKK	Office	1.3	1.8
7	BfA Schwerin	Office	1.2	1.7
8	Momox	Logistic	1.2	1.7
9	Comdirect Bank AG	Office	1.1	1.5
10	ZAPF	Office	1.1	1.5
Subtotal			34.1	47.3
Others			38.0	52.7
Total			72.1	100.0

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

Key Indicators	Office	Retail	Logistic	Other	Total 31/03/17	Total 31/12/16	Change
Properties (Amount)	63	17	1	17	98	174.0	-43.7%
GAV (in EUR million)	672.6	239.5	53.6	28.4	994.1	1,005.6	-1.1%
GRI (in EUR million)	48.9	16.9	3.8	2.5	72.1	74.1	-2.7%
GRI yield (in %)	7.3	7.1	6.8	9.1	7.3	7.4	-10bp
EPRA Vac. (in %)	7.8	10.8	45.2	5.4	10.9	11.6	-70bp
WALT (in years)	5.1	6.4	1.9	5.9	5.3	5.3	0.0%

- » After the first risks and rewards of properties already sold in 2016 were transferred during the first quarter of 2017, the DEMIRE Group's current portfolio as of the reporting date on March 31, 2017 comprised a total of 98 commercial properties with lettable floor space totaling nearly 1.0 million square meters and a value totaling EUR 994.1 million (31 December 2016: EUR 1,005.6 million). Therein included are 16 asset held for sale amounting to EUR 35.7 million.
- » As a result of strategy-compliant portfolio adjustments in the first quarter, the annualized contractual rent decreased from EUR 74.1 million as of 31 December 2016 to EUR 72.1 million.
- » At the end of March 2017, the weighted average lease term (WALT) was unchanged compared to 31 December 2016 at 5.3 years.
- » Considering real estate already sold EPRA vacancy rate slightly falls from 11.6 % as at December 31, 2016 to 10.9 % as of March 31, 2017.

FOCUS ON THREE ASSET CLASSES

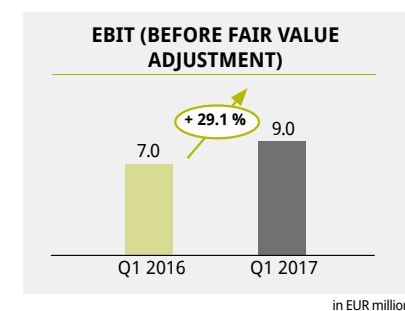
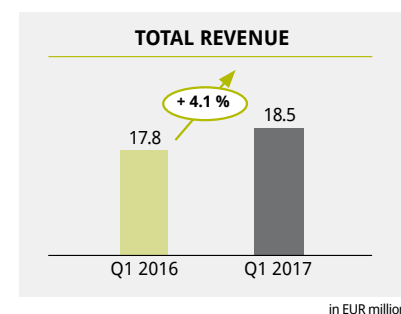


Results of operations

CONSOLIDATED STATEMENT OF INCOME (SELECTED INFORMATION IN EURK)	Jan. 1 - Mar. 31, 2017	Jan. 1 - Mar. 31, 2016	Change	%
Net rents	18,540	17,815	725	4.1
Income from ancillary rental costs	6,210	5,229	981	18.8
Operating expenses to generate rental income *	-10,911	-9,952	-959	9.6
Profit/loss from the rental of real estate	13,839	13,092	747	5.7
Profit/loss from the sale of real estate companies	0	3	-3	-100.0
Profit/loss from the sale of real estate	-194	0	-194	n.a.
Profit/loss from investments accounted for using the equity method	6	0	6	n.a.
Other operating income and other effects *	1,762	6,651	-4,889	-73.5
General and administrative expenses	-3,565	-3,405	-160	4.7
Other operating expenses	-2,663	-2,342	-321	13.7
Earnings before interest and taxes	9,185	13,999	-4,814	-34.4
Financial result	-5,466	-9,490	4,024	-42.4
Profit/loss before taxes	-3,719	4,509	-790	-17.5
Income taxes	-2,781	-999	-1,782	-178.4
Net profit/loss for the period	938	3,510	-2,572	-73.3
of which, attributable to parent company shareholders	126	1,663	-1,537	-92.4
Basic earnings per share (EUR)	0.00	0.03	-0.03	-100
Weighted average number of shares outstanding (in thousands)	54,256	49,304		
Diluted earnings per share (EUR)	0.00	0.03	-0.03	-100
Weighted average number of shares outstanding, diluted (in thousands)	67,882	62,951		

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

- » By new rental contracts and reducing vacancy the rental income of DEMIRE grew by 4 % from EUR 17.8 million in first quarter 2016 to EUR 18.5 million in first quarter 2017, including rental income from properties from the Yellow-portfolio and part of Darmstadt sold but not handed over by end of 2016. When handed over to the buyer rental income in the following quarters will be slightly lower presuming a constant portfolio.
- » Earnings before interest and taxes as well as before fair value adjustments in investment properties (1. quarter 2017: EUR 0.2 million; 1. quarter 2016: EUR 7.0 million) increase by 29.1 % from EUR 7.0 million to EUR 9.0 million.



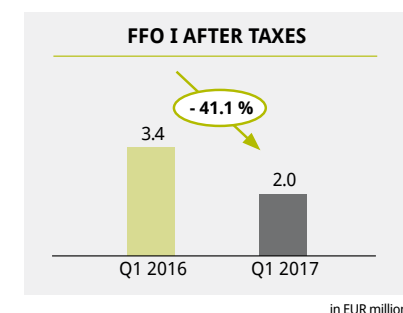
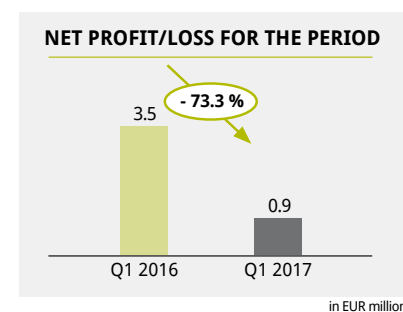
Results of operations

FFO-CALCULATION (SELECTED INFORMATION IN EURK)	Jan. 1 - Mar. 31, 2017	Jan. 1 - Mar. 31, 2016	Change	%
Net profit/loss of the period	126	1,663	-1,537	-92.4
+ Income taxes	712	89	623	700.0
+ Deferred taxes	2,069	910	1,159	127.4
+ Net profit/loss of the period attributable to non-controlling interests**	1,926	2,493	-567	-22.7
Earnings before taxes (EBT)**	4,833	5,155	-322	-6.2
+/- Profit/loss from the sale of real estate companies	0	-3	3	-100.0
+/- Profit/loss from the sale of real estate	194	0	194	n.a.
+/- Profit/loss from investments accounted for using the equity method	-6	0	-6	n.a.
+/- Profit/loss from fair value adjustments in investment properties	-155	-7,009	6,854	-97.8
+/- Profit/loss from revaluation of financial instruments	-3,363	924	-4,287	-464.0
+/- Other adjustments	1,196	4,393	-3,197	-72.8
FFO I before taxes	2,699	3,460	-761	-22.0
+/- Income taxes	-712	-89	-623	700.0
FFO I after taxes	1,987	3,371	-1,384	-41.1
attributable to company shareholders	237	2,089		
attributable to non-controlling interests	1,750	1,282		
+/- Profit/loss from the sale of real estate and real estate companies (after taxes)	-163	3	-166	n.a.
FFO II after taxes	1,824	3,374	-1,550	-45.9
attributable to company shareholders	84	2,092		
attributable to non-controlling interests	1,740	1,282		
FFO I after taxes per share				
Basic FFO I per share	0.04	0.07	-0.03	-43
Weighted average number of shares outstanding (in thousands)	54.256	49.304		
Diluted FFO I per share	0.03	0.05	-0.02	-40
Weighted average number of shares outstanding dilutes (in thousands)	67.882	62.951		
FFO II after taxes per share				
Basic FFO II per share	0.03	0.07	-0.03	-57
Weighted average number of shares outstanding (in thousands)	54.256	49.304		
Diluted FFO II per share	0.03	0.05	-0.03	-40
Weighted average number of shares outstanding (in thousands)	67.882	62.951		

*Previous year figures have been adjusted due to change in classification

** including profit/loss of non-controlling interests of Fair Value REIT funds in financial result

- » The financial result amounted to EUR – 5.5 million in the first quarter 2017 (1. quarter 2016: EUR -9.5 million). Therein included is an effect of EUR 3.5 million resulting from revaluating the call option of the corporate bond 2014/2019 (1. quarter 2017: EUR 1.2 million) as well as interests of the Far Value REIT subsidiaries' minorities of EUR 1.1 million (1. quarter 2016: EUR 0.6 million).
- » Refinancing measures in 2016 and extension of the promissory note in the first quarter 2017 all at better interest conditions lead to an improvement in finance expenses in comparison to first quarter 2016 of approx. EUR 1.8 million, regular contractual as well as extraordinary redemption payments to an improvement of EUR 0.5 million.
- » Due to higher tax expenses Funds from operations (FFO I) after taxes of first quarter 2017 amounting to EUR 2.0 million were 41 % below those of first quarter 2016 (EUR 3.4 million).



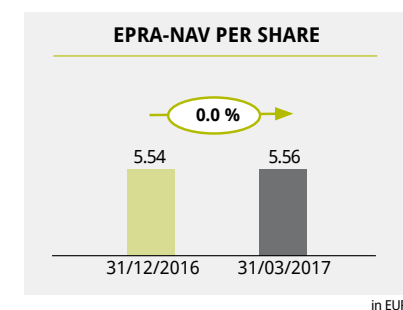
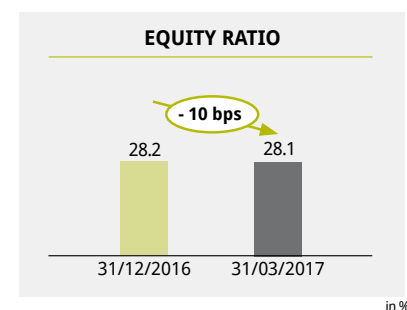
Net assets

CONSOLIDATED BALANCE SHEET - ASSETS (SELECTED INFORMATION IN EURK)	March 31, 2017	December 31, 2016	Change	%
Assets				
Total non-current assets	978,665	1,001,486	-22,821	-2
Total current assets	86,688	68,229	18,459	27
Assets, held for sale	35,737	24,291	11,446	47
Total assets	1,101,090	1,094,006	7,084	1

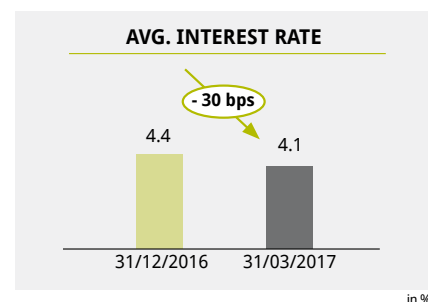
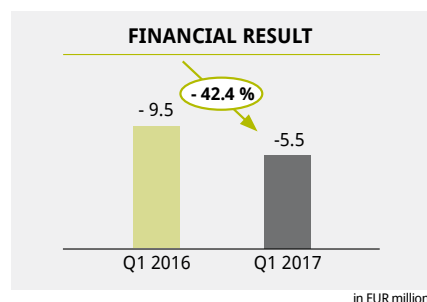
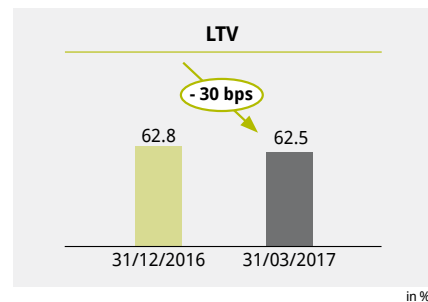
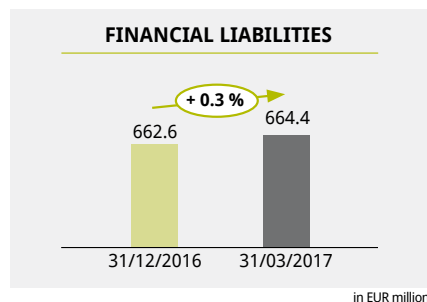
CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (SELECTED INFORMATION IN EURK)	March 31, 2017	December 31, 2016	Change	%
Equity and liabilities				
Equity				
Equity attributable to parent company shareholders	272,299	271,945	354	0
Interests of non-controlling shareholders	37,479	36,692	787	2
Total equity	309,778	308,637	1,141	0
Liabilities				
Total non-current liabilities	725,196	719,340	5,856	1
Total current liabilities	66,116	66,029	87	0
Total liabilities	791,312	785,369	5,943	1
Total equity and liabilities	1,101,090	1,094,006	7,084	1

- » Total assets of DEMIRE as of 31 March 2017 were on a par with the end of 2016 at EUR 1.1 billion.

- » The real estate portfolio amounted to a market value of EUR 1.0 billion which is slightly below the market value as of December 31, 2016. The-rein, asset held for sale totaling EUR 35.7 million after EUR 24.3 million as of December 31, 2016 mainly comprises properties in Leipzig und Darmstadt.
- » The equity of DEMIRE Group slightly increased from EUR 308.6 million as of December 31, 2016 to EUR 309.8 million as at March 31, 2017. The equity ratio is at around 28.1 % (December 31, 2016: 28.2 %). Including the minority interest of the Fair Value REIT'S subsidiaries of EUR 62.0 million which are recognised under non-current liabilities, Group's equity would sum up to EUR 371.8 million or 33.8 % of total assets (December 31, 2016: EUR 371.5 million or 34.0 % respectively).
- » Both basic EPRA-NAV per share (EUR 5.56) and diluted EPRA-NAV per share (EUR 4.61) were marginally improved compared to 2016 yearend's level (EUR 5.54 and EUR 4.60).



Financial position



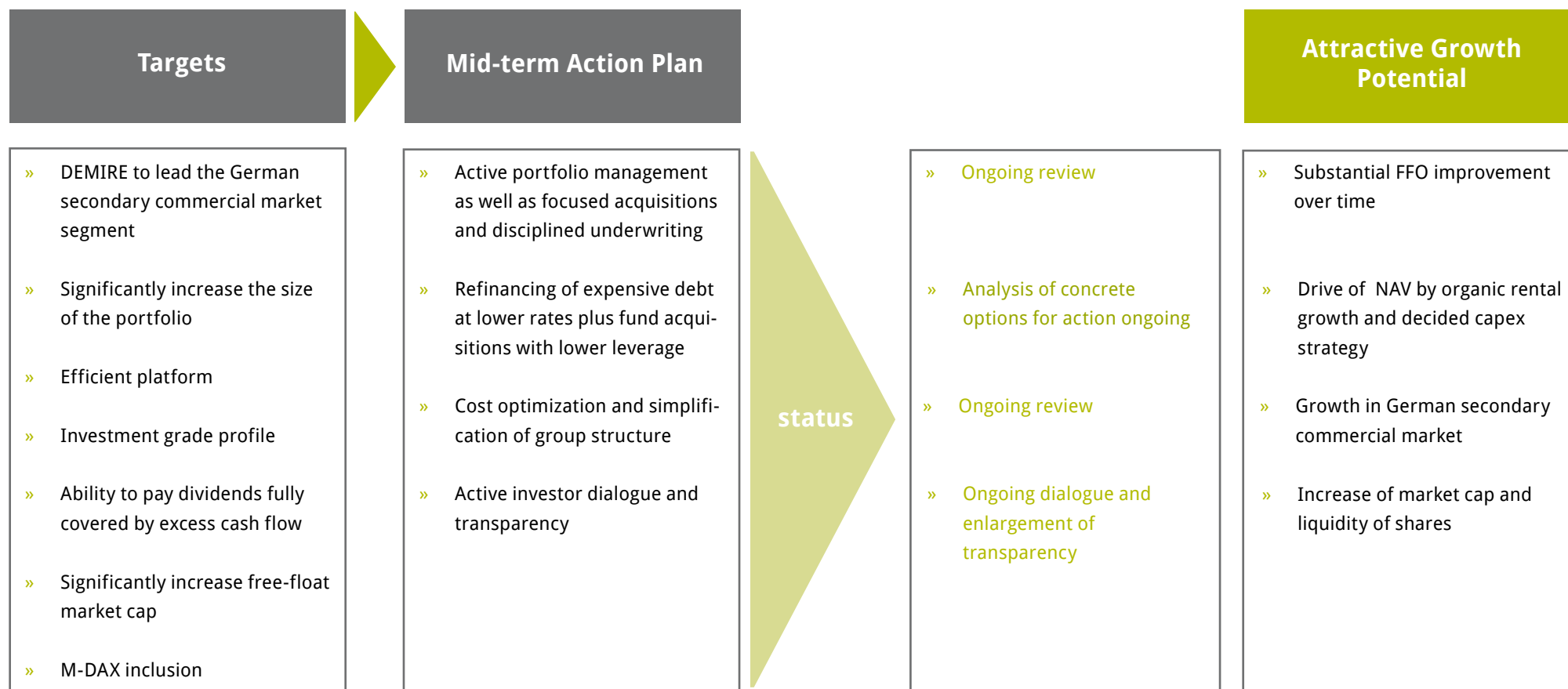
- » With EUR 664.4 million total financial debt as at March 31, 2017 amounted slightly higher after the prolongation of the promissory notes than as of December 31, 2016 (EUR 662.6 million).
- » As of March 31, 2017, loan-to-value (Net-LTV) improved by 30 basis points to 62.5 % after 62.8 % by end of the previous fiscal year.
- » By extension of promissory notes at a yearly interest cost rate of 4 % average cost of financial debt was reduced by 30 basis points from 4.4 % p.a. as of December 31, 2017 to 4.1 % p.a. as of March 31, 2017.
- » The net change in cash and cash equivalents amounted to EUR 12.3 million (1. quarter 2016: EUR 3.2 million). Cash and cash equivalents at the end of the reporting period rose by nearly 40 % to EUR 43.5 million mainly due to cash-in by sale of real estate properties.

CONSOLIDATED STATEMENT OF CASH FLOWS (SELECTED INFORMATION IN EURK)

	Jan. 1 - Mar. 31, 2017	Jan. 1 - Mar. 31, 2016	Change	%
Cash flow from operating activities	6,192	8,094	-1,902	-23
Cash flow from investing activities	11,780	6,873	4,907	71
Cash flow from financing activities	-5,717	-11,798	6,081	-52
Net change in cash and cash equivalents	12,255	3,169	9,086	287
Cash and cash equivalents at the end of the period	43,544	31,636	11,908	38

Strategic Review and Next Steps

DEMIRE 2.0 – Positioning for next growth phase



- » The strategic review of the company started in the first quarter of 2017 is making good progress. A comprehensive package of measures to optimise costs, to streamline the Group structure and to reduce financing costs is being prepared.
- » Once the analysis stage is complete, the Executive Board will publish a new FFO forecast at the Annual General Meeting on 29 June 2017 at the latest.

Consolidated financial statements as at March 31, 2017 (unaudited)

CONSOLIDATED STATEMENT OF INCOME

IN EURK	01/01/2017 31/03/2017	01/01/2016– 31/03/2016
Rental income	18,540	17,815
Income from utility and service charges	6,210	5,229
Operating expenses to generate rental income	-10,911	-9,952
Profit/loss from the rental of real estate	13,839	13,092
Revenue from the sale of real estate companies	0	0
Net assets from real estate companies sold	0	3
Profit/loss from the sale of real estate companies	0	3
Revenue from the sale of real estate	14,239	11,750
Expenses relating to real estate sales	-14,433	-11,750
Profit/loss from the sale of real estate	-194	0
Profits from investments accounted for using the equity method	6	0
Losses from investments accounted for using the equity method	0	0
Unrealised fair value adjustments in equity investments	0	0
Profit/loss from investments accounted for using the equity method	6	0
Profit/loss from fair value adjustments in investment properties	155	7,009
Impairment of receivables	-189	-716
Other operating income	1,796	358
Other operating income and other effects	1,762	6,651
General and administrative expenses	-3,565	-3,405
Other operating expenses	-2,663	-2,342
Earnings before interest and taxes	9,185	13,999
Financial income	3,704	1,990
Financial expenses	-8,056	-10,834
Interests of minority shareholders	-1,114	-646
Financial result	-5,466	-9,490
Profit/loss before taxes	3,719	4,509
Income taxes	-2,781	-999
Net profit/loss for the period	938	3,510
Of which, attributable to:		
Non-controlling interests	812	1,847
Parent company shareholders	126	1,663
Basic earnings per share	0.00	0.03
Diluted earnings per share	0.00	0.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN EURK	01/01/2017 31/03/2017	01/01/2016– 31/03/2016
Net profit/loss for the period	938	3,510
Currency translation differences	54	12
Other comprehensive income	54	12
Total comprehensive income	992	3,522
Of which, attributable to:		
Non-controlling interests	812	1,847
Parent company shareholders	180	1,675

CONSOLIDATED BALANCE SHEET

ASSETS

EURK	31/03/2017	31/12/2016
ASSETS		
Non-current assets		
Intangible assets	6,998	7,005
Property, plant and equipment	1,800	1,753
Investment properties	958,408	981,274
Investments accounted for using the equity method	132	126
Other financial assets	11,327	11,328
Summe langfristige Vermögenswerte	978,665	1,001,486
Current assets		
Real estate inventory	1,955	2,222
Trade accounts receivable and other receivables	25,593	23,614
Financial receivables and other financial assets	14,788	10,293
Tax refund claims	808	811
Cash and cash equivalents	43,544	31,289
Total current assets	86,688	68,229
Non-current assets held for sale	35,737	24,291
Total assets	1,101,090	1,094,006

EQUITY AND LIABILITIES

EURK	31/03/2017	31/12/2016
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	54,256	54,247
Reserves	218,043	217,698
Equity attributable to parent company shareholders	272,299	271,945
Non-controlling interests	37,479	36,692
Total equity	309,778	308,637
Liabilities		
Non-current liabilities		
Deferred tax liabilities	37,099	35,030
Minority interests	62,022	62,822
Financial liabilities	625,686	620,623
Other liabilities	389	865
Total non-current liabilities	725,196	719,340
Current liabilities		
Provisions	1,335	1,739
Trade payables and other liabilities	20,722	17,378
Tax liabilities	5,355	4,892
Financial liabilities	38,704	42,020
Total current liabilities	66,116	66,029
Total liabilities	791,312	785,369
Total equity and liabilities	1,101,090	1,094,006

CONSOLIDATED STATEMENT OF CASH FLOWS

IN EURK	01/01/2017 31/03/2017	01/01/2016– 31/03/2016
Group profit/loss before taxes	3,719	4,509
Financial expenses	9,170	11,480
Financial income	-3,704	-1,990
Change in trade accounts receivable and other receivables	-2,567	1,942
Change in financial receivables and other financial assets	-997	174
Change in intangible assets	-7	0
Change in provisions	-404	252
Change in trade payables and other liabilities	2,763	-2,637
Valuation gains under IAS 40	-155	-7,009
Gains from the sale of real estate companies	194	0
Interest proceeds	100	0
Income taxes paid	-131	-109
Change in reserves	149	151
Profit/loss from investments accounted for using the equity method	-6	0
Depreciation and amortisation and impairment	189	716
Distributions to minority shareholders / dividends	-1,914	0
Other non-cash items*	-207	615
Cash flow from operating activities	6,192	8,094
Payments for investments in property, plant and equipment	-2,059	0
Acquisition of interests in fully consolidated companies in the context of business combinations	0	-4,352
Proceeds from the sale of real estate	13,839	11,225
Cash flow from investing activities	11,780	6,873
Release of equity component of convertible bond	0	-90
Proceeds from the issue of bonds	0	12,892
Proceeds from the issuance of financial liabilities	11,442	9,000
Interest paid on financial liabilities	-8,280	-9,389
Payments for the redemption of financial liabilities	-8,879	-24,211
Cash flow from financing activities	-5,717	-11,798
Net change in cash and cash equivalents	12,255	3,169
Cash and cash equivalents at the start of the period	31,289	28,467
Cash and cash equivalents at the end of the period	43,544	31,636

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IN EURK	Share capital	Reserves						
	Subscribed capital	Capital reserves	Retained earnings incl. Group profit/loss	Reserves for treasury shares	Currency translation	Equity attributable to parent company shareholders	Non-controlling interests	Total equity
January 01, 2017	54,247	132,618	85,242	-310	147	271,945	36,692	308,637
Currency translation differences	0	0	0	0	54	54	0	54
Total other comprehensive income	0	0	0	0	54	54	0	54
Net profit/loss for the period	0	0	126	0	0	126	812	938
Total comprehensive income	0	0	126	0	54	180	812	992
Capital increase (related to the conversion of convertible bonds)	9	0	0	0	0	9	0	9
Stock option programme	0	149	0	0	0	149	0	149
Other changes	0	3	17	0	-4	16	-25	-9
March 31, 2017	54,256	132,770	85,385	-310	197	272,299	37,479	309,778
January 01, 2016	49,292	121,120	60,651	-310	-57	230,697	34,205	264,902
Currency translation differences	0	0	0	0	12	12	0	12
Total other comprehensive income	0	0	0	0	12	12	0	12
Net profit/loss for the period	0	0	1,663	0	0	1,663	1,847	3,510
Total comprehensive income	0	0	1,663	0	12	1,675	1,847	3,522
Capital increase (related to the conversion of convertible bonds)	15	0	0	0	0	15	0	15
Stock option programme	0	151	0	0	0	151	0	151
Change in the scope of consolidation	0	-70	-1	0	0	-71	172	101
March 31, 2016	49,307	121,201	62,314	-310	-45	232,467	36,224	268,691

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CONCEPT AND LAYOUT

GFEI Aktiengesellschaft

Disclaimer

This interim statement contains forward-looking statements and information. Such forward-looking statements are based on our current expectations and certain assumptions. They harbour a number of risks and uncertainties as a consequence. A large number of factors, many of which lie outside the scope of DEMIRE's influence, affect DEMIRE's business activities, success, its business strategy, and its results. These factors may result in a significant divergence in the actual results, success, and performance achieved by DEMIRE.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove incorrect, the actual results may significantly diverge both positively and negatively from those results that were stated in the forward-looking statements as expected, anticipated, intended, planned, believed, projected, or estimated results. DEMIRE accepts no obligation and does not intend to update these forward-looking statements or to correct them in the event of developments other than those expected.

STATUS: May 2017



DEMIRE Deutsche Mittelstand Real Estate AG
NOTES TO THE INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS AT MARCH 31, 2017

Financial year January, 1 – December 31, 2017

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A. GENERAL INFORMATION

1. Basis of preparation

DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE AG") is recorded in the commercial register in Frankfurt/Main, Germany, the location of the Company's headquarters, under the number HRB 89041. Upon entry in the commercial register on December 23, 2016, the Company's business address was relocated from Lyoner Strasse 32 in Frankfurt/Main to Robert-Bosch-Strasse 11 in Langen, Germany. These interim condensed consolidated financial statements as at March 31, 2017 include DEMIRE AG and its subsidiaries ("DEMIRE").

The shares issued by DEMIRE AG are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

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

The interim condensed consolidated financial statements for the period from January 1 to March 31, 2017 were prepared in accordance with the provisions of IAS 34 "Interim Financial Reporting" ("IAS 34") and reviewed by DEMIRE's auditors.

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

According to IAS 34, interim consolidated financial statements are intended to provide an update on the latest complete set of annual financial statements. Accordingly, they do not include all of the information and disclosures required in the annual consolidated financial statements, focusing instead on new activities, events and circumstances, and do not duplicate information previously reported. DEMIRE AG's interim consolidated financial statements as at March 31, 2017 should therefore always be read in conjunction with its annual consolidated financial statements as at December 31, 2016. Various figures for the previous year were restated to reflect the current presentation, including, in particular, the presentation of the share of profit/loss attributable to minority interests in the consolidated statement of income and the consolidated statement of changes in equity. The comparative information for the 2016 fiscal year was adjusted retroactively (see Note D.2. in particular).

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

These interim condensed consolidated financial statements of DEMIRE AG were authorised for issue by resolution of the Executive Board dated May 31, 2017.

B. SCOPE AND PRINCIPLES OF CONSOLIDATION

There was no change to the scope of consolidation in the interim reporting period.

C. ACCOUNTING POLICIES

The accounting methods applied in these interim consolidated financial statements are consistent with those adopted for the annual consolidated financial statements as at December 31, 2016. There were no significant changes in estimates compared with the consolidated financial statements as at December 31, 2016..

D. NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

1. Earnings before interest and taxes

The profit/loss from the rental of real estate of EURk 13,839 (first quarter of 2016: EURk 13,092) is free from seasonality and consists of the following:

IN EURk	01/01/2017– 31/03/2017	01/01/2016– 31/03/2016
Rental income	18,540	17,815
Income from utility and service charges	6,210	5,229
Rental revenue	24,750	23,044
Allocable operating expenses to generate rental income	-7,126	-6,746
Non-allocable operating expenses to generate rental income	-3,785	-3,206
Operating expenses to generate rental income	-10,911	-9,952
Profit/loss from the rental of real estate	13,839	13,092

Total rental income for the interim reporting period was entirely attributable to leases of commercial properties.

Earnings before interest and taxes of EURk 9,185 (first quarter of 2016: EURk 13,999) were shaped by the profit/loss from fair value adjustments in investment properties of EURk 155 (first quarter of 2016: EURk 7,009) in addition to the profit/loss from the rental of real estate. DEMIRE also recorded other operating income of EURk 1,796 (first quarter of 2016: EURk 358), relating mainly to a claim for damages (EURk 807) as well as to the reversal of provisions (EURk 305) and income from facility management (EURk 103).

Earnings were negatively impacted by general and administrative expenses of EURk 3,565 (first quarter of 2016: EURk 3,405), comprising primarily staff costs of EURk 885 (first quarter of 2016: EURk 760), accounting and audit costs of EURk 837 (first quarter of 2016: EURk 430) and legal and consul-

ting fees of EURk 680 (first quarter of 2016: EURk 1,101), in addition to the financial result of EURk -5,466 (first quarter of 2016: EURk -9,490). The staff costs from the "2015 Stock Option Plan" recognised in these interim consolidated financial statements as at March 31, 2017 pursuant to IFRS 2 amounted to EURk 149 (first quarter of 2016: EURk 151). Earnings before interest and taxes were also impacted by other operating expenses of EURk 2,663 (first quarter of 2016: EURk 2,342), which were mainly composed of non-periodic expenses of EURk 614 (first quarter of 2016: EURk 812) related to the invoicing of operating costs for the 2015 fiscal year (first quarter of 2016: the 2014 and 2015 fiscal years). The settlement of operating costs in arrears is customary and relates to Condor Objektgesellschaft YELLOW GmbH, which was acquired in the abbreviated 2014 fiscal year. In addition, other operating expenses included loan processing fees of EURk 345 (first quarter of 2016: EURk 31) and non-deductible input taxes of EURk 309 (first quarter of 2016: EURk 25).

2. Financial result

IN EURk	01/01/2017– 31/03/2017	01/01/2016– 31/03/2016
Financial income	3,704	1,990
Financial expenses	-8,056	-10,834
Share of profit/loss attributable to minority interests	-1,114	-646*
	-5,466	-9,490

* Restated figure for the previous year (see Note A).

Financial income essentially resulted from positive valuation effects in connection with the call option for the 2014/2019 corporate bond, which was measured at fair value.

The share of profit/loss attributable to minority interests of EURk 1,114 (first quarter of 2016: EURk 646) concerns the minority interests in the subsidiaries of Fair Value REIT-AG recognised under liabilities.

3. Earnings per share

	01/01/2017– 31/03/2017	01/01/2016– 31/03/2016*
Net profit/loss (EURk)	938	3,510
Net profit/loss attributable to parent company shareholders	126	1,663
Interest expenses from convertible bonds	199	262
Net profit/loss attributable to parent company shareholders (diluted)	325	1,925
Number of shares		
Number of shares outstanding as at March 31, 2017 and March 31, 2016, respectively	54,256	49,307
Weighted average number of shares outstanding	54,253	49,304
Impact of conversion of convertible bonds	13,629	13,647
Weighted average number of shares (diluted)	67,882	62,951
Earnings per share (EUR)		
Basic earnings per share (EUR)	0.00	0.03
Diluted earnings per share (EUR)	0.00	0.03

* Restated figures for the previous year (see Note A).

Convertible bonds were not included in diluted earnings per share for the interim reporting period, as their assumed conversion would have an anti-dilutive effect due to the net loss recognised for the period.

E. NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Investment properties

Investment properties are measured at fair value. Fair value development during the interim reporting period:

IN EURK	2017	2016
Fair value as at January 1, 2017 and January 1, 2016, respectively	981,274	915,089
Additions through business combinations		0
Additions (change in scope of consolidation)	0	37,106
Reclassifications from advance payments and properties classified as inventories	0	11,191
Additions	2,059	11,480
Disposals	0	-8,270
Reclassifications to non-current assets, held for sale	-25,080	-23,736
Unrealised gains from fair value measurement	2,220	50,176
Unrealised losses from fair value measurement	-2,065	-11,762
Fair value as at March 31, 2017 and December 31, 2016, respectively	958,408	981,274

The measurement of investment properties at fair value is to be classified to Level 3 of the valuation hierarchy according to IFRS 13 (valuation based on unobservable inputs). The valuation parameters for the DEMIRE subgroup, broken down by asset class, are shown in the appendix.

A sensitivity analysis of the DEMIRE subgroup's key unobservable inputs showed the following effects on the fair value of the investment properties:

CHANGE IN VALUE	Property yield		Market rent ¹⁾	
	-0.5 %	+0.5 %	-10 %	+10 %
in EURk	45,230	-40,800	-52,370	52,360
in %	6.72	-6.06	-7.78	7.78

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

A sensitivity analysis of the Fair Value REIT subgroup's key unobservable inputs showed the following effects on the fair value of the investment properties:

CHANGE IN VALUE	Property yield		Market rent ¹⁾	
	-0.5 %	+0.5 %	-10 %	+10 %
in EURk	14,360	-12,108	-21,022	21,012
in %	4.99	-4.21	-7.31	7.31

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

A significant increase in maintenance costs, vacancies or property yields would result in a decrease in the properties' fair value if the assumptions for all other inputs remained unchanged.

The determination of the fair values for the Fair Value REIT subgroup is based on the following underlying key, unobservable inputs (Level 3):

FAIR VALUE REIT SUBGROUP	31/03/2017		31/12/2016	
Average market rent (in EUR per m ² , per year)	70.08		68.83	
Range of market rents (in EUR per m ² , per month)	1.00	100.00	18.00	180.00
Rentable space as at balance sheet date (in m ²)	249,467		255,821	
Vacant space as at balance sheet date (in m ²)	25,710		30,637	
Value-based vacancy rate according to the EPRA (in %)	8.99		9.28	
Average vacancy rate based on rentable space (in %)	10.30		11.98	
Range of vacancy rates based on rentable space (in %)	0.00	43.1	0.00	60.75
Weighted average lease term – WALT (in years)	5.10		5.20	

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

CONTRACTUAL RENTS IN EUR		31/03/2017	31/12/2016
Office property	Min.	2.02	2.02
	Max.	25.80	25.80
	Avg.	7.42	7.34
Retail property	Min.	1.20	2.50
	Max.	90.00	90.00
	Avg.	9.41	9.65
Other property	Min.	2.00	2.00
	Max.	11.60	11.60
	Avg.	4.80	4.80
Total	Min.	1.20	2.00
	Max.	90.00	90.00
	Avg.	7.96	8.04

2. Financial liabilities

FINANCIAL LIABILITIES AS AT MARCH 31, 2017 IN EURK	Nominal interest rate	Fixed interest	Variable interest	Total
2014/2019 corporate bond	7.50 %	97,650	0	97,650
2013/2018 convertible bond	6.50 %	10,398	0	10,398
2015/2018 mandatory convertible bond (liability component)	2.75 %	549	0	549
Other financial liabilities		502,858	51,188	554,046
Total		611,455	51,188	662,643

FINANCIAL LIABILITIES AS AT DECEMBER 31, 2016 IN EURK	Nominal interest rate	Fixed interest	Variable interest	Total
2014/2019 corporate bond	7.50 %	97,819	0	97,819
2013/2018 convertible bond	6.50 %	10,418	0	10,418
2015/2018 mandatory convertible bond (liability component)	2.75 %	457	0	457
Other financial liabilities		486,345	69,351	555,696
Total		595,039	69,351	664,390

Floating rate bank loans bear interest based on EURIBOR plus a margin.

Other financial liabilities mainly comprise financial liabilities to credit institutions. The average annual interest rate on borrowings was 4.1% as at March 31, 2017 (previous year: 4.4%).

A significant portion of other financial liabilities is a promissory note from Deutsche Bank. This note was subject to a nominal interest rate of 5.00% until December 31, 2016 and was due on September 9, 2019. A prolongation of this note until 2022 was agreed effective January 1, 2017 with Deutsche Bank as was a simultaneous reduction of the nominal interest rate to 4.00%.

Note that the non-fulfilment of covenants for the financing of Logistikpark Leipzig mentioned in DEMIRE AG's consolidated financial statements as at December 31, 2016 persisted as at the interim reporting date of March 31, 2017. The Executive Board still assumes that this credit line will continue to be available in the future as a non-current financial liability.

F. CONDENSED GROUP SEGMENT REPORTING

January 1, 2017 - March 31, 2017	Core Portfolio	Fair Value REIT	Central Functions/ Others	Group
EURk				
Total revenue	27,606	10,983	400	38,989
Segment revenue	28,799	11,238	909	40,949
Net profit/loss for the period	2,388	2,405	-3,855	938
Additional information				
SEGMENT ASSETS	737,378	330,659	33,054	1,101,090
thereof investments accounted for using the equity method	16	0	116	132
thereof financial receivables and other financial assets	2,936	0	11,852	14,788
thereof tax refund claims	80	5	723	808
thereof non-current assets, held for sale	35,527	210	0	35,737
SEGMENT LIABILITIES	427,934	209,432	153,946	791,312
thereof non-current financial liabilities	366,343	122,794	136,549	625,686
thereof current financial liabilities	16,863	9,259	12,582	38,704
thereof tax liabilities	5,175	0	180	5,355

January 1, 2016 - March 31, 2016	Core Portfolio	Fair Value REIT	Central Functions/ Others	Group
EURk				
Revenue from external customers	16,311	18,476	7	34,794
Segment revenue	29,933	18,434	54	48,421
Segment profit/loss	6,578	887	-3,955	3,510
Additional information				
SEGMENT ASSETS	726,042	324,449	5,902	1,056,393
thereof investments accounted for using the equity method	0	0	3,174	3,174
thereof loans to investments accounted for using the equity method	0	0	0	0
thereof financial receivables and other financial assets	3,541	0	8,418	11,959
thereof tax refund claims	100	5	27	132
thereof non-current assets, held for sale	1,255	525	0	1,780
SEGMENT LIABILITIES	448,746	204,209	134,100	787,055
thereof non-current financial liabilities	382,736	183,954	134,067	700,757
thereof current financial liabilities	23,264	9,973	3,521	36,758
thereof tax liabilities	3,781	0	0	3,781

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

The DEMIRE Group is divided into the two reportable business segments “Core Portfolio” and “Fair Value REIT”.

In the interim reporting period, more than 10% of total revenue in the amount of EURk 5,398 was generated with one customer in the “Core Portfolio” segment.

G. OTHER NOTES

1. Related party disclosures

No significant changes occurred compared to the related party disclosures made as at December 31, 2016. Except for the payment of the Executive Board remuneration disclosed in section F.5., there were no transactions with key management personnel of the Company in the reporting period.

2. Financial instruments

Financial instruments measured at cost or amortised cost whose carrying amount does not approximate their fair value:

IN EURk	31/03/2017		31/12/2016	
	Fair value	Carrying amount	Fair value	Carrying amount
Convertible bonds	52,202	10,875	52,233	10,947
Bonds	105,400	97,819	103,000	97,650

For further information, please see the disclosures made pursuant to IFRS 7 in the consolidated financial statements as at December 31, 2016.

3. Risk report

For information on the risks of future business development, please refer to the disclosures made in the risk report included in the consolidated financial statements as at December 31, 2016. The Group's risk structure did not change significantly in the first quarter of 2017.

4. Other notes

There were no financial obligations from real estate purchase agreements concluded in previous years that were still not in effect as at March 31, 2017.

Contractual obligations exist for the modification and expansion of the property in Eschborn. These are fixed in terms of their scope. The resulting costs had not been determined as at March 31, 2017. There are no other contractual obligations to acquire, construct or develop any investment properties, or for any repairs, maintenance or improvements.

As at the interim reporting date of March 31, 2017, there were no obligations for future lease payments under long-term leasehold agreements.

5. Corporate bodies and employees

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

The members of the Executive Board are:

- Hon.-Prof. Andreas Steyer, CEO,
- Markus Drews, COO,
- Ralf Kind, CFO (since March 1, 2017)

In the interim reporting period, DEMIRE AG recognised performance-based remuneration in the amount of EURk 50 (first quarter of 2016: EURk 75), fixed remuneration of EURk 155 (first quarter of 2016: EURk 153) and share-based payments of EURk 121 (first quarter of 2016: EURk 121) for the members of the Executive Board.

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

6. Events after the interim reporting date of March 31, 2017

Subsequent events that occurred after the interim reporting date of March 31, 2017 that are of particular significance to DEMIRE's net assets, financial position and net profit/loss for the period are as follows:

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

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

Prior to the publication of the interim consolidated financial statements as at May 31, 2017, a total of 1,800 conversion rights were exercised, and 1,800 new, no-par value bearer shares were created.

Frankfurt am Main, June 29, 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
(CEO)



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

APPENDIX: VALUATION PARAMETERS PURSUANT TO IFRS 13

DEMIRE SUBGROUP	OFFICE				RETAIL				LOGISTICS				OTHERS			
	31/03/2017	31/12/2016	31/03/2017	31/12/2016	31/03/2017	31/12/2016	31/03/2017	31/12/2016	31/03/2017	31/12/2016	31/03/2017	31/12/2016	31/03/2017	31/12/2016	31/03/2017	31/12/2016
Ratio of maintenance costs to gross profit (in %)	7.15	7.24	6.46	6.45	11.17	11.18	9.14	13.72								
Average maintenance costs (in EUR per m ²)	6.94	6.99	8.75	8.69	3.53	3.53	4.55	4.25								
Range of maintenance costs (in EUR per m ²)	3.00 10.00	4.00 10.00	5.00 9.00	5.00 9.00	3.53 3.53	3.53 3.53	4.00 5.00	2.50 5.00								
Average property yield (in %) ¹⁾	5.87	5.82	5.72	5.51	7.55	7.50	9.02	9.32								
Range of property yields (in %) ²⁾	4.48 9.18	4.63 9.75	5.19 8.20	5.26 8.00	7.55 7.55	7.50 7.50	6.75 10.25	6.75 10.25								
Average residual useful life (in years)	36	37	36	37	25	25	26	25								
Range of residual useful lives (in years)	25 45	25 45	35 40	35 40	25 25	25 25	25 35	25 45								
Ratio of management costs to gross profit (in %)	1.67	2.01	1.71	2.12	1.00	1.16	2.69	6.38								
Range of ratio of management costs to gross profit (in %)	1.00 4.00	1.00 4.00	1.50 3.00	1.50 4.00	1.00 1.00	1.16 1.16	0.50 3.00	3.00 3.00								
Average market rent (in EUR per m ² , per year) ³⁾	97.17	96.67	135.55	134.87	31.64	31.58	49.79	30.98								
Range of market rents (in EUR per m ² , per year)	42.75 149.90	42.75 149.90	52.82 190.47	49.03 195.57	31.64 31.64	31.58 31.58	4.92 50.09	12.20 56.30								
Rentable space as at balance sheet date (in m ²)	427,939	457,229	41,554	43,065	217,611	217,968	7,911	90,138								
Vacant space as at balance sheet date (in m ²)	30,176	32,798	5,684	6,209	74,730	73,824	1,673	38,415								
Value-based vacancy rate according to the EPRA (in %)	5.60	6.41	11.28	15.49	45.21	45.66	16.77	19.35								
Average vacancy rate based on rentable space (in %)	7.05	7.17	13.68	14.42	34.34	33.87	21.15	42.62								
Range of vacancy rates based on rentable space (in %)	0.00 54.50	0.00 54.50	0.00 45.00	0.00 43.80	34.34 34.34	33.87 33.87	4.70 49.30	0.00 100.00								
Weighted average lease term - WALT (in years)	5.33	5.49	8.53	7.62	1.89	2.00	1.35	2.00								



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