



Fiscal year 1 January – 31 December 2017

Separate Financial Statements

2017

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Foreword by the Executive Board

Ladies and Gentlemen,

We have completed a successful and intensive 2017 fiscal year. During the course of this year, we started to successfully and systematically implement our DEMIRE 2.0 strategy announced at the end of June 2017. Under the name of DEMIRE 2.0, we have defined concrete goals for further growth, which we intend to achieve in the near to medium term by employing a holistic action plan that includes optimising our costs, streamlining the Group's structure and reducing financing costs. A key cornerstone of this strategy is an expansion in our portfolio from its current size of approx. EUR 1 billion to over EUR 2 billion. We plan to continue optimising our cost base through permanent increases in efficiency and economies of scale in relation to real estate management in the course of our planned growth. Through an ongoing improvement in our financing mix, particularly from continually monitoring and taking advantage of the financing sources available via the debt and equity markets, we aim to lower our average interest costs over the medium term and reduce our net loan-to-value (net LTV) to around 50%. In addition to increasing our market capitalisation, we also intend to improve our risk profile in order to attain an "investment grade" rating so that we can secure long-term and sustainable financing on favourable terms for DEMIRE's future growth.

Our combined efforts will lead to a substantial improvement in our funds from operations and continued growth in our net asset value (NAV). This is creating the basis for distributing attractive and sustainable dividends to our shareholders over the medium term from our increasing cash flows.

Already in the second half of 2017, we reached our first milestones in the implementation of the DEMIRE 2.0 strategy and thereby laid the foundation for further improvements in DEMIRE's overall profitability and funds from operations (FFO).

In July 2017, we placed our first rated, unsecured corporate bond with a volume of EUR 270 million with institutional investors and asset managers on the international capital markets to refinance expensive existing liabilities. This signalled the first step in pursuing our DEMIRE 2.0 strategy. The corporate bond has a term of five years (until 2022), a non-call period of two years and yields 2.875% interest p.a. DEMIRE also received its first rating from the internationally renowned rating agencies Standard & Poor's and Moody's in the context of the bond issue. Standard & Poor's and Moody's gave DEMIRE's corporate bond ratings of BB+ and Ba2. The bond rating awarded by Standard & Poor's is one notch below an investment grade rating, which we intend to achieve in the future. The corporate ratings for DEMIRE issued by the two rating agencies were BB and Ba2, both with a stable outlook.

In September, we successfully tapped our corporate bond for a total of EUR 400 million – at an even higher price compared to its initial issue price. As a result, we were able to reduce our average nominal interest rate from 4.4% p.a. at the end of 2016 to 3.0% p.a. and increase our free cash flow starting with the 2018 fiscal year by an estimated EUR 18 million, of which EUR 9 million alone will result from lower interest expenses from the repayment of existing liabilities. In addition, as a result of the refinancing operations, the share of unencumbered assets rose from almost 0% to around 45% of total real estate assets, which gives us much greater financial and operational flexibility in the future.

At an Extraordinary General Meeting in November 2017, we took another significant step on the path to optimising our Group structure by asking our shareholders to approve the conclusion of control and profit transfer agreements with Group companies. The shareholders approved the agenda items with overwhelming majorities. DEMIRE Deutsche Mittelstand Real Estate AG had previously had high tax loss carryforwards it was unable to use effectively due to its lack of affiliation with its subsidiaries. Following the conclusion of these control and profit transfer agreements and the subsequent inflow of positive income from our subsidiaries, the parent company – acting as a holding company – has been able to utilise these loss carryforwards already in the 2017 fiscal year. This represented the implementation of yet another component of our DEMIRE 2.0 strategy.

The positive overall impact of the DEMIRE 2.0 strategy was already evident with the publication of our interim results for the 2017 fiscal year. Based on the Company's solid development, we raised our full-year 2017 forecast for FFO I (after taxes and before minority interests) from our original forecast of EUR 8 to 10 million to EUR 11 to 12 million with the publication of our nine-month results. Given the positive year-to-date operating performance achieved, we also raised our expectation for rental income for the 2017 fiscal year to around EUR 74 million (previous forecast: EUR 72 to 73 million).

We successfully reached our targets in the 2017 fiscal year. The most important performance indicators developed as follows:

With rental income for the DEMIRE Group totalling EUR 73.7 million (2016: EUR 76.4 million), we succeeded in meeting our latest forecast. The decline in rental income of 3.5% was due to the sale of non-strategic real estate, whereby the corresponding decline in rental income was largely offset by the successful improvement in vacancies. The like-for-like annualised rental income of our core portfolio adjusted for purchases and sales increased 2.6% in the 2017 fiscal year. The net profit/loss for the period declined roughly 29.7% from EUR 27.6 million to EUR 19.4 million, mainly due to higher non-recurring financial expenses.

The financial result includes one-time expenses of around EUR –16.4 million, which largely consist of one-time fees for the early redemption of financing arrangements from the proceeds of the new corporate bond. The net loan-to-value ratio has improved significantly by around 270 basis points to 60.1% since the end of 2016 (31 December 2016: 62.8%).

The net value appreciation of our attractive real estate portfolio equalled EUR 48.6 million (2016: EUR 38.4 million). Based on the solid volume of lettings, the EPRA vacancy rate of the core portfolio fell by a total of 220 basis points to 9.4% at the end of the fiscal year (31 December 2016: 11.6%) as a result of new lettings and taking into account the properties already sold.

Basic EPRA NAV per share increased to EUR 5.96 at the end of 2017 (31 December 2016: EUR 5.54), and the diluted EPRA NAV per share rose to EUR 4.94 (31 December 2016: EUR 4.60). Funds from operations I (FFO I, after taxes, before minorities) amounted to EUR 11.7 million as of the reporting date (31 December 2016: EUR 8.1 million) and were therefore within our forecast. The increase in FFO I compared to the previous year was primarily a result of the improvement in the current financial result and a lower level of current income taxes.

After the first year of implementing our new DEMIRE 2.0 strategy, we have emerged with a significantly stronger structure and will continue to focus on consistently implementing this strategy further during the 2018 fiscal year.

As you can see, we had tremendous success in implementing our DEMIRE 2.0 strategy during the past fiscal year. We also see other internal and external growth drivers for the 2018 fiscal year and beyond. In addition to further optimising the Group's structure, our focus will be on the coming stages of our growth, including the expansion of our real estate portfolio. We are, therefore, particularly pleased that by gaining Apollo Global Management we were able to acquire a new, experienced strategic investor in the course of our 10% capital increase in February 2018. Together with our other anchor shareholder, Wecken&Cie., Apollo Global Management fully supports our DEMIRE 2.0 strategy and is actively committed to realising the growth DEMIRE has planned ahead. Now, with our two anchor shareholders, we believe we are in an ideal position to carry on implementing the next phases of our Company's growth. Our business model offers high potential for value appreciation in the German commercial real estate market that we now intend to use more vigorously in the months and years to come.

At this point, I would like to thank you, our shareholders, for supporting us on our path until now, and hope that you will continue to have faith in our Company in the future. I would also like to extend my appreciation to all of DEMIRE's employees who, with their high motivation, are advancing the Company day by day. We are looking forward to the Company's upcoming challenges, opportunities and success with tremendous optimism.

Frankfurt am Main, 25 April 2018



Dipl.-Betriebsw. (FH) Ralf Kind
Member of the Executive Board (CEO/CFO)



Report of the Supervisory Board

Ladies and gentlemen,

In the 2017 fiscal year, the Supervisory Board performed the tasks and exercised the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its Rules of Procedure.

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

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

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

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

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

During the reporting year, there were no conflicts of interest on the part of the members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information to the Annual General Meeting. One member of the Executive Board held a seat on the supervisory board of a financial advisory company with whom a framework agreement was concluded in 2015. In the past 2017 fiscal year, no orders were placed with this company, and the framework agreement was terminated at the beginning of April 2017.

COMPOSITION OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD IN THE 2017 FISCAL YEAR

- Prof. Dr Hermann Anton Wagner (since 17 April 2013, Chairman since 23 October 2013)
- Dr Peter Maser (since 12 January 2015, Vice Chairman from 6 March 2015 to 13 February 2017)
- Günther Walcher (from 23 October 2013 to 23 January 2017)
- Frank Hölzle (since 14 February 2017, Vice Chairman)
- Dr Thomas Wetzel (since 14 February 2017)

CHANGES IN THE SUPERVISORY BOARD

After the resignation of Mr Günther Walcher as a member of the Supervisory Board effective at the close of 23 January 2017 and Dr Peter Maser at the close of 13 February 2017, DEMIRE was successful in winning both Mr Frank Hölzle and Dr Thomas Wetzel as new Supervisory Board members. By decision of the District Court of Frankfurt am Main on 14 February 2017, both were appointed as members of the Supervisory Board. The appointment of the two new Supervisory Board members, Frank Hölzle and Dr Thomas Wetzel, was initially limited and was later confirmed, at the Annual General Meeting on 29 June 2017, until the Annual General Meeting that discharges the Supervisory Board members for the fiscal year ending on 31 December 2020. Prof. Dr Hermann Anton Wagner was reappointed Chairman of the Supervisory Board.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board consisted of three members in the 2017 fiscal year. Additional committees were not formed due to the low number of members on the Supervisory Board.



*The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG:
Chairman Prof. Dr Hermann Anton Wagner (right),
Vice Chairman Diplom-Volkswirt Frank Hölzle (centre)
and Dr Thomas Wetzel (left)*

WORK OF THE PLENUM IN THE REPORTING YEAR

The Supervisory Board held seven meetings during the 2017 fiscal year: on 28 March, 29 June, 7 July, 18 July, 26 September, 15 November and 19 December. The Supervisory Board also discussed and resolved current issues in numerous telephone conferences, particularly in relation to the issue and tapping of the 2017/2022 corporate bond in July and September of 2017, as well as about the changes in the Executive Board. Prof. Dr Hermann Anton Wagner and Mr Frank Hölzle attended all meetings and telephone conferences; Dr Thomas Wetzels attended all meetings and telephone conferences except for the meeting on 15 November.

1ST QUARTER 2017


At the Supervisory Board meeting on 28 March and during the conference call on 4 April 2017, the Supervisory Board was informed about the general course of business to date in 2017, the planning for the current year and the status of the audit of the annual and consolidated financial statements for 2016. Other topics included the significant changes made to the German Corporate Governance Code as of 7 February 2017 and the preparations for the Annual General Meeting scheduled for 29 June 2017.

The issues and conditions with respect to the refinancing of the promissory note loan issued in February 2017 had already been explained and discussed in the meeting on 13 December 2016.

2ND QUARTER 2017

In a conference call on 12 April, the Supervisory Board mutually agreed with Hon. Prof. Andreas Steyer to terminate his Executive Board contract effective 30 June. In a further telephone call on 13 April, the Supervisory Board and Executive Board decided to issue an upfront ad hoc statement about the development of the funds from operations (FFO) for the 2016 fiscal year.

In a conference call on 25 April, the Supervisory Board thoroughly discussed the annual and consolidated financial statements for the 2016 fiscal year, including the combined management report for the Company and the Group. The auditors attended this conference call and reported on the key findings of their audit to date. Ernst&Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was elected by the Annual General Meeting on 30 June 2016 and commissioned by the Supervisory Board as the auditor.

On 26 April, together with the Executive Board, the Supervisory Board dealt with the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG pursuant to Section 161 AktG for the 2017 fiscal year with respect to the recommendations of the “Government Commission German Corporate Governance Code” published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette as amended on 7 February 2017, as well as the deviations from these recommendations. The Declaration of Conformity was subsequently published on the [Company's website](#). 

The Supervisory Board subjected the annual and consolidated financial statements and the combined management report for the Company and the Group to a separate review and approved the auditor's audit results. There were no objections to the final results of the audit of the annual financial statements, the consolidated financial statements, the combined management report for the Company and the Group or the auditor's audit reports. The Supervisory Board approved the annual and consolidated financial statements as well as the combined management report by means of a resolution on 27 April, thereby adopting the annual financial statements of the Company.

The auditor participated in this conference call and reported on the key findings of the audit and confirmed that they would attach an unqualified audit opinion to the audit of the financial statements of the 2016 fiscal year including the combined management report for the Company and the Group.

During the conference calls held on 29 May and 30 May, the Executive Board presented the results of the first quarter and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the publication of the quarterly statement on 31 May.

3RD QUARTER 2017

In several meetings and conference calls, the planned issue and tapping of the 2017/2022 corporate bond were discussed extensively in July and September, their financial effects in the fiscal year and subsequent years were reviewed, and the transactions were approved.

In an extraordinary conference call on 28 August, the Executive Board presented the results of the first half of 2017 and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the 31 August publication of the half-year report. In addition, the Executive Board reported the positive result of the refinancing activities through the placement of the 2017/2022 corporate bond and the accompanying improvement in DEMIRE's future earnings figures as of the 2018 fiscal year. At the same time, the Executive Board outlined the potential next steps to be taken under the DEMIRE 2.0 strategic plan.

4TH QUARTER 2017

At the meeting on 15 November, the Executive Board informed the Supervisory Board about the state of the optimisation of the Group's structure through the conclusion of control and profit transfer agreements and about the status of the preparation of the interim consolidated financial statements as of 30 September.


In an extraordinary conference call on 29 November, the Executive Board presented the results of the 2017 nine-month period and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the 30 November 2017 publication of the quarterly statement and discussed the next steps of the DEMIRE 2.0 strategy with the Executive Board. At the meeting on 19 December 2017, the Supervisory Board adopted the financial calendar for the 2018 fiscal year.

WORK OF THE PLENUM AFTER THE END OF THE FISCAL YEAR

During a conference call on 22 February 2018 and at its meeting on 19 March 2018, the Supervisory Board dealt in detail with the course of business and the optimisation projects for the current fiscal year.

On 26 February, the Supervisory Board approved an increase of EUR 5,425,774.00 in the Company's share capital from authorised capital through the issue of 5,425,774 new, no-par value bearer shares. AEPF III 15 S.à.r.l., a holding company owned by the Apollo European Principal Finance Fund III – both subsidiaries of Apollo Global Management LLC ("Apollo managed funds") – has signed a subscription agreement to fully subscribe for the new shares. AEPF III 15 S.à.r.l. subscribed to the new shares after the approval of the German Federal Cartel Office. The new shares were entered in the commercial register on 5 April 2018.

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

On 12 April 2018, the Supervisory Board and the Executive Board approved the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG for the 2017 fiscal year pursuant to Section 161 AktG on the recommendations of the "Government Commission German Corporate Governance Code" as amended on 7 February 2017 published by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, the Corporate Governance Report and the Statement on Corporate Governance pursuant to Sections 315d and 289f of the German Commercial Code. The Declaration of Conformity was subsequently published on the [Company's website](#). 

The Supervisory Board approved the annual and consolidated financial statements as well as the combined management report by resolution on 25 April 2018, thereby adopting the Company's annual financial statements.

The auditor participated in this conference call and reported on the key findings of the audit and confirmed the attachment of an unqualified audit opinion to the audit of the financial statements of the 2017 fiscal year including the combined management report for the Company and the Group. The Annual General Meeting on 29 June 2017 elected Ernst&Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor, who was then commissioned by the Supervisory Board.

MATTERS OF THE EXECUTIVE BOARD

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

On 12 April 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that Hon. Prof. Andreas Steyer would be leaving the Company's Executive Board effective 30 June 2017 in order to pursue new professional challenges. His Executive Board contract, which was set to expire on 31 March 2019, was cancelled prematurely by mutual agreement with the Supervisory Board. On 1 July 2017, Mr Markus Drews was appointed Speaker of the Executive Board (CEO).

On 16 November 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that DEMIRE Deutsche Mittelstand Real Estate AG's Supervisory Board and the Speaker of the Executive Board (CEO), Mr Markus Drews, had mutually agreed on that day that Mr Drews would immediately resign early from his positions as Speaker of the Executive Board and member of the Executive Board as of 31 December 2017. Mr Drews's Executive Board responsibilities, particularly those related to the transaction business, were assumed by Executive Board member Ralf Kind (now CEO and CFO) with immediate effect. On 4 December 2017, Mr Ralf Kind was also appointed as a member of the Management Board of Fair Value REIT-AG, as well as Chairman of the Management Board (CEO) at the same time.

STRENGTHENING THE FUTURE EARNINGS AND LIQUIDITY POSITION THROUGH SUCCESSFUL REFINANCING AND OPTIMISATION OF THE GROUP STRUCTURE

With the successful placement of the 2017/2022 corporate bond, DEMIRE took the first step of its DEMIRE 2.0 programme announced at the Annual General Meeting at the end of June 2017 within a very short period of time. The internationally renowned rating agencies Standard&Poor's and Moody's awarded this bond BB+ and Ba2 bond ratings. The Standard&Poor's rating is one notch below investment grade. DEMIRE's early refinancing of financial liabilities maturing until 2019 through the issue of this rated, unsecured corporate bond in the third and fourth quarters of 2017 is a strategic milestone on the Company's path to achieving an investment grade rating. Through this issue, DEMIRE has been able to redeem a substantial portion of past expensive and complex financing and successfully position itself in the international capital market. This is an essential requirement for the growth strategy being pursued by the Executive Board. In addition, the funds from operations (FFO) and liquidity will increase

as the result of the significantly lower interest rate on the refinancing and due to the repayments of the maturing loans becoming obsolete. Through the refinancing of existing liabilities, the financing costs fell from an average of 4.4% as of 31 December 2016 to 3.0% p.a. The very positive ratings awarded by the rating agencies underline the strong appeal and stability of DEMIRE's business model, which has an attractive commercial real estate portfolio investing in secondary locations in Germany and is set to expand to a level of over EUR 2 billion. This and future measures under the DEMIRE 2.0 strategy will further enhance the attractiveness and raise the profile of DEMIRE shares.

With the shareholders' approval at the Extraordinary General Meeting on 15 November 2017 of the control and profit transfer agreements within the DEMIRE Group and the resulting inflow of positive income from the subsidiaries, the high tax loss carryforwards can now be utilised and offset against tax expenses at the level of the holding company DEMIRE Deutsche Mittelstand Real Estate AG. Tax optimisation is another milestone in the implementation of DEMIRE 2.0 and demonstrates the Executive Board's consistency in implementing the measures planned as part of its growth strategy, particularly with respect to optimising the Group's internal structures. The better tax situation prompted the Executive Board in November 2017 to raise the forecast for funds from operations for the 2017 fiscal year from a range of EUR 8 million to EUR 10 million to EUR 11 million to EUR 12 million, and the forecast for rental income from EUR 72 million to EUR 73 million to approx. EUR 74 million. This latest forecast was confirmed by the Group figures as of 31 December 2017, which reported rental income of EUR 73.7 million and funds from operations after taxes and before minorities of EUR 11.7 million.

With our 10% capital increase in February 2018, we gained a new, experienced and strategic investor Apollo, Global Management, who together with the other anchor shareholder, Wecken & Cie., fully endorses the DEMIRE 2.0 strategy and actively supports DEMIRE's growth plans.

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Group's employees and the Executive Board members Hon. Prof. Andreas Steyer and Mr Markus Drews, as well as Mr Kind, during their terms on the Executive Board, for their extraordinary commitment and constructive collaboration during the 2017 fiscal year.

As of 2018, Mr Markus Drews will also pursue new professional challenges. We deeply regret his departure and thank him, also on behalf of the entire DEMIRE team, for the successful, valuable contribution he has made to DEMIRE over the past three years. We wish Mr Drews all the best in his future endeavours outside the Company.

This report was discussed in detail and adopted by the Supervisory Board during its conference call on 25 April 2018.

Frankfurt am Main, April 2018



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

Group principles

The following presents the combined management report for DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, (“the Company”) and the Group (“DEMIRE” or the “DEMIRE Group”) for the fiscal year from 1 January to 31 December 2017. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the special provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared according to the International Financial Reporting Standards (IFRS) as applicable in the European Union. The scope of consolidation is presented in detail in the Notes under Item B.

BUSINESS MODEL

DEMIRE Deutsche Mittelstand Real Estate AG is a public stock corporation under German law, headquartered in Frankfurt am Main, Germany, with no other branch offices. The Company’s main office is located at Robert-Bosch-Straße 11, 63225 Langen. The shares of DEMIRE Deutsche Mittelstand Real Estate AG (ISIN DE000A0XFSF0) are listed in the Prime Standard of the Frankfurt Stock Exchange and on the regulated unofficial market of the Stuttgart, Berlin and Dusseldorf stock exchanges.

DEMIRE Deutsche Mittelstand Real Estate AG holds commercial real estate in medium-sized cities and up-and-coming peripheral locations in metropolitan areas throughout Germany. The Company’s key strength is in these secondary locations – “First in Secondary Locations” – focusing on properties that are particularly attractive for medium-sized tenants. DEMIRE grew rapidly from 2013 to 2016, both through acquiring individual properties and interests in companies. DEMIRE’s current portfolio contains around 1 million m² of lettable space with a market value of more than EUR 1 billion. The portfolio’s focus on office, retail and logistics properties presents an attractive opportunity and risk profile that DEMIRE believes is appropriate for the commercial real estate business. The Company attaches high importance to long-term contracts with solvent tenants and, therefore, anticipates stable and sustainable rental income.

DEMIRE manages the acquisition, management and letting of commercial real estate using the Group’s own in-house real estate management. Value appreciation is to be achieved using an active real estate management approach that includes the targeted sale of properties should they no longer be suitable for the business model or when their value appreciation potential has been exhausted.

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

The strategically important “Core Portfolio” segment comprises the assets and activities of DEMIRE’s subsidiaries and sub-subsidiaries that also largely belonged to 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 real estate management activities established in 2015 and expanding ever since. The segment’s objective is to efficiently manage the real estate portfolio by employing an active management approach and generating increasing returns by exploiting the real estate’s value appreciation potential.

The “Fair Value REIT” segment comprises the Company’s investment activities in directly and indirectly owned properties. The segment “Corporate Functions/Others” contains the Group’s administrative and general tasks such as risk management, finance, controlling, investor and public relations, legal, IT and compliance. This segment also reflects the effects of the largely dissolved legacy portfolio, which is only of minor importance to the DEMIRE Group.

STRATEGY AND OBJECTIVES

STRATEGY

Since the Company’s realignment in 2013, the objective of the DEMIRE Group has been to become one of the leading holders of commercial real estate in Germany listed on the stock exchange. On the path to becoming “First in Secondary Locations”, the Company has built a portfolio with a current market value of over EUR 1 billion by acquiring individual commercial properties and real estate portfolios and, above all, acquiring a majority interest in Fair Value REIT-AG at the end of 2015.

The Company’s investment strategy is based on a balanced risk/opportunity profile, which is reflected in the fact that DEMIRE invests only in those properties that generate positive cash flow from the outset and have several financially sound tenants, especially when they permit the alternative use of property or the potential for value appreciation through active portfolio and asset management. The decentralised structure of the German real estate market offers investors who have a regional network and local market expertise, unlike other European markets and away from the Top 7 locations (the “A ” locations Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart), a much more attractive risk and opportunity profile. A large number of medium-sized cities (“secondary locations”), which are the centre of economically strong regions and are located in the catchment area of the Top 7 locations, are characterised by higher yields coupled with more stable prices and rents. The secondary locations generally feature medium-sized companies that have a high degree of loyalty to the location and stability.

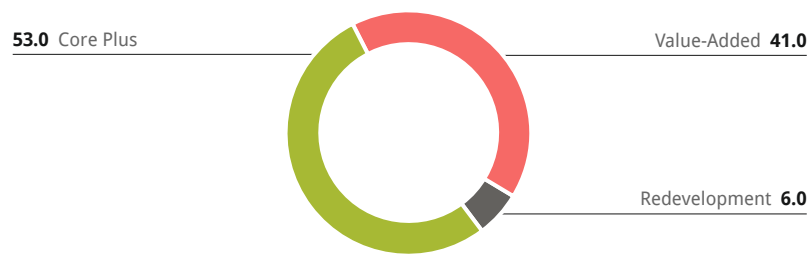
DEMIRE prefers to invest in prime locations in medium-sized cities and up-and-coming areas bordering metropolitan centres throughout Germany. This is also designed to take regional differentiation into account. To diversify the risk of the real estate holdings, DEMIRE seeks to build an overall portfolio spread across a variety of different asset classes (office, retail and logistics properties).

DEMIRE’S PORTFOLIO IS SUBDIVIDED INTO THREE CATEGORIES:

- The Core Plus portfolio category includes real estate whose current risk/opportunity profile profile is characterised by a low vacancy rate of 5% or less with an average remaining lease term of at least five years. These properties provide safe and sustainable cash flows from long-term rental income with high-credit-quality tenants.
- The Value-Added portfolio includes properties with a vacancy rate of over 5% and an average remaining lease term of fewer than five years. These properties already generate attractive cash flows from rental income but also have the potential to increase their value through an active “manage-to-core” approach via the in-house real estate management platform.

- In the Redevelopment category, DEMIRE aggregates 5% up to a maximum of 10% of the real estate in the portfolio that, from today’s perspective, should be repositioned on the market following future extensive modernisation or supplementary measures. These properties already generate an attractive return but, as a result of these measures, should further improve this return or secure it for the long term. Significant pre-letting of rental space and the timely assurance of building permits considerably reduce the marketing risk.
- As part of its investment strategy, DEMIRE seeks to balance opportunities and risks by combining the Core Plus, Value-Added and Redevelopment investment strategies. A volume of EUR 10 to 50 million is envisaged for each individual investment, which is a very marketable size. The transaction market in secondary locations has a high level of liquidity, even in comparison to the Top 7 locations, which will help DEMIRE in achieving its future growth targets.

INVESTMENT STRATEGIES
in % of portfolio market value



(As of 31/12/2017)

Objectives

At its Annual General Meeting at the end of June 2017, under the title DEMIRE 2.0, DEMIRE defined concrete growth targets that it is striving to achieve in the medium term through a holistic action plan encompassing cost optimisation, streamlining the group structure and reducing financing costs. A key component of this strategy is the plan to double the size of the current portfolio from today's level of around EUR 1 billion to a future total of EUR 2 billion. In addition, permanent increases in efficiency and economies of scale in real estate management in the course of the Company's future growth are expected to further improve the cost base. A continued improvement in the financing mix, especially through a careful examination of the specific financing options, should further reduce the average interest costs and lead to a net loan-to-value in the medium term of roughly 50%. DEMIRE will increase its active and transparent dialogue with existing and new investors in an effort to enhance its communication and access to the capital markets. In addition to increasing its market capitalisation, DEMIRE also aims to improve its risk profile in order to attain an investment grade rating so that it can secure long-term and sustainable financing on favourable terms for its future growth.

MANAGEMENT SYSTEM

To achieve the targets DEMIRE has set itself in line with the strategic direction described, the Group has designated operating cash flow (funds from operations – FFO) as its key performance indicator. To increase FFO, the management's task is to improve the cash flow of the real estate portfolio over time. This is to be accomplished on an operating level primarily by monitoring and managing the development of the occupancy rate, the actual net rent per m², the ongoing maintenance and operating costs, allocable service charges, rental losses and the net operating income of the real estate (NOI) by means of regular target/actual performance comparisons. Integrated cash flow planning links the business segments to the individual properties. Continuous monitoring of the liquidity and the occupancy rate is carried out in addition to the use of the financial performance indicators. For more information, please see the comments in the Notes under "Investment Properties".

At the level of DEMIRE AG, income and cash flows are aggregated and assessed. The key indicators for measuring added value are the equity ratio and the change in net asset value (NAV) as defined by the European Public Real Estate Association (EPRA). The ratio of net debt to the sum of the existing real estate (net loan-to-value – net LTV) represents a second important performance indicator used by the Group. Interest expenses are another key factor because they have a significant influence on the financial result and thereby the profit/loss for the period and the development of 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.

Economic report

MACROECONOMIC AND SECTOR ENVIRONMENTS

MACROECONOMIC ENVIRONMENT

The German economy also flourished in the year 2017, amid an expanding global economy, where economic growth reached 3.7%, and a thriving euro-zone region, which saw its gross domestic product (GDP) rise 2.5%.

According to the Federal Statistical Office, Germany's real GDP in 2017 was up 2.2% year-on-year, marking the eighth consecutive year of German economic growth at an even higher rate again than in the previous years.

The Federal Statistical Office pointed to domestic demand as the key growth driver, citing the growth in private consumption of 2.0% and in construction investment of 2.6%.

Economic growth was boosted by historically low key interest rates (i. e. prime and marginal lending rates at 0% and 0.25%). The positive economic environment was reflected by rising employment of 1.5% in 2017. This trend has now been unbroken for twelve consecutive years.

SECTOR ENVIRONMENT

The boom in the construction industry continued. A high demand for houses and apartments and favourable financing conditions in 2017 led to the highest level of new business in over two decades. According to the Federal Statistical Office, the nominal volume of new orders amounted to EUR 72.3 billion – a year-on-year increase of 6.6%. Price-adjusted new orders in the construction industry increased year-on-year by 3.5%.

The German construction industry closed the year 2017 with an increase in revenue in real terms of 2.7%. According to the Federation of the German Construction Industry (Hauptverband der Deutschen Bauindustrie – HDB), the industry generated revenue of EUR 114 billion. The positive trend in construction benefited larger companies above all. According to the HDB, larger companies were more likely to be involved in new building projects rather than smaller companies, which were more in demand for construction activities involving existing buildings. The construction boom also attracted more employees in 2017, with companies increasing their headcount by roughly 4% to 812,000. As a result, the industry has more than 800,000 employees for the first time since 2003.

With assets valued at EUR 11.2 trillion, the German real estate market is seen by experts as a stability factor not only for the German economy but for Europe as a whole. This was the conclusion drawn by the study “Economic Factor Real Estate 2017” conducted by the German Society for Real Estate Research (Gesellschaft für Immobilienwirtschaftliche Forschung – gif), the German Association for Housing, Urban Planning and Spatial Planning e. V. (Deutscher Verband für Wohnungswesen, Städtebau und Raumordnung e. V. – DV) and the Federal Association of Real Estate Germany (Bundesarbeitsgemeinschaft Immobilienwirtschaft Deutschland – BID).

The strength of the German real estate industry stems from the complex ownership structure in the housing market, the close proximities of several strong

cities with attractive commercial real estate markets and the conservative financing culture. Thanks to the variety of large investment markets and prospering regional centres, the German real estate market enjoys a reputation as a stable investment location for international investors.

However, the authors of the study point out that the strength and stability of the German real estate industry is no guarantee of success. The vast array of players and the heterogeneous nature of the sub-markets mean that the industry is rather slow to react. Lower transaction costs could increase the adaptability of market participants. Based on this premise, the authors derive a catalogue of demands for municipalities, federal states and the federal government, which includes a reduction in the land transfer tax to a nationwide, investment-friendly level, faster allocation of building land and simplified processes in planning regulation.

The transaction market for commercial real estate

Germany's excellent economic data added fuel to the commercial real estate investment market in 2017. The low level of interest rates and strong rental markets created dynamic demand for this category of investment products. The German commercial real estate investment market achieved near record-breaking transaction volume of EUR 57.4 billion in the year under review – or roughly 9% higher than in the previous year. Office real estate in this market continued to be the most coveted asset class for German and international investors. At over EUR 28 billion, for an increase of 13%, nearly half of the transaction volume in the reporting year was attributed to office space – setting yet another record! Retail real estate took second place with just under a quarter of Germany's investment volume (around EUR 14 billion). At more than EUR 8 billion, warehousing and logistics real estate followed at almost 15% of investment volume and, lastly, hotel real estate accounted for around 7% and a solid EUR 4 billion of total volume.

The market for office properties

The outstanding development of the German labour market with its increasing employment created a growing demand for German office real estate in 2017, thereby increasing the appeal of this asset class. Although the Top 7 locations accounted for just over EUR 22 billion, or almost 79%, of German office real estate transactions, this category recorded only a moderate increase of around 6%. Instead, investors were more focused on so-called regional centres or "B" locations in 2017, which recorded an increase in investment volume of around 53%.

The German office markets posted record turnover overall in 2017. According to Deutsche Immobilien-Partner (DIP), office space turnover (incl. owner-occupied space) totalled 5.05 million m² at selected office locations. This registered the highest floor space turnover in the last 25 years. Apart from the Top 7 German cities – Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – the DIP competence network also analyses eight secondary locations that are of interest to DEMIRE: Bremen, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Magdeburg and Nuremberg.

The DIP analysis shows that the German office market continues to be highly robust with strong momentum. Office space turnover increased by approx. 11% year-on-year, not only in the seven largest German office markets – the "Big Seven" – but also in the eight medium-sized locations. In the reporting year, these locations amounted to approx. 772,000 m² of office space turnover for a year-on-year increase of roughly 17%.

At the same time, the vacancy rate in the office markets analysed fell to 4.9% (previous year: 5.9%). Vacancies are continuing to decline, especially in the "Big Seven" markets. In central locations in Berlin and Munich, one could say that the level is at full occupancy. Although the vacancy rate of the secondary

locations was above average at 5.7%, the vacancies there are much less volatile and always lagged in historical comparison with the top locations.

The lower-than-average level of new construction activity led to an increasing shortage of modern lettable space in sought-after city centre locations, as well as stable to rising prime rents across all markets. As a result, the average weighted prime rent in the German office markets analysed has increased 5.9% in the past twelve months to EUR 28.60/m² (2016: EUR 27.00/m²). As the availability of desired office space also shrank at the secondary locations, these locations also registered some significant increases in prime rents.

Continued high demand for first-class commercial property caused a further decline in prime yields across nearly all asset classes and markets. As a result, investors are increasingly turning to office properties in city outskirts or peripheral areas.

An investment analysis of 76 German office locations was presented by Catella Research. The analysts divide the market into four categories (A, B, C and D locations). The strongest increase in rents in the analysis was recorded by the Top 7 locations (a year-on-year increase of 3.3%). According to the analysis, the fact that category D locations had exceeded the prime rent threshold of EUR 10.00/m² shows that the positive economic development is extending deep into the regions.

With an average prime yield of 3.3% at the “A” locations, this category fell below the 4% threshold for the first time. The average yield gap between “A” and “B” locations increased again in 2017.

The market for retail properties

The retail real estate asset class was also very popular in 2017 and took second place behind the office real estate market (see figures in subsection “The transaction market for commercial real estate”, above). However, the share of retail real estate transactions declined, reflecting the increasingly critical stance of investors towards this asset class, which also has very long sales processes.

Commercial buildings in city locations of major metropolitan areas were a popular but rare investment category. Against this backdrop, yields in the “Big Seven” markets declined on average to 2.93%. The net initial yields for individual specialty stores and shopping centres fell slightly again towards the end of the year. Investors continue to seek specialty shopping centres in good locations and with a large share of grocery stores.

The downturn in retail rents continued in 2017. While retail rents in major cities declined around 1% on average, 185 of the retail markets analysed recorded a year-on-year reduction in prime rent averaging 2.6%. The largest declines were recorded by so-called smaller regional centres in the areas surrounding other strong retail markets. This trend contrasts with that in cities with strong local retail markets, which achieved the highest growth. The reason for this development is that when local retailers come under gross margin pressure (for example, due to the competition from online retailers), they strive for lower overall rents by reducing the size of their shops rather than seeking lower rents per m².

The rental market struggled with falling numbers in space turnover. With 1,055 rental agreements for a total of 448,200m², the volume of space rented declined by around 7% compared to 2016, and the number of deals dropped by around 2%.

The market for logistics properties

The logistics industry is booming like never before, and demand for logistics real estate is increasing. In its report “Logistics and Real Estate 2017”, the analysis company bulwiengesa AG evaluated an array of data based on construction, investment and financing activities.

The report projects that more than 5 millionm² of space was completed in 2017, or roughly 12% more logistics space year-on-year, representing a new record. In addition, this report shows that speculative construction is also increasing, which is a sign of the growing optimism directed at this segment. Characteristic of the logistics real estate industry is the construction of larger properties on the outskirts of major cities and peripheral locations.

The market for logistics real estate, however, is on the move and defined by a high level of dynamism. The driver is the expanding e-commerce sector, which requires greater proximity to customers. This trend will boost the future demand for innovative solutions for inner-city logistics – an area where the real estate market is still in the pioneering stage. According to the report, a multi-stage model of logistics real estate is emerging in the long term, that spans from central warehouses on the periphery and supply points on city outskirts to microdepots in the city. A well-functioning system made of various logistics properties is necessary to ensure the optimal flow of goods on the “last mile”.

The demand for investments in the logistics real estate market continues unabated, and investment volumes are growing. With the increasing attractiveness of this segment, yields have fallen slightly, meaning that investors are now also looking outside of the Top 7 locations.

Development of commercial property markets – effect on DEMIRE


Both the macroeconomic situation and the real estate environment in 2017 proved beneficial to the DEMIRE Group’s business model. By strategically focusing on German secondary locations, DEMIRE benefited from the growing demand at these locations.

Secondary locations – higher yields and lower risk than “A” cities

DEMIRE is represented by its real estate investments in 15 out of 16 federal states and concentrates its investment on the so-called “secondary locations”. German secondary locations offer a more attractive and, at the same time, more predictable environment than that of the real estate markets in the Top 7 locations.

DEMIRE regularly publishes market studies together with bulwiengesa, one of the largest, independent analysis companies in the real estate industry. The focus of these studies are the investment opportunities in German office real estate in secondary locations. The most recent study was published by DEMIRE in April 2018. Based on the analysis of a total of 31 cities, the study demonstrates that the secondary locations have been able to show a predominantly positive development in recent years and thus represent an interesting investment opportunity compared to the Top 7 locations. The Top 7 locations were able to achieve rental growth rates of 2.8% on average. In some secondary locations, even higher rent increases of up to 40% were achieved.

Due to the lack of investment opportunities and the low yields in the “A” markets, market participants are increasingly investing in secondary locations. In 2017, around EUR 15 billion were invested outside of the major cities. The reason for the increased interest of investors is the better average yield and the high stability of the rent levels in secondary locations. Growing demand is also reducing net initial yields for secondary locations. Nevertheless, the yield spread between “A” markets and secondary locations remains high at 2%. The volatility of rents and vacancy rates of secondary locations is much lower compared to “A” locations.

The complete study by DEMIRE and bulwiengesa is available on the *Company’s website*. 

BUSINESS DEVELOPMENT

GENERAL STATEMENT ON THE GROUP'S BUSINESS DEVELOPMENT AND POSITION

In the 2017 fiscal year, DEMIRE continued to optimise both its real estate portfolio and its corporate structure. In June 2017, the Company announced its forecast for the 2017 fiscal year, as well as a comprehensive medium-term strategic plan called DEMIRE 2.0. The DEMIRE 2.0 strategy signifies DEMIRE's next phase of growth and at the same time optimises and increases the efficiency of its real estate platform. The core aspect of DEMIRE's strategy is a focus on "secondary locations" in Germany – a key factor differentiating it from its competitors. DEMIRE's market position is to be solidly established for the long term by doubling the Company's portfolio from its current volume of EUR 1 billion to EUR 2 billion. In dividing its real estate portfolio into the Core Plus, Value-Added and Redevelopment investment categories, DEMIRE invests in a heterogeneous portfolio with a balanced and diversified risk/opportunity profile. An active "manage-to-core" approach is intended to exploit the appreciation potential of the existing real estate portfolio and generate additional and, above all, sustainable rental income through the targeted reduction of vacancies. The more efficient management of the real estate and a tax-optimised corporate structure will result in higher potential earnings in the short to medium term, leading to increased profitability for the Company.

DEMIRE's original forecast for the 2017 fiscal year was for total funds from operations (FFO) of around EUR 8 to 10 million and rental income in the range of EUR 72 to 73 million. The placement and tapping of a rated, unsecured corporate bond in July and September 2017 and the related refinancing of liabilities at better terms represented the first milestone in the Company's implementation of its DEMIRE 2.0 strategy. As a result, DEMIRE has been able to make a sustainable improvement in its financial structure within a very short time. The refinancing transactions will bring down interest expenses significantly, starting in 2018, and result in a strong increase in funds from operations. Another positive step in November 2017 was the signing of various control and profit transfer agreements between DEMIRE and several subsidiaries, which marked the achievement of yet another milestone in improving DEMIRE's overall profitability and increasing its funds from operations. The real estate

portfolio also developed well during the past fiscal year and, next to like-for-like rising rental income (excl. the additions and disposals in the 2017 fiscal year), we also managed to reduce the EPRA vacancy rate to below 10%. DEMIRE also leveraged the momentum in the transaction market and sold non-strategic real estate, which was weighing on the overall efficiency of managing the property portfolio. DEMIRE sold and notarised five properties with a total value of EUR 14.4 million during the past fiscal year. Based on the solid operating performance and the initial successes of the DEMIRE 2.0 strategy, the Company raised its expectation for funds from operations during the year ending to a range of EUR 11 to EUR 12 million. The forecast for rental income was increased to around EUR 74 million. In the 2017 fiscal year, DEMIRE fully achieved its forecast. Funds from operations (FFO I, after taxes, before minorities) amounted to EUR 11.7 million, and rental income reached EUR 73.7 million.

Based on the next steps it has planned under DEMIRE 2.0, the Company believes it is in a good position to increase its appeal to investors and, together with its shareholders, achieve its targeted growth. The individual steps under the strategy will sum up to a substantial improvement in the funds from operations and further growth in net asset value (NAV). DEMIRE is thereby laying the groundwork for distributing attractive and sustainable dividends to shareholders in the medium term based on its rising cash flow.

2017 TARGET ACHIEVEMENT



KEY EARNINGS FIGURES

11.7

MILLION EUROS

Original FFO I forecast
(after taxes, before minorities)
of EUR 8–10 million
significantly exceeded



KEY FINANCIAL INDICATORS

60.1

PERCENT

Material reduction of 270 basis points
in the net loan-to-value ratio
(net LTV) to 60.1%

3.00

PERCENT P. A.

Average interest costs
fell by 140 basis points
to 3.0% p. a.

4.94

EUR

EPRA NAV (diluted)
increases sharply by EUR 0.34 per share



PORTFOLIO DEVELOPMENT

73.7

MILLION EUROS

Solid operating performance results in
EUR 73.7 million of rental income,
exceeding the EUR 72–73 million forecast

9.4

PERCENT

Successful 2.2 percentage-point reduction
in EPRA vacancy rate to 9.4%
as of the reporting date

DEVELOPMENT OF THE REAL ESTATE PORTFOLIO

As of 31 December 2017, the real estate portfolio consisted of 86 commercial properties with total lettable floor space of roughly 970,000 m² and a market value of around EUR 1 billion. Based on their market values as of 31 December 2017, office property accounted for about 67% of the total portfolio at the end of 2017 (31 December 2016: approx. 67%), making it the largest single category. Roughly 24% of the total portfolio consisted of retail real estate (31 December 2016: around 24%), and 6% was attributed to logistics properties (31 December 2016: around 5%). Around 3% of the total portfolio at the end of 2017 contained other-use real estate (31 December 2016: around 4%).

After the first half of 2017, DEMIRE decided to focus on one appraiser to provide an independent real estate appraisal of its entire portfolio. As of 31 December 2017, an appraisal of the entire real estate portfolio was carried out by the global real estate appraiser CBRE. Taking into account real estate already sold, the portfolio's EPRA vacancy rate as of the balance sheet date was 9.4%, which is approx. 2.2 percentage points below its level on 31 December 2016 and below a level of 10% for the first time. DEMIRE's real estate management in the past fiscal year achieved a letting performance of around 62,000 m² (which corresponds to roughly 6.4% of the total portfolio), of which approx. 47% was attributable to new lettings and around 53% to follow-on lettings. This corresponds to a total rental volume over the entire rental period of EUR 26.5 million. The average rental period of the letting performance in the past fiscal year was around 5.5 years. The weighted average lease term (WALT) of the total portfolio was 4.9 years as of the balance sheet date, which represented a year-on-year decline of 0.4 years, largely due to the sale of a property and the related premature termination of the rental agreement in the first half of 2017. Over the next three years, the share of the expiring rental contract volume amounts to around 26%, with roughly 52% expiring as of 2022. Around 3% of the rental contract volume has no set termination date. The rental income of the real estate portfolio increased roughly 2.6% or EUR 1.8 million on a like-for-like basis.

PORTFOLIO BY INVESTMENT CLASS (VALUES)

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN M ² THOUSANDS)	VALUE / M ²	CONTRACTUAL RENT IN EUR MILLIONS P.A.	CONTRACTUAL RENT / M ²	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Core Plus	37	542.7	52.5	354.5	1,531	37.4	9.2	6.9	2.5	6.0
Value-Added	42	426.6	41.2	569.1	750	30.7	5.7	7.2	17.4	3.9
Redevelopment	7	64.8	6.3	45.3	1,430	4.0	7.8	6.1	0.5	3.6
Total as of 31 / 12 / 2017	86	1,034.1	100	968.9	1,067	72.1	7.2	7.0	9.4	4.9
Total as of 31 / 12 / 2016	174	1,005.6	100	1,068.9	941	74.1	7.0	7.4	11.6	5.3
Change in % / PP	-88	2.8%		-9.4%	+13.4%	-2.7%	+2.9%	-40 bp	-220 bp	-0.4 years

* Excl. real estate held for sale

PORTFOLIO BY ASSET CLASS (VALUES)

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN M ² THOUSANDS)	VALUE / M ²	CONTRACTUAL RENT IN EUR MILLIONS P.A.	CONTRACTUAL RENT / M ²	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Office	63	692.9	67.0	549.7	1,261	48.7	8.1	7.0	8.4	4.7
Retail	16	246.3	23.8	161.0	1,530	17.6	10.2	7.1	5.9	6.1
Logistics	1	61.7	6.0	218.0	283	3.9	2.1	6.2	33.3	1.9
Other	6	33.2	3.2	40.2	826	1.9	4.0	6.6	0.1	6.6
Total as of 31 / 12 / 2017	86	1,034.1	100	968.9	1,067	72.1	7.2	7.0	9.4	4.9
Total as of 31 / 12 / 2016	174	1,005.6	100	1,068.9	941	74.1	7.0	7.4	11.6	5.3
Change in % / PP	-88	2.8%		-9.4%	+13.4%	-2.7%	+2.9%	-40 bp	-220 bp	-0.4 years

* Excl. real estate held for sale

PORTFOLIO VALUATION & TRANSACTIONS

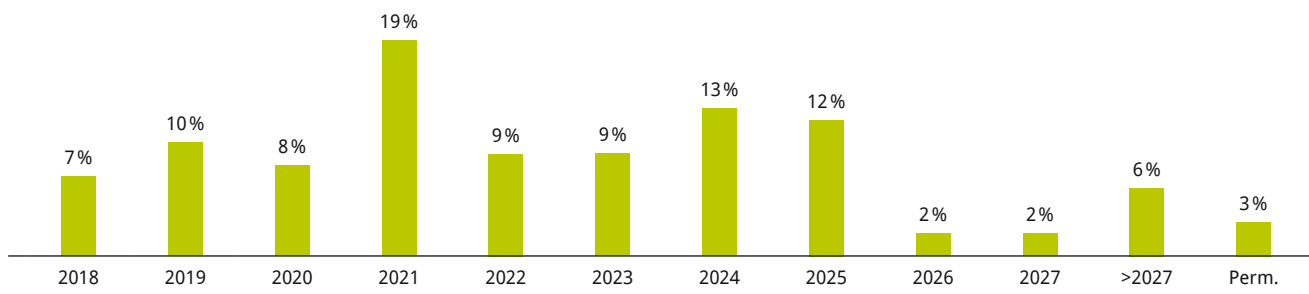
The independent real estate appraiser CBRE assessed the market value of DEMIRE’s real estate portfolio (incl. real estate held for sale) at EUR 1,034.1 million as of the 31 December 2017 balance sheet date (31 December 2016: EUR 1,005.6 million), for a total increase of around EUR 28.5 million.

A total of 88 properties had already been notarised in the 2016 fiscal year or earlier. These properties included 84 non-strategic properties (so-called “Yellow Portfolio” real estate) with a value of less than TEUR 500 each, which had been leased to Deutsche Post DHL Group in largely decentralised locations. For 83 properties in the Yellow Portfolio, the transfer of ownership, benefits and obligations took place in the 2017 fiscal year. For another 8 properties valued at EUR 28.4 million, which were notarised in the 2017 fiscal year or earlier, the transfer of ownership, benefits and obligations took place in the 2017 fiscal year and included 3 properties at the level of the subsidiary Fair Value REIT-AG.

Three properties with a sales volume of around EUR 12.3 million are held for sale (IFRS 5); the transfer of ownership, benefits and obligations is expected in the 2018 fiscal year.

TERM OF RENTAL CONTRACTS

Based on annualised rental income



TRANSACTIONS

PORTFOLIO	LOCATION/DESCRIPTION	MOST RECENT MARKET VALUE (in EUR thousands)	SELLING PRICE (in EUR thousands)	DATE NOTARISED	DATE OF TRANSFER OF OWNERSHIP, BENEFITS AND OBLIGATIONS
DEMIRE	Hohenstein-Ernstthal	625.0	625.0	October 2014	September 2017
DEMIRE	Darmstadt	6,565.5	10,400.0	December 2016	Still pending
DEMIRE	Hanover	460.0	465.0	December 2016	February 2017
DEMIRE	Yellow Portfolio (83 properties)	11,940.0	11,138.4	December 2016	March 2017
DEMIRE	Yellow Portfolio (1 property)	70.0	61.6	December 2016	Still pending
Fair Value REIT	Krefeld	3,670.0	3,600.0	December 2016	February 2017
DEMIRE	Real estate inventory Bulgaria	350.0	400.0	February 2017	March 2017
Fair Value REIT	Geschendorf	210.0	200.0	February 2017	May 2017
DEMIRE	Bad Doberan	690.0	465.0	March 2017	June 2017
DEMIRE	Apolda	1,840.0	1,875.0	August 2017	Still pending
Fair Value REIT	Teltow	9,240.0	11,500.0	August 2017	November 2017
	Total	35,660.5	40,730.0		

TOP 5 NEW RENTALS

PORTFOLIO CLUSTER	CITY	STREET ADDRESS	TENANT	LETTABLE SPACE (M ²)*	TERM OF RENTAL CONTRACT (YEARS)
Value-Added	Bayreuth	Nürnberger Straße 38	Zapf GmbH	3,200	3.0
Core Plus	Berlin	Jan-Petersen-Straße 14	Katsoukis Fitnessstudio UG	1,800	10.0
Core Plus	Cologne	Colonia Allee 13 – 15	AXA Konzern AG	1,700	2.4
Value-Added	Dresden	Nossener Brücke 8 – 12	Deutsche Bahn	1,600	10.0
Value-Added	Wismar	Hinter dem Rathaus 13 – 15	Pflegedienst KH Ambulantis	1,600	15.0

* Figures are rounded.

TOP 5 FOLLOW-ON RENTALS

PORTFOLIO CLUSTER	CITY	STREET ADDRESS	TENANT	LETTABLE SPACE (M ²)*	TERM OF RENTAL CONTRACT (YEARS)
Core Plus	Celle	Vor den Führen 2	Hammer Markt	8,500	5.0
Core Plus	Teltow	Rheinstraße 8	Olympus	4,900	5.0
Value-Added	Lichtenfels	Bambergerstraße 20	DHL	3,700	5.0
Value-Added	Unterschleißheim	Ohmstraße 1	McAfee Germany GmbH	3,300	3.5
Value-Added	Bad Oeynhausen	Dr.-Neuhäuser-Straße 4	DHL	2,800	5.0

* Figures are rounded.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

In the 2017 fiscal year, lower year-on-year rental income due to the sale of real estate was partially offset by new lettings and a reduction in vacancies.

Earnings benefited from an increase in valuation gains from the fair value adjustment of investment property. These gains were offset by higher general and administrative expenses and higher financial expenses, in particular due to higher one-time staff costs, one-time higher legal and consulting fees and higher refinancing costs for financial liabilities.

CONSOLIDATED STATEMENT OF INCOME (Selected information in EUR thousands)	01/01/2017 -31/12/2017	01/01/2016 -31/12/2016	CHANGE	IN %
Rental income	73,716	76,371	-2,655	-3.5
Income from utility and service charges	14,624	15,746	-1,121	-7.1
Operating expenses to generate rental income	-32,708	-33,547	-66,255	>100
Profit/loss from the rental of real estate	55,632	58,570	-2,938	-5.0
Profit/loss from the sale of real estate companies	0	3,961	-3,961	>100
Profit/loss from the sale of real estate	944	963	-19	-2.0
Profit/loss from investments accounted for using the equity method	73	-359	432	>100
Profit/loss from fair value adjustments in investment properties	48,560	38,414	10,146	26.4
Other operating income and other effects	2,289	3,492	-1,203	-34.4
General and administrative expenses	-15,304	-14,505	-799	5.5
Other operating expenses	-7,523	-7,367	-156	2.1
Earnings before interest and taxes	84,671	83,169	1,502	1.8
Financial result	-57,042	-43,207	-13,835	32.0
Profit/loss before taxes	27,629	39,962	-12,333	-30.9
Current income taxes	-333	-2,852	2,519	-88.3
Deferred taxes	-7,864	-9,460	1,596	-16.9
Net profit/loss for the period	19,432	27,649	-8,217	-29.7
thereof attributable to parent company shareholders	13,783	24,670	-10,887	-44.1
Basic earnings per share (EUR)	0.25	0.48	-0.23	-47.1
Weighted average number of shares outstanding (in thousands)	54,261	51,364	2,897	5.6
Diluted earnings per share (EUR)	0.22	0.39	-0.17	-43.9
Weighted average number of shares outstanding, diluted (in thousands)	67,875	65,002	2,873	4.4

Profit/loss from the rental of real estate

In the 2017 fiscal year, the DEMIRE Group generated rental income totalling EUR 73.7 million (2016 fiscal year: EUR 76.4 million). This amount was 3.5% lower than in the same period of the previous year due to the sale of non-strategic real estate in the prior 12 months.

Income from utility and service charges of EUR 14.6 million (2016 fiscal year: EUR 15.7 million) includes tenant payments for utilities. Service charges were recognised as expenses to generate rental income and amounted to EUR 32.7 million in the reporting year (2016 fiscal year: EUR 33.5 million). Of the operating expenses, an amount of EUR 19.1 million (2016 fiscal year: EUR 19.6 million) is generally allocable and can be passed on to tenants. Operating expenses of EUR 13.6 million (2016 fiscal year: EUR 13.9 million) are non-allocable.

The profit/loss from the rental of real estate amounted to EUR 55.6 million in the fiscal year and fell slightly by 5.0% compared to the previous year (fiscal year 2016: EUR 58.6 million). As expected, this was attributable to lower rental income due to the sale of non-strategic real estate, which in turn was partially offset by lower operating expenses to generate rental income.

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

In the past fiscal year, no profit/loss from the sale of real estate companies was achieved (2016 fiscal year: EUR 3.9 million). The profit/loss from the sale of real estate reached EUR 0.9 million in the 2017 fiscal year (fiscal year 2016: EUR 1.0 million) and was thus slightly down on the previous year.

Other operating income and expenses

The profit/loss from fair value adjustments in investment properties amounted to EUR 48.6 million (2016 fiscal year: EUR 38.4 million) and increased by approx. 26.4% compared to the previous year. Other operating income fell by EUR 0.5 million year-on-year to EUR 5.1 million. The decrease was mainly attributable to non-periodic income, which was unusually high in the previous year at EUR 2.7 million due to subsequent compensation for the use of walkways and parking spaces by the city of Ulm and retroactive credits for the corrected settlement of operating costs relating to prior years. Other operating income and other effects also include impairments of receivables, which increased by EUR 0.7 million to EUR 2.8 million.

Other operating expenses of EUR 7.5 million are almost unchanged compared to the previous year. Within this item, there was an increase mainly in extraordinary consulting and marketing services for real estate of individual Fair Value REIT-AG subsidiaries in the amount of EUR 0.8 million, as well as higher fees and incidental costs for money transactions (EUR 0.8 million compared to EUR 0.4 million in the previous year). On the other hand, there was a decline in non-periodic expenses from the settlement of operating costs relating to previous years and a decline in brokerage commissions.

General and administrative expenses

General administrative expenses increased by 5.5% to EUR 15.3 million at the end of 2017 (2016 fiscal year: EUR 14.5 million). This increase resulted mainly from one-time staff costs related to the departure of members of the Executive Board.

Financial result

The financial result at the balance sheet date 2017 amounted to EUR –57.0 million (2016 fiscal year: EUR –43.2 million) and increased as a result of significantly higher financial expenses due to one-time costs of EUR 16.4 million as part of the refinancing measures. Furthermore, the minority interest in the subsidiaries of Fair Value REIT-AG in the amount of EUR 8.3 million increased significantly (2016 fiscal year: EUR 5.2 million). The increase resulted in particular from unrealised positive fair value changes of EUR 4.7 million in the real estate held by the funds of Fair Value REIT.

Earnings before interest and taxes (EBIT) rose by EUR 1.5 million year-on-year to EUR 84.7 million (2016 fiscal year: EUR 83.2 million), almost matching the previous year's level.

Net profit/loss for the period

The profit/loss for the period (earnings after taxes) reached EUR 19.4 million in the 2017 fiscal year and was thus below the previous year's result of EUR 27.6 million. The non-recurring financial expenses due to the refinancing activities had a negative impact on the profit/loss for the period in 2017, which was partially offset by a significantly lower tax burden of EUR –8.2 million (2016: EUR –12.3 million).

SEGMENT REPORTING

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

Further information on segment reporting can be found in the notes to the consolidated financial statements starting on page 149.

NET ASSETS

The DEMIRE Group's total assets amounted to EUR 1.147 billion as of 31 December 2017 (31 December 2016: EUR 1.094 billion), increasing by EUR 53.1 million compared to the end of 2016. Non-current assets amounted to EUR 1,032.9 million (31 December 2016: EUR 1,001.5 million). Current assets increased to EUR 101.9 million since the end of 2016 due to a higher level of cash and cash equivalents (31 December 2016: EUR 68.2 million). Non-current assets held for sale include real estate still held as of 31 December 2017, totaling EUR 12.3 million.

Group equity increased to EUR 319.1 million in the 2017 fiscal year (31 December, 2016: EUR 308.6 million), the equity ratio was close to the previous year's level at 27.8%. It should be noted that minority interests in the amount of EUR 71.9 million are recorded under the Group's non-current liabilities and not in equity, mainly due to their legal form as a partnership in accordance with IFRS. Adjusted Group equity totalled EUR 391.0 million, or 34.1% of the consolidated total assets (31 December 2016: EUR 371.5 million or 34.0%). As a result, non-current liabilities amounted to EUR 780.6 million at the end of 2017 (31 December 2016: EUR 719.3 million), and current liabilities equalled EUR 47.4 million (31 December 2016: EUR 66.0 million). The total liabilities of the DEMIRE Group increased to EUR 828.0 million as of 31 December 2017 from EUR 785.4 million as of 31 December 2016.

The market value for the real estate investment (investment property and non-current assets held for sale) determined by the external real estate appraiser CBRE as of the balance sheet date was EUR 1,034.1 million (31 December 2016: EUR 1,005.6 million).

Selected information from the consolidated balance sheet

CONSOLIDATED BALANCE SHEET – ASSETS (Selected information in EUR thousands)	31/12/2017	31/12/2016	CHANGE	IN %
Assets				
Total non-current assets	1,032,897	1,001,486	31,411	3.1
Total current assets	101,957	68,229	33,728	49.4
Assets held for sale	12,262	24,291	-12,029	-49.5
Total assets	1,147,116	1,094,006	53,110	4.9

As of 31 December 2017, non-current assets increased by EUR 31.4 million to EUR 1,032.9 million (31 December 2016: EUR 1,001.5 million). The largest contribution to this increase was attributable to investment properties of EUR 40.6 million, which largely resulted from fair value adjustments.

As of 31 December 2017, the current assets of the DEMIRE Group increased by EUR 33.7 million to EUR 102.0 million (31 December 2016: EUR 68.2 million) primarily due to higher cash and cash equivalents. This rise resulted primarily from higher cash and cash equivalents due to the placement and tapping of the 2017/2022 corporate bond. This increase in cash and cash equivalents was offset by declines in trade receivables, financial receivables and other financial assets resulting from the derecognition of a call option on the redeemed 2014/2019 corporate bond and from lower rent receivables in the fiscal year.

The assets held for sale as of 31 December 2017 consisted of properties located in the cities of Apolda, Kempten, Limbach-Oberfrohna, as well as a sub-property in Darmstadt, with a total value of EUR 12.3 million (31 December 2016: EUR 24.3 million).

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (Selected information in EUR thousands)	31/12/2017	31/12/2016	CHANGE	IN %
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to parent company shareholders	285,417	271,945	13,472	5.0
Non-controlling interests	33,684	36,692	-3,008	-8.2
TOTAL EQUITY	319,101	308,637	10,464	3.4
LIABILITIES				
Total non-current liabilities	780,630	719,340	61,290	8.5
Total current liabilities	47,385	66,029	-18,644	-28.2
TOTAL LIABILITIES	828,015	785,369	42,646	5.4
TOTAL EQUITY AND LIABILITIES	1,147,116	1,094,006	53,110	4.9

Total financial liabilities of EUR 694.9 million (31 December 2016: EUR 662.6 million) include EUR 403 million in bonds and EUR 292 million in liabilities to credit institutions and third parties (31 December 2016: EUR 483.4 million). The share of unencumbered assets rose to 45% as of 31 December 2017 as a result of refinancing various financial instruments and liabilities to credit institutions through the placement and tapping of the 2017/2022 corporate bond in July and September 2017. As of the balance sheet date, there were variable interest rate agreements for loans in the amount of EUR 42.1 million. The average nominal interest rate on financial liabilities in 2017 was reduced from 4.4% p.a. as of 31 December 2016 to 3.0% p.a. at the end of the reporting period.

As of 31 December 2017, trade payables and other liabilities decreased to EUR 14.7 million (31 December 2016: EUR 17.4 million). Included in this amount are trade payables of EUR 8.6 million (31 December 2016: EUR 10.7 million), and EUR 6.1 million were other liabilities (31 December 2016: EUR 6.7 million).

At EUR 828.0 million, the DEMIRE Group's total liabilities as of 31 December 2017 were higher than in the previous year (31 December 2016: EUR 785.4 million).

FINANCIAL POSITION

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. The non-fulfilment of credit covenants for the financing of Logistikpark Leipzig was reported in the consolidated financial statements of DEMIRE AG as of 31 December 2016. During the refinancing process, this loan was redeemed prematurely on 27 July 2017 in the context of issuing the 2017/2022 corporate bond.

Providing the Supervisory Board with periodic information on the financial position on a regular basis 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 statements.

Selected information from the consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS (Selected information in EUR thousands)	01/01/2017 -31/12/2017	01/01/2016 -31/12/2016	CHANGE	IN %
Cash flow from operating activities	35,814	35,352	462	1.3
Cash flow from investing activities	20,554	5,726	14,828	>100.0
Cash flow from financing activities	-13,783	-38,256	24,473	64.0
Net change in cash and cash equivalents	42,585	2,822	39,763	>100.0
Cash and cash equivalents at the end of the period	73,874	31,289	42,585	>100.0

The development of cash flow in the 2017 fiscal year largely reflects the impact of the refinancing activities. A detailed consolidated cash flow statement is contained in the notes to the consolidated financial statements.

Cash flow from operating activities amounted to EUR 35.8 million at the end of the 2017 fiscal year (2016 fiscal year: EUR 35.4 million) and was nearly unchanged versus the prior year. Within the cash flow from operating activities, there were lower gains from the sale of real estate and real estate companies in the amount of EUR 4.0 million, higher distributions/dividends to minority shareholders of EUR 0.8 million, as well as the changes in financial receivables and other financial assets as described in the section entitled "Net assets".

Cash flow from investing activities reached EUR 20.6 million in 2017 after totalling EUR 5.7 million in the same period of 2016. The strong increase resulted not only from proceeds from the sale of real estate, which increased year-on-year by EUR 6.0 million, but also a decline of EUR 5.4 million in payments for investments in property, plant and equipment, coupled with a decrease in payments for the acquisition of investment properties and of investments in fully consolidated companies, less net cash and cash equivalents acquired, of EUR 3.4 million.

Cash flow from financing activities amounted to EUR –13.8 million (2016 fiscal year: EUR –38.3 million) and reflected the refinancing activities in the second half of 2017 versus the same period in the prior year. The proceeds from the assumption of financial liabilities equalled EUR 403.5 million and mainly included the 2017/2022 corporate bond. The interest paid on financial liabilities amounted to EUR 46.5 million, and the repayment of financial liabilities totalled EUR 370.8 million. The net change in cash and cash equivalents amounted to EUR 42.6 million at the end of the 2017 fiscal year (2016 fiscal year: EUR 2.8 million). Cash and cash equivalents as of the end of the reporting period increased to EUR 73.9 million.

The DEMIRE Group was always in a position to fully meet its payment obligations throughout the reporting period.

FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

FINANCIAL KEY PERFORMANCE INDICATORS

Funds from operations (FFO)

The operating result of the DEMIRE Group is measured in terms of funds from operations (FFO), which represents earnings adjusted for measurement effects, other disposal and one-off effects and non-periodic income and expenses. FFO I (after taxes, before minorities) amounted to EUR 11.7 million as of the 31 December 2017 reporting date (2016 fiscal year: EUR 8.1 million) and FFO I after taxes and minorities amounted to EUR 5.4 million (2016 fiscal year: EUR 2.7 million). Taking into account the profit/loss from the sale of real estate, funds from operations (FFO II) after taxes and before minorities were EUR 12.6 million (2016 fiscal year: EUR 13.0 million) and EUR 6.6 million after taxes and minorities (2016 fiscal year: EUR 7.5 million).

FFO CALCULATION (Selected information in EUR thousands)	01/01/2017 -31/12/2017	01/01/2016 -31/12/2016*	CHANGE	IN %
Profit/loss before taxes	27,629	39,962	-12,333	-30.9
Minority interests	8,279	5,220	3,059	58.6
Earnings before taxes (EBT)	35,908	45,182	-9,274	-20.5
+/- Profit/loss from the sale of real estate companies	0	-3,961	3,961	-100
+/- Profit/loss from the sale of real estate	-944	-963	19	-1.9
+/- Profit/loss for investments accounted for using the equity method	-73	359	-432	>100
+/- Profit/loss from fair value adjustments in investment properties	-48,560	-38,414	-10,146	26.4
+/- Profit/loss from the valuation of derivative financial instruments	2,697	898	1,799	>100
+/- Other adjustments**	22,959	7,847	15,112	>100
FFO I before taxes	11,986	10,948	1,038	9.5
+/- (Current) income taxes	-248	-2,853	2,605	-91.3
FFO I after taxes	11,738	8,095	3,643	45.0
Thereof attributable to parent company shareholders	5,413	2,679	2,734	>100
Thereof attributable to non-controlling interests	6,325	5,416	909	16.8
+/- Profit/loss from the sale of real estate companies/real estate (after taxes)	862	4,924	-4,062	-82.5
FFO II after taxes	12,600	13,019	-419	-3.2
Thereof attributable to parent company shareholders	6,569	7,502	-933	-12.4
Thereof attributable to non-controlling interests	6,031	5,517	514	9.3
FFO I after taxes per share				
Basic FFO I per share (EUR)	0.22	0.16	0.06	37.3
Weighted average number of shares outstanding (in thousands)	54,261	51,364	2,897	5.6
Diluted FFO I per share (EUR)	0.17	0.12	0.05	38.9
Weighted diluted average number of shares outstanding (in thousands)	67,875	65,002	2,873	4.4
FFO II after taxes per share				
Basic FFO II per share (EUR)	0.23	0.25	-0.02	-8.4
Weighted average number of shares outstanding (in thousands)	54,261	51,364	2,897	5.6
Diluted FFO II per share (EUR)	0.19	0.20	-0.01	-7.3
Weighted diluted average number of shares outstanding (in thousands)	67,875	65,002	2,873	4.4

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

** Other adjustments contain:

- One-time refinancing costs (EUR 14.6 million; previous year: EUR 2.3 million)
- One-time transaction, legal and consulting fees (EUR 4.1 million; previous year: EUR 0.5 million)
- One-time administrative costs (EUR 1.9 million; previous year: EUR 2.3 million)
- Non-period expenses (EUR 2.5 million; previous year: EUR -0.5 million)
- One-time impairment (EUR 0; previous year: EUR 1.8 million)
- One-time maintenance costs (EUR 0; previous year: EUR 1.5 million)

Net asset value (EPRA NAV)

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

EPRA NET ASSET VALUE (NAV) in EUR thousands	31/12/2017	31/12/2016	CHANGE	IN %
Net asset value (NAV)	285,417	271,945	13,472	5.0
Fair value of derivative financial instruments	0	-1,778	1,778	>100
Deferred taxes	42,893	35,030	7,863	22.4
Goodwill resulting from deferred taxes	-4,738	-4,738	0	0.0
EPRA NAV (basic)	323,572	300,459	23,113	7.7
Number of shares outstanding (in thousands) (basic)	54,271	54,247	24	0.0
EPRA NAV per share (EUR) (basic)	5.96	5.54	0.42	7.6
The effect of the exercise of convertible bonds and other equity instruments	12,048	12,047	1	0.0
EPRA NAV (diluted)	335,620	312,506	23,114	7.4
Number of shares outstanding (in thousands) (diluted)	67,885	67,885	0	0.0
EPRA NAV PER SHARE (DILUTED)	4.94	4.60	0.34	7.4

Net loan-to-value

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

NET LOAN-TO-VALUE (NET LTV) in EUR millions	31/12/2017	31/12/2016
Financial liabilities	694.9	662.6
Cash and cash equivalents	73.9	31.3
Net financial debt	621.0	631.3
Fair value of investment properties and non-current assets held for sale	1,034.1	1,005.6
Net LTV in %	60.1%	62.8%

The year-on-year improvement in the net loan-to-value ratio mainly resulted from the value appreciation of the real estate portfolio and higher cash and cash equivalents compared with the previous year.

The maturities of existing loan agreements are broadly staggered over time. There will be only a limited amount of refinancing and follow-up financing necessary over the next two years. In 2019, a higher level of refinancing of EUR 19.7 million will be required. The liquidity requirements for follow-on financing and repayments (excl. convertible bonds) over the next few years are as follows:

MATURITIES in EUR millions	2018	2019	2020	2021	2022	FROM 2023
	45.8	19.7	28.7	18.9	553.2	11.1

At the end of February 2017, DEMIRE Deutsche Mittelstand Real Estate AG prematurely prolonged the promissory note loan originally amounting to EUR 148 million and maturing in 2019 at a lower interest rate until 2022.

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators are non-quantifiable values that do not directly serve in steering the Company but play a fundamental role in the successful development of DEMIRE and its value. The non-financial performance indicators are based on expertise, competitive advantages and qualifications that have grown with its ongoing business activities and acting staff throughout the Company's history.

PERSONNEL

In the 2017 fiscal year, as planned, DEMIRE resumed some of the strategic and organisational functions previously provided by external service providers. Above all, the administrative units at the Company's headquarters in Langen were quantitatively and qualitatively reinforced by experienced specialists, and the Group's in-house real estate management was selectively expanded.

Our corporate structure is based on flat hierarchies. This structure offers motivated and dedicated employees a variety of tasks with responsibility in several areas. Short paths to decision-making and direct open communication among all levels also promote effective cooperation. This structure demonstrates our awareness that our employees stand at the core of our corporate success and are an essential component in achieving our medium- to long-term corporate goals.

DEMIRE's market- and performance-oriented remuneration system helps keep managers and employees focused on achieving corporate and divisional targets. Remuneration is reviewed regularly within the Company and adapted to operational and personal goals Company-wide. We also give employees the chance to further develop their professional skills both internally and externally so that their qualifications keep in step with the Company's further planned development. In our effort to provide an attractive workplace, we focus our attention on ensuring employees have sufficient work areas and also provide generous lounge areas for an opportunity to encourage team building at locations throughout the Company. This helps us facilitate the exchange of knowledge within our workforce in a targeted manner and promotes collaboration among the various work and project groups.

As of 31 December 2017, the Group employed a total of 96 people (31 December 2016: 77), excluding the Executive Board, at its consolidated and non-consolidated entities. With around 60 employees, the majority of our staff works in real estate management. The proportion of female employees in relation to male employees is 48%. We welcome and encourage diversity within our Company and comply with the legal requirements for setting a quota for women on the Supervisory Board, Executive Board and first-tier management. The age structure of our employees is widely distributed. Around 5% of our employees are younger than 30 years of age, around 64% are between 31 and 50 years old, and another 31% are older than 50 years.

DIVERSITY

Diversity continues to be an important part of DEMIRE's future ability to compete. At DEMIRE, we believe that diversity in terms of gender, age and nationality is a key factor in teamwork, creativity and, ultimately, the Company's lasting success. We therefore promote a working environment and corporate culture in which individual differences are respected, valued and encouraged and where each individual can develop and use his or her potential and strengths. We actively oppose intentional and unintentional forms of discrimination.

	2017	2016
Average age of employees in years (as of 31/12)	45	42
Percentage of women employed (as of 31/12)	48	43
Percentage of employees aged over 50 years (as of 31/12)	31	32
Percentage of employees with recognised severe disabilities or similar (as of 31/12)	4	3
Number of nationalities employed (as of 31/12)	5	3

MEASURES TO PROMOTE DIVERSITY

- Our flat hierarchies and the formation of project groups across several departments facilitate the exchange between the various divisions and employees with different expertise and levels of professional experience. Effective cooperation leads to a permanent reduction in bias among the employees.
- We also offer subsidies for the cost of fitness activities in an effort to help our employees stay healthy, fit and capable.
- Bonus payments are not the only way to reward exceptional employee performance and strong cooperation. Employee motivation is boosted particularly through recognition. With this in mind, we launched the “DEMIRE STAR” award in 2016, encouraging employees to nominate their co-workers for their extraordinary commitment.
- We support our employees as they go through various stages in life, such as raising and educating their children or caring for other family members, by giving employees the opportunity to have a home office or work part-time.

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

As a listed and non-co-determined company, DEMIRE AG is required by law to set targets for the proportion of women on the Supervisory Board, the Executive Board and, where applicable, the two management levels below the Executive Board.

The target for the proportion of women on the Supervisory Board, Executive Board and the first management level under the Executive Board until 30 June 2017 was set at zero in September 2015. At the end of June 2017, the targets for the proportion of women on the Supervisory and Executive Boards were set at zero for the period from 1 July 2017 to 30 June 2022 and at 25% for the first management level below the Executive Board for the same period in accordance with the percentage of female executives at that time. Since 1 January 2016, the position of Compliance Officer with a direct reporting line to the Executive Board and, since 1 May 2017, the position of Head of Commercial Management have been performed by women, representing a 22.2% share of women in the first management level as of 31 December 2017. Setting a target for the second level of management under the Executive Board was waived due to the Company's flat hierarchies.

Tenants and service providers

DEMIRE relies on a high level of tenant loyalty which is why it strives for a lasting and faithful relationship with its tenants. By providing on-site support, the Company is able to secure the long-term rental income of properties while minimising the default risk. Our employees' strong link to the markets means that we are able to detect potential market opportunities in both the rental and transaction markets at an early stage. This helps us to further optimise our real estate platform, improve our operating performance and grow our real estate portfolio to our target of EUR 2 billion. To do this, we rely on long-standing partnerships with service providers, in addition to other institutional market participants in the real estate market.

Sustainability

DEMIRE strives to be responsible and, at the same time, take environmental and social aspects into account when conducting its business activities. DEMIRE supports measures within the Group that help to save energy and reduce emissions and will continue to pay attention to the sustainable use of resources when making business decisions in the future. Responsible and fair interaction with employees, customers, business partners and the public are a priority. In the medium term, DEMIRE also intends to implement further guidelines to anchor sustainability even more firmly within the Group.

Transparency


DEMIRE is a member of the European Public Real Estate Association (EPRA) representing listed real estate companies in Europe. DEMIRE supports the EPRA Best Practice Recommendations for a transparent presentation of the key performance indicators of listed real estate companies.

DEMIRE also actively supports numerous associations within and outside the real estate industry through its memberships in various committees and associations. As an active member of the German real estate association Central Real Estate Committee (ZIA Zentraler Immobilien Ausschuss e. V.), which is the voice of the German real estate industry, DEMIRE supports the Committee's work by representing its members both publicly and politically.

DEMIRE is also a member of the German Investor Relations Association (DIRK – Deutscher Investor Relations Verband e. V.), which represents the investor relations activities of German listed companies. DEMIRE offers its support to members through its expertise, network access and practical knowledge of the capital markets by promoting communication among capital market participants. DEMIRE's Investor Relations department also actively exchanges with CIRO (Certified Investor Relations Officer) graduates and supports the planning and organisation of semi-annual IR workshops.

As one of more than 300 members of the German Institute for Compliance (DICO – Deutsches Institut für Compliance e. V.), DEMIRE promotes the development of good corporate governance and thereby consistently applies compliance standards internally. The Company's own Compliance department ensures that DEMIRE adheres to defined policies and monitors in-house procedures and processes for compliance with the applicable laws and regulations.

Market research

DEMIRE's business model places a special focus on real estate investments in secondary locations in Germany outside of the Top 7 locations of Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart. A vast number of regularly published studies and market reports address the development of the Top 7 rental and transaction markets, but similar periodic studies on secondary locations are rare or non-existent. For this reason, one of DEMIRE's goals is to increase the transparency of secondary locations in the real estate market and, above all, point out to international market participants the advantages of investing in secondary locations versus the Top 7. In an effort to accomplish this, DEMIRE compiles an extensive study once per year together with the independent analysis company bulwiengesa that provides an analysis of a large number of medium-sized cities in the German real estate market focusing the most attention on the German commercial real estate markets outside of the Top 7 cities. The studies are freely available and can be accessed from our [website](#). 

Changes in the composition of governing bodies

After the resignation of Mr Günther Walcher as a member of the Supervisory Board effective at the close of 23 January 2017 and Dr Peter Maser at the close of 13 February 2017 following the change in the shareholder structure, DEMIRE was successful in winning both Mr Frank Hölzle and Dr Thomas Wetzel as new Supervisory Board members. By decision of the District Court of Frankfurt am Main on 14 February 2017, both were appointed as members of the Supervisory Board. The appointments of these two new Supervisory Board members were confirmed by the shareholders at the Ordinary Annual General Meeting on 29 June 2017 and will expire with the Annual General Meeting that discharges the Supervisory Board for the fiscal year ending on 31 December 2020. Prof. Dr Hermann Anton Wagner was reappointed Chairman of the Supervisory Board.

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

On 12 April 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that Hon. Prof. Andreas Steyer would leave the Company's Executive Board effective 30 June 2017 to pursue new professional challenges. His Executive Board contract, which was set to expire on 31 March 2019, was cancelled prematurely by mutual agreement with the Supervisory Board. Mr Markus Drews was appointed Speaker of the Executive Board (CEO) on 1 July 2017.

On 16 November 2017, DEMIRE Deutsche Mittelstand Real Estate AG announced that DEMIRE Deutsche Mittelstand Real Estate AG's Supervisory Board and the Speaker of the Executive Board (CEO), Mr Markus Drews, had mutually agreed that on that day Mr Drews would immediately resign early from his position as Speaker of the Executive Board and member of the Executive Board as of 31 December 2017. Mr Drews's Executive Board responsibilities, particularly those related to the transaction business, were assumed by Executive Board member Ralf Kind (now CEO and CFO) with immediate effect.

Remuneration report

The following report summarises the basic principles of the Executive Board and Supervisory Board's remuneration systems.

REMUNERATION OF THE EXECUTIVE BOARD

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

In addition, Executive Board members Hon. Prof. Steyer and Mr Drews also each received 400,000 stock options in April 2015 under the 2015 Stock Option Programme resolved at the Annual General Meeting on 6 March 2015. By introducing this stock option programme, the Executive Board members who shape and implement the corporate strategy and are therefore largely responsible for the Company's development have an opportunity to share in the risks and rewards of DEMIRE's business. For details about the stock option programme, please refer to the notes to the consolidated financial statements. With Mr Drews's departure from DEMIRE's Executive Board effective 31 December 2017, a lump sum amount was paid to compensate for the stock options. Since that payment, the options have been fully cancelled. Prof. Steyer retains his stock options in accordance with his termination contract and may still exercise these options according to their terms and conditions.

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

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

The variable and fixed components of the remuneration of Executive Board members have maximum limits in terms of absolute value. As a rule, remuneration in excess of the amount intended for the remaining term of the employment contract is not granted. In the 2017 fiscal year, Mr Ralf Kind and Mr Markus Drews were granted special bonuses in the amount of EUR 300,000 and EUR 200,000, respectively, for their extraordinary service in connection with the issue of the 2017/2022 corporate bond in July 2017. For Mr Ralf Kind, another special bonus of EUR 150,000 is planned for his performance in 2017.

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

EXISTING EMPLOYMENT CONTRACTS

Mr Ralf Kind

On 17 February 2017, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG concluded a three-year contract with Mr Ralf Kind as a new member of the Executive Board starting 1 March 2017. In addition to an annual basic salary of EUR 230,000.00, which increased to EUR 250,000.00 on 1 July 2017, Mr Kind also receives performance- and success-based bonuses of up to EUR 125,000.00 per year, as well as a payment based on the Company's share price performance under a virtual stock option programme. The fixed portion of remuneration is paid out monthly in the form of a basic salary. As a member of the Executive Board, Mr Kind has a fixed-term employment contract.

Executive Board members each receive bonuses of 50% dependent on individual performance targets and 50% for reaching the performance targets set for the Executive Board as a whole. 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 three fiscal years that precede the year in which the bonus is to be paid. The bonus is paid pro rata according to target achievement.

An Executive Board member is 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 care and long-term care insurance in addition to the statutory employer contribution; contributions to a pension fund, if available; the continuation of the existing directors & officers liability insurance policy (D&O insurance); an accident and disability insurance policy under group accident insurance; continued remuneration in the case of an illness or accident; as well as death benefits.

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

The Executive Board contract of Mr Ralf Kind was adjusted in mid-April 2018 to ensure that from 1 January 2018 the annual base salary increases to EUR 360,000.00 and the performance- and success-related bonus is raised to EUR 180,000.00. The previously existing virtual stock option programme was also modified.

TERMINATED EMPLOYMENT CONTRACTS

(1) Hon. Prof. Andreas Steyer

In addition to his annual basic salary of EUR 250,000.00, Hon. Prof. Andreas Steyer received performance- and success-based bonuses of up to 50% of his basic annual salary p.a. in accordance with his Executive Board contract. His contract had been scheduled to expire in February 2019 but ended prematurely on 30 June 2017.

In accordance with the termination agreement dated 12 April 2017, the contractual claims of Mr Steyer until the end of 30 June 2017 were fully met, and he was granted 100% of the 2016 fiscal year bonus. As compensation for the loss of employment, the Company paid compensation to Mr Steyer in the amount of EUR 550,000.00, which became due on 30 June 2017 upon Mr Steyer's departure. The entitlements under the 2015 Stock Option Programme will remain unchanged after the termination of his employment.

(2) Mr Markus Drews

On 2 December 2015, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG revised Mr Drews's employment contract by extending it by the term for which he was reappointed to the Company's Executive Board. In addition to an annual basic salary of EUR 230,000.00, Mr Drews received a performance- and success-related bonus of up to EUR 125,000.00 per year. On 17 February 2017, the Supervisory Board extended the Executive Board contract of Mr Drews for another three years until the end of 2020. His annual basic salary was raised to EUR 250,000.00 as of 1 March 2017.

In accordance with the termination agreement dated November 2017, the contractual claims of Mr Drews until the end of 31 December 2017 were fully met, and he was granted a bonus of 100% for the 2017 fiscal year paid on 31 December 2017. As compensation for the loss of employment, the Company paid Mr Drews compensation of EUR 375,000.00. For the stock options granted under the 2015 Stock Option Programme and to compensate for his claims for stock appreciation rights under his Executive Board employment contract dated 22 February 2017, Mr Drews received a one-time compensation payment in the amount of EUR 590,000.00. Severance and compensation payments were due and paid on 30 November 2017.

REMUNERATION OF THE SUPERVISORY BOARD

The amount of Supervisory Board remuneration is determined by the Annual General Meeting and governed by Section 16 (Compensation) of the Articles of Association. The current remuneration remains valid until the Annual General Meeting resolves to revise it. The fixed remuneration payable annually as of the 2017 fiscal year was adjusted to EUR 30,000.00 by a resolution of the Annual General Meeting on 30 June 2016. The Supervisory Board's chairman receives three times the level of base remuneration and the vice chairman receives twice the level of base remuneration. Supervisory Board members who were not in office for a complete fiscal year receive compensation in accordance with the duration of their membership.

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

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

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

BENEFITS GRANTED	HON. PROF. ANDREAS STEYER, SPEAKER OF THE EXECUTIVE BOARD FROM 5 MARCH 2013 TO 30 JUNE 2017			
	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
in EUR thousands				
Fixed remuneration	125	125	125	250
Fringe benefits	8	8	8	17
Sum total	133	133	133	267
Variable remuneration (one-year)	0	0	63	125
Variable remuneration (multi-year)	0	0	0	0
Stock options	119	119	119	238
Sum total	252	252	315	630
Pension expenses	2	2	2	0
Severance payments	550	550	550	0
Total remuneration	804	804	867	630

BENEFITS GRANTED	MARKUS DREWS, SPEAKER OF THE EXECUTIVE BOARD FROM 1 JULY TO 15 NOVEMBER 2017, MEMBER FROM 1 DECEMBER 2014 TO 31 DECEMBER 2017			
	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
in EUR thousands				
Fixed remuneration	247	247	247	230
Fringe benefits	27	27	27	32
Sum total	274	274	274	262
Variable remuneration (one-year)	325	325	325	125
Variable remuneration (multi-year)	0	0	0	0
Stock options	158	158	158	238
Sum total	757	757	757	625
Pension expenses	5	5	5	2
Severance payments	375	375	375	0
Total remuneration	1,137	1,137	1,137	627

BENEFITS GRANTED	FRANK SCHAICH, MEMBER FROM 1 FEBRUARY TO 31 OCTOBER 2016			
	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
in EUR thousands				
Fixed remuneration	0	0	0	153
Fringe benefits	0	0	0	7
Sum total	0	0	0	160
Variable remuneration (one-year)	0	0	0	31
Variable remuneration (multi-year)	0	0	0	0
Stock options	0	0	0	0
Sum total	0	0	0	191
Pension expenses	0	0	0	0
Severance payments	0	0	0	222
Total remuneration	0	0	0	413

BENEFITS GRANTED	RALF KIND, SPEAKER OF THE EXECUTIVE BOARD SINCE 16 NOVEMBER 2017, MEMBER SINCE 1 MARCH 2017			
	FY 2017	FY 2017 (MIN)	FY 2017 (MAX)	FY 2016
in EUR thousands				
Fixed remuneration	202	202	202	0
Fringe benefits	10	10	10	0
Sum total	212	212	212	0
Variable remuneration (one-year)	554	300	554	0
Variable remuneration (multi-year)	0	0	0	0
Stock options	73	0	73	0
Sum total	839	512	839	0
Pension expenses	12	12	12	0
Severance payments	0	0	0	0
Total remuneration	851	524	851	0

Benefits paid during the fiscal year (in EUR)

BENEFITS GRANTED	HON. PROF. ANDREAS STEYER, SPEAKER OF THE EXECUTIVE BOARD FROM 5 MARCH 2013 TO 30 JUNE 2017	
	FY 2017	FY 2016
in EUR thousands		
Fixed remuneration	125	250
Fringe benefits	8	17
Sum total	133	267
Variable remuneration (one-year)	125	125
Variable remuneration (multi-year)	0	0
Stock options	0	0
Sum total	258	392
Pension expenses	2	0
Severance payments	550	0
Total remuneration	810	392

BENEFITS GRANTED	MARKUS DREWS, SPEAKER OF THE EXECUTIVE BOARD FROM 1 JULY TO 15 NOVEMBER 2017, MEMBER FROM 1 DECEMBER 2014 TO 31 DECEMBER 2017	
	FY 2017	FY 2016
in EUR thousands		
Fixed remuneration	247	230
Fringe benefits	27	32
Sum total	274	262
Variable remuneration (one-year)	325	125
Variable remuneration (multi-year)	0	0
Stock options	590	0
Sum total	1,189	387
Pension expenses	5	3
Severance payments	375	0
Total remuneration	1,569	390

BENEFITS GRANTED	FRANK SCHAICH, MEMBER FROM 1 FEBRUARY TO 31 OCTOBER 2016	
	FY 2017	FY 2016
in EUR thousands		
Fixed remuneration	0	153
Fringe benefits	0	7
Sum total	0	160
Variable remuneration (one-year)	0	0
Variable remuneration (multi-year)	0	0
Stock options	0	0
Sum total	0	160
Pension expenses	0	0
Total remuneration	0	160

BENEFITS GRANTED	RALF KIND, SPEAKER OF THE EXECUTIVE BOARD SINCE 16 NOVEMBER 2017, MEMBER SINCE 1 MARCH 2017	
	FY 2017	FY 2016
in EUR thousands		
Fixed remuneration	202	0
Fringe benefits	10	0
Sum total	212	0
Variable remuneration (one-year)	300	0
Variable remuneration (multi-year)	0	0
Stock options	0	0
Sum total	512	0
Pension expenses	12	0
Total remuneration	524	0

Report on risks, opportunities and outlook

RISK REPORT

RISK MANAGEMENT SYSTEM

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

The focus of risk management is securing liquidity and identifying and limiting risks from acquisitions, divestitures, redevelopment, as well as the rental and management of the real estate portfolio. Identified risks are quantified as best as possible. Given the DEMIRE Group's flat organisational structure, the Executive Board is directly involved in all major decisions. The Executive Board is also responsible for monitoring the implementation of the measures agreed upon to limit risk and ensuring adherence in the future. The flat hierarchy allows a risk management system with comparatively simple, transparent structures.

The risk management process is documented in a risk management handbook that is reviewed regularly and revised as necessary. A risk catalogue lists all of the significant risks DEMIRE is subject to or could be subject to in the future. Risks include strategic and operational factors, as well as events and actions that have a material impact on DEMIRE's existence, economic condition and achievement of its objectives.

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE FINANCIAL REPORTING PROCESS

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

The accounting processes are directed towards the achievement of the following goals:

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

DEMIRE Deutsche Mittelstand Real Estate AG, as the legal parent company, also prepares the consolidated financial statements. Impairment tests carried out centrally, particularly the market valuation of all properties by independent external experts, ensure the uniform and standardised application of the valuation criteria. The grouping and preparation of required data for the notes to the consolidated financial statements and the combined management report are also carried out at the Group level. These activities are preceded by the bookkeeping, the preparation of the annual financial statements, and the gathering of additional information from Group companies by the Group's own property management company DEMIRE Immobilien Management GmbH, as an internal service provider for the property companies, in accordance with uniform requirements.

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

Other essential tools include:

- Uniform accounting policies for the majority of Group companies
- A clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process
- The use of external specialists to the extent necessary to provide an expert opinion on the market value of real estate, among other things

Together with our external consultants and service providers, new laws, accounting standards and other official pronouncements are continuously analysed for their relevance and their impact on the annual and consolidated financial statements and the combined management report. The Group makes adjustments to Group accounting policies when necessary. In the 2017 fiscal year, this occurred to the extent required under new accounting provisions.

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

- The identification and analysis of key risk and control areas
- Monitoring and plausibility checks to monitor the processes and their results at the level of the Executive Board and the operational units
- Preventative control measures in finance and accounting and regarding 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 the accounting-related internal control and risk management system and measures necessary to eliminate any control weaknesses

Proven and established systems cannot completely rule out the occurrence of individual errors and violations and therefore cannot always fully guarantee the accurate, complete and timely recording of facts in Group accounting. Non-recurring business transactions harbour certain risk potential, particularly those involving a high degree of complexity and/or processing under extreme time pressure. The control risk through the use of external service providers has been counteracted as far as possible by internalising activities.

GENERAL RISK SITUATION

The Company's decision in 2013 to realign its focus towards the German commercial real estate market was successfully implemented through a large number of strategic investments. In 2016, the portfolio was analysed in detail and the properties identified as non-core real estate were sold, which had a markedly positive effect on the risk profile of the DEMIRE Group. As part of the annual real estate and budget planning, the properties are also divided into the real estate investment categories Core Plus, Value-Added and Redevelopment. Under the DEMIRE 2.0 strategy, certain properties were identified for the Redevelopment real estate investment category that will be repositioned on the market for further letting in the future following their comprehensive restructuring and modernisation. This is one example of how DEMIRE reacts proactively at an early stage to any potential changes in the earnings situation within its real estate portfolio. The share of real estate in the Redevelopment portfolio as a percentage of the overall portfolio as of the 31 December 2017 balance sheet date was 6.3% measured at market value. By simplifying the Group's structure and transferring project companies from abroad to Germany legal risks have also declined.

In the past 2017 fiscal year, the early prolongation of a promissory note loan in the amount of EUR 148 million at considerably better terms took place in February 2017 and the placement and tapping of the rated, unsecured 2017/2022 corporate bond totalling EUR 400 million were executed in July and September 2017. The financial risk was brought down significantly through the early refinancing of higher-interest liabilities using the proceeds from the corporate bond, and particularly as a result of the future lower average interest costs, the elimination of certain amortisation costs and covenants from former bank loans and an improvement in the average term of debt financing and liquidity.

INDIVIDUAL RISKS

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

Macroeconomic, market-related and sector risks

The DEMIRE Group's portfolio is exposed to a variety of macroeconomic, market-related and sector risks, as described below.

Macroeconomic risk

Macroeconomic changes may have a positive or negative impact on our net assets, financial position and results of operations. In Germany, moderate growth is expected again in 2018, which is expected to lead to a rise in employment accompanied by a demand for new office space. Private consumption led by rising wages and salaries will continue to be a growth driver of the German economy. This trend could also benefit our rental of retail space.

This favourable domestic climate, however, faces a number of global uncertainties. US-driven protectionist tendencies and the uncertain outcome of the Brexit negotiations may be particularly detrimental to EU economies as well as the global economy overall. Uncertainty about the global economy's further development could lead to economic instability, limited access to debt and equity or non-fulfilment of contractual obligations of tenants, and thereby have an adverse effect on the Company's net assets, financial position and results of operations.

We believe that a severe economic deterioration within the next twelve months is unlikely and therefore estimate the risk of a negative impact to be low.

Real estate market risk in Germany

DEMIRE Deutsche Mittelstand Real Estate AG holds commercial real estate mainly consisting of office and retail buildings in medium-sized cities and emerging peripheral areas of metropolitan areas throughout Germany. As a result, DEMIRE's business success depends significantly on the development of the German real estate market. In view of the sharp increase in rental levels in Germany, there is the risk that a further increase will not occur and a trend of declining rents may set in due to future negative economic conditions. There is generally the risk of a loss of value due to the fact that the DEMIRE Group's primary business exclusively involves German commercial real estate. Uncertainties on the part of tenants regarding Germany's future economic development could lead to a decline in demand, a drop in prices or rise in vacancies. Macroeconomic factors, such as expected levels of unemployment, inflation, interest rates, tax changes and investments, also affect tenants' willingness to conclude or extend their contracts. An increase in the current very low level of interest rates could reduce the demand for real estate in the short to medium term and make it more difficult to sell largely non-strategic real estate from DEMIRE's portfolio. The broad diversification through acquisitions of commercial real estate in almost all federal states in the 2015 and 2016 fiscal years has contributed to the fact that changes in specific locations have only a minor impact on the portfolio overall. The macroeconomic situation in Germany, along with a persistently low level of interest rates and generally positive corporate expectations, continues to support the favourable environment of the German real estate market.

We currently believe that there is a low probability of negative developments in the real estate market in 2018 and therefore estimate the risk of a negative impact to be low.

FINANCIAL RISK

Financing and liquidity risk

Liquidity management serves to ensure the Group's solvency at all times. Based on conservative assumptions, the funds necessary for the Group's operational management are planned and dispersed at the level of the Group companies and parent company. Liquidity is derived from the properties' current income less management, administrative and financing costs at the property-holding level and the Company level, as well as from the proceeds from Group companies in the form of dividends, profit distributions and withdrawals.

There is a risk that at some point during the year the Company may not have access to sufficient liquidity to meet its current obligations.

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

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

The funds available as of the balance sheet date and the cash flow planned for 2018 are sufficient for the current needs of the ongoing business activities.

Risks from covenant obligations

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

As of the balance sheet date, the LTVs of all of the Group's financial liabilities were clearly below the levels stipulated in the respective financing agreements. In the case of the promissory note loan and financing of Sihlegg Investments Holding GmbH, the DSCR complies with the capital coverage required by the respective agreements as of 31 December 2017.

In the event of borrowing or acquiring debt and the issuance of (preferred) shares by DEMIRE AG or its relevant affiliated companies, the terms and conditions of the 2017/2022 corporate bond also stipulate increasing requirements for the net total loan-to-value ratio ("net LTV"), the net secured LTV and the fixed charge coverage ratio ("FCCR") in order to ensure a minimum cash flow to finance interest and principal payments on existing liabilities.

As part of the bond placement, the internationally renowned rating agencies Standard&Poor's and Moody's issued a BB+ and Ba2 rating for the 2017/2022 corporate bond in July 2017 and confirmed this rating in September 2017 with the tapping of the bond. DEMIRE is required to comply with the conditions necessary to maintain the credit rating of the rating agencies.

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

Interest rate risk

The DEMIRE Group uses debt capital to finance German commercial real estate. Debt capital includes predominantly fixed and variable rate loans, as well as tradable instruments, including corporate bonds and financial instruments with conversion options in company shares. The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board.

For loans with variable interest rates, a rise in the interest rate leads to a burden for the Group. As of the balance sheet date, financial liabilities of EUR 652.8 million had fixed interest rates and EUR 42.1 million had variable interest rates. Upon repayment of the variable-interest financial liabilities in the third quarter of 2017, the corresponding interest rate hedges were also dissolved.

The interest rate level also has an impact on the acquisition price of newly acquired real estate. In addition, it plays a significant role in the valuation of investment properties. Given the expectations regarding the interest rate development for the next few years, the Executive Board estimates interest rate risk and the resulting effects on net assets, financial position and results of operations to be low.

Currency risk

There are no foreign currency risks for the existing portfolio of commercial real estate in Germany, as all business transactions are settled in EUR. The Executive Board estimates currency risk and the resulting effects on net assets, financial position and results of operations to be very low.

OPERATING RISK

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

Rental and property management risks

There are risks of rent reductions, delinquent rents and space vacancies. In addition, index-based rent increases may not always be fully enforced, delayed, or not enforced at all. Furthermore, in addition to revenue shortfalls, rental-related costs may arise (e.g. tenant incentives, expansion costs, payment of moving expenses, or rent-free periods). If DEMIRE were unable to lease its properties at attractive terms, this could have a negative impact on the Company's net assets, financial position and results of operations.

There is a risk that leases have formal defects and therefore agreements cannot be enforced or are void.

There is the risk of unexpected costs for maintenance and repairs or for adjustments of properties to modern requirements, also due to delays in the implementation, e.g. as the result of a delay in receiving the building permit, that may also cause a corresponding delay in the start of rental agreements and thus in the inflow of rental income.

Due to the tenant structure, there were no significant rental risks at the time the report was prepared, which had a direct impact on the earnings situation of the Group. In the 2017 fiscal year, 48.2% (31 December 2016: 47.8%) of contractual rents could be attributed to the ten largest tenants. There is, however, a dependency on a few tenants who provide a significant share of the rental income. Deutsche Telekom (GMG Generalmietgesellschaft mbH) is the largest tenant with a cumulative share of total contractual rents equal to 30.6% (31 December 2016: 30.1%) across several rental contracts and several property locations. If DEMIRE were not able to replace this tenant or another one of the largest ten tenants with a new tenant for the corresponding space after the end of the contract or its extraordinary termination, this would lead to a significant decline in rental income and thus have a significant negative effect on the Company's net assets, financial position and results of operations. The Executive Board estimates the risk from rental and property management risks and the resulting effect on the assets, financial position and results from operations as low to medium.

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 result in impairments, which could have a negative or, in some cases, significantly negative effect on the Group's profitability. This would not, however, have a direct impact on the Group's liquidity. The Executive Board estimates valuation risk and the resulting effects on net assets, financial position and results of operations to be low.

Acquisition risk

Part of the success of the Company depends on its ability to find suitable and strategic real estate or interests in real estate companies in economically attractive regions and of good condition, at reasonable prices and with solvent tenants. The lack of investment opportunities in real estate could drive up the price of such properties. In addition, availability depends on many (macro)economic factors beyond the Company's influence. In situations of scarce availability, the competition for real estate will be stronger, and competitors with greater financial resources and/or lower interest charges could be able to offer higher prices. Stronger competition for scarce resources can also result in a generally higher price level for real estate and thus have a negative effect on the Company's target to grow its real estate portfolio to EUR 2 billion.

There is the risk of unexpected costs for maintenance and repair measures or for adjustments of properties to modern requirements. These risks can also arise if the buyer is only able to carry out a limited technical due diligence due to the time pressure from the seller. Hidden damage can thus occur later or more comprehensively so that an appropriate warranty claim of the seller would not be possible or may not be enforced.

The acquisition of real estate, particularly portfolios of real estate, may lead to a mis-/overestimation of earnings and synergy potential, which may have a negative impact on the net assets, financial position and results of operations of the Company compared to the planning. The Executive Board estimates acquisition risk and the resulting effects on net assets, financial position and results of operations to be low.

Sales risk

After the sale of real estate, there could be buyer warranty claims if the real estate does not fulfil the promised characteristics, e. g. state of refurbishment, no contamination, or tenancy. These can have a negative effect on the net assets, financial position and results of operations of the Company. The Executive Board estimates the risks arising from sales risks and the resulting effects on net assets, financial position and results of operations to be low.

OTHER RISKS

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. Significant legal disputes that could pose a significant risk are currently not pending or foreseeable. Sufficient provisions have been recognised for ongoing legal disputes. Overall, the Executive Board estimates the legal risks and the financial impact on the net assets, financial position and results of operations as low.

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

Compliance risk

At the beginning of 2017, DEMIRE introduced a Group-wide Code of Conduct and conducted compliance training to deepen and clarify the guidelines and principles. However, our existing compliance processes and controls may not be sufficient to prevent deliberate unlawful behaviour by employees of the DEMIRE Group, which could harm DEMIRE's reputation and confidence in our business. In addition, if DEMIRE were unable to detect unlawful behaviour and take appropriate organisational and disciplinary action, sanctions and fines could be imposed which could adversely affect the Company's net assets, financial position and results of operations. The Executive Board estimates compliance risk and the resulting effects on net assets, financial position and results of operations to be low.

Tax risk

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

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

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

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

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

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

As a REIT, Fair Value REIT-AG is exempt from corporate and trade taxes. If Fair Value REIT-AG does not fulfil the above-mentioned requirements on a permanent basis, it may face penalties and – in the event of repeated non-compliance – the loss of the tax exemption and the withdrawal of its status as a German REIT. Under certain circumstances, this would lead to additional tax payments and significant outflows of liquidity, and could also lead to claims for compensation by small shareholders of Fair Value REIT-AG if the REIT status was lost. These can have a significant negative effect on the net assets, financial position and results of operations of the Company.

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

Personnel risk

The DEMIRE Group could lose members of the Executive Board or employees or be unable to replace them with sufficiently qualified staff in a timely manner. The Executive Board estimates personnel risk and the resulting effects on net assets, financial position and results of operations as low to medium.

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

OVERALL ASSESSMENT OF THE RISK SITUATION

The risk situation of the DEMIRE Group and the Company has fundamentally improved during the reporting period. This is essentially due to the prolongation of the promissory note and the placement and tapping of the unsecured corporate bond 2017/2022 at significantly better interest rates and the resulting improved liquidity position compared to prior debt financing, e.g. the LBBW loans, the A- and B-notes of Germavest and the corporate bond 2014/2019. These financing measures significantly reduced interest expenses and repayment obligations and the associated cash outflow. At the same time, the early repayment of the encumbered loans of Logistikpark Leipzig GmbH, Sihlegg Investments Holding GmbH and DEMIRE Objektgesellschaft Germavest GmbH (formerly Germavest Real Estate S.à r.l.) resulted in a substantial amount of real estate value being freed up from mortgage collateral. By further diversifying its funding sources, DEMIRE has greater flexibility for future growth. As part of the placement of its corporate bond, DEMIRE received its first rating from the recognised rating agencies Standard&Poor's and Moody's. As a result, DEMIRE has further expanded its visibility on the capital market. The current rating is BB/Ba2 with a stable outlook. DEMIRE aims for an investment grade rating in the medium term. This would allow the Company to finance its future growth by raising capital at attractive conditions.

According to current estimates, the Executive Board is not aware of any risks that could endanger the existence of the Company. The Company is convinced that it will be able to take advantage of the opportunities and challenges that arise in the future without having to incur unacceptably high risks.

OPPORTUNITIES REPORT

MACROECONOMIC AND SECTOR OPPORTUNITIES

The macroeconomic and sector-specific environment is currently favourable for DEMIRE and continues to offer good opportunities for the development of a value-creating real estate portfolio: Germany has a robust and healthy economic development. As a result, demand for commercial space is sustainably stable. The DEMIRE Group wants to use this favourable environment to further increase the value of the Company – through the careful and professional selection of additional real estate and active real estate management of the portfolio. We continue to see more opportunity than risk for our existing business as a result of Great Britain's decision to leave the European Union (Brexit vote). As part of the British exit process, international companies who have their European headquarters in the UK could be looking for alternatives in mainland EU countries. Germany, with the headquarters of the European Central Bank in Frankfurt am Main, offers – as it turns out – good opportunities.

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 it makes better use of intragroup real estate management and thereby reduces the costs in the everyday management of real estate.

The gradual insourcing of real estate management and corporate functions, as well as the associated streamlining and harmonisation of processes and IT structures, also provide economic benefits. Real estate management can reduce allocable costs and improve the direct contact with the tenant. If this leads to longer lease terms and chances of follow-up leases, fluctuation and vacancies will continue to decline.

In addition, the increased demand, especially for commercial space in the regions in which DEMIRE holds real estate, also offers opportunities for new lettings of the remaining vacancies.

FINANCIAL OPPORTUNITIES

DEMIRE plans to use the low interest rate environment to further reduce the average interest rate on debt. For this purpose, existing liabilities with comparatively high interest charges were replaced by more favourable refinancing in 2017.

At the same time, the financing options for future real estate acquisitions continue to be favourable and, from the Company's point of view, will remain so for the foreseeable future.

OVERALL ASSESSMENT OF DEMIRE'S OPPORTUNITIES

DEMIRE has laid the foundations for succeeding as one of the leading German commercial real estate holders with a balanced risk/reward profile and attractive operating cash flows. In the medium term, DEMIRE wants to offer its shareholders not only the prospect of value appreciation but also regular dividend payments. The Executive Board considers DEMIRE's opportunities as good to further increase its business volume and profitability in the coming years through planned internal and external growth as well as through a further simplification of the current Group structure and associated improved cost efficiency. For this purpose, the Executive Board adopted a comprehensive medium-term strategic plan, DEMIRE 2.0, in the past fiscal year 2017, which essentially includes the measures for the implementation of the next growth phase of the Company.

REPORT ON OUTLOOK

ECONOMIC CONDITIONS – GERMANY AHEAD OF AN ECONOMIC BOOM

DEMIRE Mittelstand Real Estate AG expects the general economic conditions for companies in the real estate industry to remain favourable overall in 2018. The current macroeconomic environment in Germany appears robust and should result in continued economic growth in 2018. Various institutions are forecasting gross domestic product growth in a range of approx. 2.0% to 2.6% for the year 2018. The Institute for the World Economy (IfW) expects GDP growth in Germany to reach around 2.5% in the current year and 2.3% in 2019. The unemployment rate is expected to fall below 5%, and the inflation rate is anticipated to reach 2%. Domestic demand and foreign trade are to remain the driving forces of the German economy, even though the economic momentum among trading partners is likely to weaken somewhat over the forecast period. The IfW expects exports to increase a further 6.2% in 2018 and another 4.8% in 2019. Private consumption is also set to rise again strongly in light of the further improvement in the labour market and the tax reductions and higher benefits contained in the coalition agreement of the new German government. The IfW expects private consumption to increase by 1.7% this year and by another 2.2% next year – the highest level since 1999 – due to measures planned by the federal government. Next year's increase will be due primarily to the fiscal policy measures planned by the new federal government, which among others provide for a reduction in the contribution rate to unemployment insurance, better mothers' benefits (Mütterrente II) and building allowances for families with children, in addition to a range of investments and programmes in the areas of infrastructure, education and employment. Above all, these changes are expected to result in an increase in the disposable income of private households.

Based on the above factors, the long-lasting upswing should continue with the German economy approaching boom territory. In the medium term, the IfW sees limits on further growth in economic output increasingly due to bottlenecks in capacity. Although corporations are increasing their investments, this will only be able to provide limited relief to the shortage in production capacity. Financing conditions will remain very favourable for the foreseeable future, and the expected turnaround in interest rates is likely to provide even more fuel for credit demand in the near term.

Since the beginning of 2018, the global economy has been experiencing a strong upswing that is expected to peak sometime next year. At 3.9%, world output last year achieved its highest growth rate (calculated in terms of purchasing power parities) since 2011 and is expected to increase by another 4.0% in the current year and a further 3.8% in 2019. Experts raised their forecasts by 0.1 and 0.2 percentage points, respectively, for the years 2018 and 2019, mainly due to the tax reforms adopted by Donald Trump. At the same time, economic sentiment has deteriorated somewhat recently due to growing uncertainty over the expected pace of monetary tightening in the US and concerns over the US president's punitive tariffs.

SECTOR PERFORMANCE – POSITIVE TREND TO CONTINUE IN 2018

The business development of DEMIRE is significantly influenced by the development of the real estate sector, particularly the commercial real estate market in which the Company operates. The general conditions for German commercial real estate in the investment and rental markets continued to be positive throughout the year 2017. The key drivers were the low level of interest rates, the booming economy, as well as strong rental markets that created vigorous demand for investment products.

Transaction market for commercial real estate

According to the real estate services company JLL, the transaction volume on the German commercial real estate market of approx. EUR 56.8 billion in 2017 not only reached the recent record set in 2015 but even managed to exceed it by EUR 1.7 billion, an increase of 7% compared to the prior year.

Expectations for the year 2018 are overwhelmingly positive. All indicators point to a continuation of the boom in real estate. The macroeconomic forecasts, which were recently revised higher, signal further growth. Consequently, rental markets remain strong, supported by corporate investment. A key criterion for real estate investors is and remains the question of a medium-term increase in interest rates and the consequences of this increase for the investment market. According to JLL, however, a real rate hike is not expected before the middle to end of 2019. Demand on the transaction market is still evident and intact, fuelled by the continued and significantly positive yield spread of investments in real

estate relative to government bonds. This spread should narrow in the medium term not only as a result of declining real estate yields but due to rising bond returns. As the yield spread narrows further, traditional bond investors, such as insurance companies, are likely to turn slightly more to the bond market.

Office real estate market

Employment growth is boosting demand for business space and directly affecting the office rental markets in the services sector. The space turnover in the Top 7 locations reached a level of roughly 4.2 million m² in 2017, a rise of almost 7%, placing it once again above the previous year's record level. Based on an analysis of 15 locations (incl. the Top 7 locations Berlin, Hamburg, Cologne, Dusseldorf, Frankfurt, Stuttgart and Munich) and other selected "B" locations (Bremen, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Magdeburg and Nuremberg), the real estate experts at the German real estate group DIP identified a decline in the average vacancy rate of the 15 DIP markets, which fell from 5.9% at the end of 2016 to 4.9% at the end of 2017. Given the steady, high rate of net absorption of space, DIP forecasted a decline of about 1.1 million m² in the total volume of short-term available office space to a level of 5.5 million m² in 2017 in the 15 German markets analysed.

The DIP experts are again expecting higher-than-average demand for office space in 2018, given the dynamic economic development, which will meet with a very narrow market that will be undergoing a further reduction in vacancy rates and a high absorption of modern, competitive office space. JLL also expects the rental market to maintain its momentum in 2018; however, due to a lack of sufficiently available new, modern space, the market is not expected to approach the level achieved in the year 2017.

Retail real estate market

According to DIP, the strong interest of investors and retail tenants, specifically in top locations located in the most sought-after cities and growth centres, will persist. This long-term dynamic trend is anticipated to be fuelled largely by the positive development in private household incomes. In December 2017, the GfK consumer confidence index reached a level of 10.7, which was the highest level achieved in the month of December over the past 15 years. Germany's favourable domestic environment, the labour market, income trends and very low average inflation in recent years, combined with the European Central Bank's low interest rates, were responsible for this comparatively high level of consumption. Thus, Germany will continue to remain the most important retail market in Europe in 2018. The ever-increasing volume of online retail sales (growth of 10% in 2017 to around EUR 49 billion), coupled with a certain level of market saturation from a general lack of product differentiation, has led to a moderate decline in the growth momentum of traditional retailers in recent years. In Germany, the share of brick-and-mortar retailing to total retail sales is still around 90%. Compared to the Top 7 locations, DIP found that prime retail rents are also stable overall in the other locations that were analysed. DIP's real estate experts anticipate a further contraction in prime yields in 2018 to a very low level due to the continued potential for value appreciation and allure of retail real estate at a time when market supply remains low.

Logistics real estate market

According to DIP, estimates and market forecasts are assuming an average growth rate in online sales of roughly 8% p.a. until 2021. This shows that the growth in online sales is expected to be far higher than that of brick-and-mortar retailers, which are projected to reach an average growth rate of just 0.6% p.a. over the same period. This striking dynamic can already be seen today in the high demand for logistics space. At around EUR 8.8 billion, the transaction volume for logistics real estate in 2017 exceeded the previous year's result by around 87% (2016: EUR 4.7 billion) and accounted for over 15% of the total turnover of commercial real estate investments. The high demand for ultra-modern space is leading to a rise in project developments that usually only occurs to a limited extent as a result of speculation when markets have a high degree of pre-lettings. The growing share of higher-quality new buildings and the tight

market are also leading to higher rents at both top and “B” locations. The price level for top properties picked up in the course of 2017, bringing yields significantly below 5%. Based on the average of the 15 DIP locations analysed, the prime yield in 2017 was 5.6%, or around 50 bp below the previous year’s level (2016: 6.1%). Looking ahead, DIP’s real estate experts expect to see a further narrowing of the yield spread between logistics investments and commercial buildings due to recent developments, the strong growth of online retailing, and the rising number of modern properties being completed.

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

DEMIRE Deutsche Mittelstand Real Estate AG expects conditions to be stable to good overall in the 2018 fiscal year. As a result, DEMIRE expects its positive business performance to continue.

The Company’s focus is on further implementing the DEMIRE 2.0 strategy. Since DEMIRE started pursuing this strategy in July 2017, it has seen a significant improvement in its key figures. Rental income has remained stable, despite the sale of non-strategic real estate. The decline in rental income as a result of the sale of properties was largely offset by a high level of lettings and a reduction in vacancies. The EPRA vacancy rate of the real estate portfolio was reduced by 220 bp to 9.4% within one year (31 December 2016: 11.6%). Funds from operations (FFO I, before minorities, after taxes) increased significantly year-on-year by EUR 3.6 million to EUR 11.7 million thanks to the positive effects of the DEMIRE 2.0 strategy.

In addition to expanding its portfolio, DEMIRE also plans to further optimise its portfolio in the 2018 fiscal year, by making selective sales and further reducing vacancies in the real estate portfolio. The successful refinancing of various liabilities through the placement of a EUR 400 million corporate bond at considerably better terms in 2017 will lead to a significant increase in cash flows in the 2018 fiscal year. With the tax improvements implemented at the end of 2017, the Company has also realised the potential for continued sustainable earnings. Management’s focus will now be on the growth expected in the current fiscal year, as the Company achieves its primary goal of raising the volume of its portfolio to EUR 2 billion over the next 12 to 18 months. To do so, DEMIRE will receive support from its new strategic investor, Apollo Global Management, and its fellow anchor shareholder, Wecken&Cie. With this support, DEMIRE is confident that it will be able to continue expanding its earnings base and profitability by permanently improving the cost structure of its in-house real estate management and within its Group subsidiaries.

DEMIRE Deutsche Mittelstand Real Estate AG’s overall results in the 2018 fiscal year are therefore expected to be characterised by rental income from the real estate portfolio, a net increase in the portfolio from transactions (particularly acquisitions) and a further improvement in its cost base.

EXPECTED DEVELOPMENT OF DEMIRE’S KEY PERFORMANCE INDICATORS

The economic sector forecasts suggest that the commercial real estate market in Germany and, consequently, DEMIRE Deutsche Mittelstand Real Estate AG’s business can look forward to a continued positive environment – also in the segment of secondary locations in Germany, which is DEMIRE’s focus.

Taking into account the properties already sold and expected to be sold, DEMIRE plans to generate rental income of between approx. EUR 71 and 73 million in the 2018 fiscal year from the letting of real estate held in its portfolio as of 31 December 2017. This forecast does not take into consideration the effects of any acquisitions planned in 2018. Active real estate management and an improvement in vacancy rates through efficient investment are also expected to support a rise in rental income. Based on the rental income expected and the positive effects already recognised from the implementation of the first milestones of the DEMIRE 2.0 strategy in the 2017 fiscal year, DEMIRE expects sharply higher FFOs in 2018. The significant drop in current interest expenses and successful optimisation of the Group's tax structure at the end of 2017 will lead to an increase in the expected funds from operations (FFO I, before minorities, after taxes) to a range of EUR 16 to 18 million in the year 2018. Real estate acquisitions during the current 2018 fiscal year may also lead to a further rise in the FFO forecast during the fiscal year.

DEMIRE also plans to achieve further milestones under its DEMIRE 2.0 strategy, such as a further reduction in its net loan-to-value ratio (net LTV) from 60.1% at the end of December 2017 to a level approaching 50%, which would enable it to qualify for an investment grade rating and finance its future growth at more favourable financing conditions. Should the Company achieve its operating targets for growth and the optimisation of the portfolio as planned, DEMIRE believes this will broaden the potential for net value appreciation in its real estate portfolio and lead to an expansion in its net asset value (NAV). DEMIRE will also strive in the medium term to be capable of paying a dividend in the years ahead.

THE ASSESSMENT OF DEMIRE'S FUTURE DEVELOPMENT IS BASED ON THE FOLLOWING ESSENTIAL ASSUMPTIONS:

- The German economy, and specifically the real estate market, labour market and related consumption, should remain robust
- Brexit will not have a significant negative impact on the economy in Germany or the eurozone
- The eurozone and Germany will not be negatively or sustainably influenced by geopolitical upheavals in the global economy or on the capital markets
- Central banks will not significantly increase key interest rates
- There will be no material tightening of credit institutions' requirements for providing transaction financing or refinancing
- There will be no major changes in the conditions for financing on the capital market
- There will be no significant changes in the taxation of real estate investments
- There will be no unforeseen regulatory changes affecting DEMIRE's business
- The risk of rental loss, e.g. due to bankruptcies, will remain low

Acquisition-related information

COMPOSITION OF SUBSCRIBED CAPITAL

a) As of 31 December 2017

As of 31 December 2017, the Company had fully paid-up subscribed capital in the amount of EUR 54,270,744.00 divided into 54,270,744 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 13,000 no-par value bearer shares were not recorded in the commercial register until the beginning of February 2018. The shares of DEMIRE Deutsche Mittelstand Real Estate AG have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

An increase of 23,800 shares resulted from conversions of the 2013/2018 convertible bond. Following the exercise of conversion rights of the 2013/2018 convertible bond and the issue of 23,800 new shares from Conditional Capital I/2013, the Company's share capital is conditionally increased by up to an amount of EUR 6,261,288.00, divided into a maximum of 6,261,288 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 23,800 bonds in the reporting period, the remaining number of conversion rights equalled 10,613,963. The purpose of the conditional capital increase was 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 23 October 2013.

b) Development after 31 December 2017

On 26 February 2018, with the approval of the Supervisory Board, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved to increase the Company's share capital from authorised capital by an amount of EUR 5,425,774.00, bringing the total from EUR 54,270,744.00 to EUR 59,696,518.00 by issuing 5,425,774 new, no-par value bearer shares with a notional interest of EUR 1.00 each and full dividend entitlement as of 1 January 2017 (the "new shares") in exchange for a cash contribution and excluding the subscription rights of the Company's shareholders. The capital increase was entered in the commercial register on 5 April 2018.

Without a prospectus, the new shares are to be admitted to trading on the Regulated Market of the Frankfurt Stock Exchange and at the same time to the subsegment of the Regulated Market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. AEPF III 15 S.à r.l., a holding company owned by Apollo European Principal Finance Fund III – both subsidiaries of Apollo Global Management LLC – has committed itself in a subscription agreement to fully subscribe to the new shares.

On 1 March 2018, BRH Holdings GP, Ltd., Cayman Islands, notified DEMIRE Deutsche Mittelstand Real Estate AG, that the voting rights of BRH Holdings GP, Ltd., and its controlled subsidiaries (the "Notifying Parties") exceeded the threshold of 30% on 26 February 2018 and amounted to 32.19% (17,471,893 voting rights) on that day.

The Notifying Parties also informed DEMIRE Deutsche Mittelstand Real Estate AG on 2 March 2018 that their voting rights exceeded the 50% threshold on 28 February 2018 and amounted on that day to 59.12% (32,084,524 voting rights).

In accordance with Section 43 (1) of the German Securities Trading Act (WpHG), the Notifying Parties have informed DEMIRE Deutsche Mittelstand Real Estate AG on 26 March 2018 as follows in connection with these notifications:

1. On 26 February 2018, AEPF III 15 S.à r.l., a subsidiary of BRH Holdings GP, Ltd., has published the attainment of control pursuant to Section 35 (1) sentence 1 in conjunction with Section 10 (3) sentences 1 and 2 of the German Securities Acquisition and Takeover Act (WpÜG)) and announced that it will offer to the shareholders of DEMIRE Deutsche Mittelstand Real Estate AG to acquire their no-par value bearer shares in DEMIRE Deutsche Mittelstand Real Estate AG in a mandatory offer (the “Mandatory Offer”).
2. The investment is aimed at implementing strategic objectives.
3. It is intended to acquire further voting rights by means of purchase in the course of the Mandatory Offer and otherwise.
4. It is intended to exert an influence on the issuer’s administrative, management and supervisory bodies.
5. It is intended to change the capital structure by increasing the equity ratio. A change of the dividend policy is not intended.
6. The acquisition of the voting rights was partly achieved by way of attribution within the meaning of Section 34 (2) WpHG (Acting in Concert), and, in this respect, neither own funds nor borrowings were required. The acquisition of the voting rights directly held by AEPF III 15 S.à r.l. was financed with their own funds.

In accordance with Section 43 (1) of the German Securities Trading Act (WpHG), shareholders Klaus Wecken, Ferry Wecken and Ina Wecken have notified DEMIRE Deutsche Mittelstand Real Estate AG on 3 April 2018 of the following:

1. The investment is aimed at implementing strategic objectives.
2. It is intended to acquire further voting rights in DEMIRE Deutsche Mittelstand Real Estate AG in the next twelve months by means of purchases or otherwise.

3. It is intended to exert an influence on DEMIRE Deutsche Real Estate AG’s administrative, management and supervisory bodies.
4. A significant change of the capital structure of DEMIRE Deutsche Mittelstand Real Estate AG, in particular with regard to the debt/equity ratio is intended. A change of the dividend policy is intended insofar as an improvement of the operating results shall be achieved in order to make future distributions possible.
5. The acquisition of the voting rights was partially achieved by way of attribution within the meaning of Section 34 (2) WpHG (Acting in Concert) and, in this respect, neither their own funds nor borrowings were required. The acquisition of the voting rights directly held was financed by own funds.

Prior to the publication of the Annual Report, 30,160 conversion rights were exercised, and 30,160 new no-par value bearer shares were created.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

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

DIRECT OR INDIRECT CAPITAL INTERESTS THAT EXCEED 10% OF THE VOTING RIGHTS

a) As of 31 December 2017

On 31 December 2017, the following DEMIRE Deutsche Mittelstand Real Estate AG shareholders held interests in the Company representing more than 3%, 5% or 10% of the voting rights:

- Mr Klaus Wecken held a total of 28.98% 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 9.98% of the shares through interests in Jägersteig Beteiligungs GmbH, Försterweg Beteiligungs GmbH and Obotritia Beteiligungs GmbH.
- Mr Günter Walcher held a total of 5.56% of the shares through his interest in M1 Beteiligungs GmbH.
- Mrs Sigrid Wecken held a total of 5.00% of the shares.
- Mr Willem Rozendaal held a total of 4.67% of the shares through his interest in Alpine Real Estate Invest GmbH.
- Ketom AG held a total of 4.03% of the shares.

On 31 December 2017, the Company was not aware of any further notifications of direct or indirect interests that exceeded 3%, 5% or 10% of the voting rights.

b) Development after 31 December 2017

The 5,425,774 new shares from the 10% capital increase approved on 26 February 2018 are to be admitted for trading without a prospectus on the Regulated Market of the Frankfurt Stock Exchange and, at the same time, the subsegment of the Regulated Market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. AEPF III 15 S.à r.l., a holding company owned by Apollo European Principal Finance Fund III – both subsidiaries of Apollo Global Management LLC (“Apollo managed funds”) – has committed itself in a subscription agreement to fully subscribe to the new shares.

The Company was notified by Apollo managed funds that they currently hold 150,000 shares, which corresponded to an interest of approx. 0.28% of the share capital at that time, and have concluded purchase agreements for the acquisition of 1,089,061 shares. In connection with the capital increase, Apollo managed funds has entered into a cooperation agreement with the major shareholder of the Company, Wecken&Cie. (“Wecken”), as well as with a subsidiary of Wecken&Cie. and with members of the Wecken family (together with Wecken, the “Wecken Group”), which together hold 29.91% of the current share capital and convertible bonds, which after exercise of the conversion right entitle the holder to acquire a further 10.23% of the share capital as of 26 February 2018. As a result of its obtained control over the Company, Apollo managed funds on 26 February 2018 announced to publish a mandatory tender offer to the shareholders of the Company to acquire all shares of the Company at a price of EUR 4.35 per share. The offer document was published on 16 April 2018 at www.aepf-mandatory-offer.de/en/.

Due to the attribution of voting rights as defined by Section 34 WpHG, Mr Klaus Wecken with 42.42% and Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd, with 32.19% each reported on 26 February 2018 that they have exceeded the 30% threshold. As of 27 February 2018, Mr Klaus Wecken controlled 46.06% and ODDO BHK Asset Management SAS 3.84% of the voting rights due to the attribution of voting rights as defined by Section 34 WpHG. As of 28 February 2018, Mr Klaus Wecken, Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd., each controlled 59.12% of the voting rights and exceeded the 50% threshold due to the attribution of voting rights as defined by Section 34 WpHG.

On 29 March 2018, Mrs Sigrid Wecken notified the Company that her voting rights had fallen below the threshold of 5% and amounted to 4.99%.

In the context of the published offer document at www.aepf-mandatory-offer.de/en/, the bidder AEPF III 15 S.à r.l. has given notification that it and the members of the Wecken Group together at the time of publication of the Mandatory Offer held 37,928,711 DEMIRE shares. This number corresponds to approx. 63.51% of the current voting rights and share capital of DEMIRE AG.

Further notifications regarding direct or indirect shareholdings exceeding 3%, 5% and 10% of the voting rights were not available to the Company at the time of publishing this report.

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

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

Such interests do not exist.

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

Appointment and replacement of Executive Board members

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

Amendments to the 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 relate to their wording only. The Supervisory Board is also authorised to amend the wording of Section 5 of the Articles of Association with respect to the amount and composition of the share capital in correspondence with the scope of capital increases from authorised capital.

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised capital

a) As of 31 December 2017

Based on the resolution of the Annual General Meeting of 29 June 2017, Authorised Capital I/2016 amounting to EUR 19,722,889.00 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 27,128,872.00 (Authorised Capital I/2017) by issuing up to 27,128,872 new, no-par value bearer shares against contribution in cash and/or in kind once or several times in partial amounts until 28 June 2022. Shareholders are generally entitled to subscription rights. The new shares can also be subscribed for by one or several banks with the obligation to offer the new shares to shareholders for subscription. With the Supervisory Board's consent, the Executive Board is authorised to exclude shareholder subscription rights for fractional amounts, 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.

b) Development after 31 December 2017

On 26 February 2018, with the consent of the Supervisory Board, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved to increase the Company's share capital from authorised capital by EUR 5,425,774.00 from EUR 54,270,744.00 to EUR 59,696,518.00 by issuing 5,425,774 new, no-par value bearer shares with a notional interest in the share capital of EUR 1.00 each and full dividend entitlement as of 1 January 2017 (the "new shares") against cash contribution and by excluding shareholders subscription rights. The capital increase was entered in the commercial register on 5 April 2018. Following this partial utilisation, Authorised Capital I/2017 amounts to EUR 21,703,098.00.

There were no changes from 31 December 2017 to the time the Annual Report was published.

Conditional capital**a) As of 31 December 2017**

Following the exercise of conversion rights from the 2013/2018 convertible bond from conditional capital, the Company's capital is conditionally increased in an amount of up to EUR 6,261,288.00, divided into a maximum of 6,261,288 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 23 October 2013. A total of 13,000 shares arising from the exercise of conversions rights were not yet recorded in the commercial register as of 31 December 2017.

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

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

Based on the resolution of the Annual General Meeting of 29 June 2017, Conditional Capital II/2016 in the amount of EUR 14,359,523.00 and divided into a maximum of 14,359,523 no-par value bearer shares and the related provisions of Section 5 (7) of the Articles of Association were cancelled. At the same meeting, Conditional Capital I/2017 of up to EUR 16,854,584.00 and divided into a maximum of 16,854,584 new, no-par value bearer shares was created with the corresponding amendment made in the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments) that were issued or will be issued (i) based on the authorisation resolved by the Annual General Meeting of 28 August 2015 under Agenda Item 8 to grant convertible bonds and/or bonds with warrants and/or (ii) the authorisation resolved 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 option 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 I/2017 will be carried out only to the extent that the holders or creditors of conversion or option rights exercise these rights or to the extent that holders meet their conversion obligation, unless a cash settlement is granted or own shares or shares created from authorised capital are used for servicing. The shares will participate in profits as of the start of the previous fiscal year provided they are created as a result of exercise before the start of the Company's Annual General Meeting, or otherwise, as of the start of the fiscal year in which they were created from the exercise of subscription rights. With the Supervisory Board's consent, the Executive Board is authorised to determine the further details of the conditional capital's execution.

b) Development after 31 December 2017

Prior to the publication of the Annual Report, a total of 30,160 convertible bonds were converted into no-par value shares of DEMIRE Deutsche Mittelstand Real Estate AG.

Authorisation to issue convertible bonds or bonds with warrants

By resolution of the Annual General Meeting of 23 October 2013 and with the consent of the Supervisory Board, the Executive Board is authorised to issue bearer and/or registered convertible bonds and/or bonds with warrants on one or several occasions until 30 September 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 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 to holders or creditors of bonds. The option or conversion rights can be serviced using existing or future conditional or authorised capital, existing or own shares or a shareholder's shares. They can be issued by Group companies or against contribution in kind. The shareholders are entitled to subscription rights that can be excluded in the event of fractional amounts, an issue in exchange for cash if the option or conversion rights do not exceed 10% of the share capital, in the event the issue price of the bonds is not materially below their market value and in order to grant holders of option and/or conversion rights with subscription rights in the case of a contribution in kind. Based on the authorisation of the Annual General Meeting and with the Supervisory Board's consent, the Executive Board has issued convertible bonds for a total nominal amount of EUR 26,300,000.00 with conversion rights – subject to an adjustment due to 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 unutilised nominal amount of up to EUR 23,700,000.00 was cancelled with a resolution of the Annual General Meeting of 28 August 2015. 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).

The Executive Board's authorisation by resolution of the Annual General Meeting of 28 August 2015 under Agenda Item 7 to issue – with the consent of the Supervisory Board – convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds with a total value of up to EUR 125,000,000.00 was cancelled with the resolution of the Annual General Meeting on 29 June 2017. At that same Annual General Meeting, the Executive Board was authorised with the approval of the Supervisory Board to grant 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 28 June 2022 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 option rights for no-par value bearer shares in 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.

Authority to purchase treasury shares

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

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

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

The volume of the offer may be limited. If the total subscription to the offer exceeds this volume, acceptance takes place on a pro rata basis. 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.

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

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

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

In the event a majority of the Company voting rights are purchased by a third party, Mr Ralf Kind (Executive Board member since 1 March 2017) has the extraordinary right to terminate his contract. 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, Mr Kind will receive the existing contractual entitlement for the remainder of his term of office in the form of a one-time compensation payment based on the remuneration paid in the last full calendar year prior to his resignation, but not exceeding two years' remuneration. 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 the stock options is the value at the time the change of control becomes effective.

Corporate Governance Report / Corporate Governance Statement

On 12 April 2018, the Company's Executive Board submitted its Corporate Governance Statement pursuant to Sections 315d and 289f HGB and made it generally and permanently accessible in the section "Company" under "Corporate Governance" on its website at www.demire.ag.

Management report for 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 2017 fiscal year, it generated revenue from providing or receiving management services from the project companies. The number of employees, excluding Executive Board members, increased in the reporting year to an average of 20 (previous year: 13).

The Company's annual financial statements as of 31 December 2017 were prepared in accordance with the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). Supplementary regulations from the Articles of Association did not arise.

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

Results of operations

In the 2017 fiscal year, DEMIRE Deutsche Mittelstand Real Estate AG incurred a net loss of EUR 45.6 million.

STATEMENT OF INCOME (EXCERPT) in EUR thousands	01/01/2017 -31/12/2017	01/01/2016 -31/12/2016	CHANGE	IN %
Revenue	7,104	5,774	1,330	23.0
Other operating income	2,366	3,117	-751	-24.1
Staff costs	-5,159	-2,562	2,597	>100
Other operating expenses, depreciation & amortisation	-11,356	-9,328	2,066	22.2
Income from investments	56	658	-602	-91.5
Income from loans	14,742	12,303	2,439	19.8
Impairment of financial assets	-10,522	-1,035	9,487	>100
Financial result	-38,582	-6,814	-31,768	>100
Result before taxes	-45,627	-9,510	-36,117	>100
Income taxes and other taxes	0	286	286	n/a
Net loss	-45,769	-9,224	-36,545	>100

The Company's revenue was generated primarily from management fees in connection with transaction-related and ongoing advisory services for Group companies which generally amounted to 2% of the interests' acquisition costs and 1% of the loans granted in the case of new acquisitions concluded before 2015. Since 2016, the fees have been calculated based on the services rendered to the respective company based on predetermined criteria (such as real estate value, rental income, lettable space, etc.). Revenue amounted to EUR 7.1 million in the reporting period, which was more than 20% higher than the previous year's level of EUR 5.8 million.

Other operating income contains primarily income from the premium of the bond amounting to TEUR 1,625.

Staff costs increased to EUR 5.2 million (2016 fiscal year: EUR 2.6 million). The rise in staff costs resulted from severance payments made to the two departing Board members in 2017 and was also due to additional new hirings in the context of the business expansion.

Other operating expenses and depreciation/amortisation increased by TEUR 2,066 to EUR 11.4 million. The exceptionally high expenses in 2017 resulted from one-time consulting and service fees directly related to repayments and refinancing, as well as ancillary financing costs in connection with the new 2017/2022 corporate bond, including the full repayment of a EUR 32 million loan, which caused additional ancillary financing costs.

Income from loans of financial fixed assets totalling EUR 14.7 million related exclusively to loans granted to affiliated companies for the financing of the acquisition of real estate companies and real estate by subsidiaries and sub-subsidiaries of the Company. The financial result in the 2017 fiscal year amounted to EUR –38.6 million (2016 fiscal year: EUR –6.8 million). Financial liabilities raised by DEMIRE AG were generally passed on to subsidiaries and sub-subsidiaries with a marked-up interest rate, and existing loans were repaid prematurely.

Impairment of financial assets in the reporting year amounted to EUR 10.5 million (2016 fiscal year: EUR 1.0 million).

In the 2017 fiscal year, a total loss of EUR 19.6 million (2016 fiscal year: EUR 3.5 million) was assumed based on the recently concluded profit transfer and control agreements between DEMIRE AG and DEMIRE Commercial Real Estate GmbH, DEMIRE AG and DEMIRE Commercial Real Estate VIER GmbH, DEMIRE AG and DEMIRE Condor Properties GmbH, DEMIRE AG and DEMIRE Commercial Real Estate ZWEI GmbH, and DEMIRE AG and DEMIRE Commercial Real Estate DREI GmbH.

The result before taxes totalled a loss of EUR 45.6 million compared to a loss of EUR 9.5 million in the 2016 fiscal year, due to higher acquisition-related expenses and increased impairment of financial assets.

Financial position

The Company's financial management is carried out 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) were upheld during the fiscal year and as of the balance sheet date.

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 EUR thousands	01/01/2017 -31/12/2017	01/01/2016 -31/12/2016	CHANGE	IN %
Cash flow from operating activities	-61,198	18,775	-79,973	>100
Cash flow from investing activities	-181,891	-43,143	-138,748	>100
Cash flow from financing activities	272,917	23,327	249,590	>100
Net change in cash and cash equivalents	29,828	-1,041	30,869	>100
Cash and cash equivalents at the end of the period	30,116	288	29,828	>100

Operating activities resulted in a cash outflow of EUR 61.2 million after a cash inflow of EUR 18.8 million in the 2016 fiscal year. The main drivers of this development were interest payments for debt and compensation for debt restructuring. The repayment of liabilities also led to a significant reduction in cash flow from operating activities.

The cash outflow from investing activities increased due to the higher level of loans granted to affiliated companies. The volume of loans granted significantly exceeded the repayments of affiliated companies.

A new corporate bond was issued in the 2017 fiscal year. The proceeds of this placement were used to refinance and repay existing loans. As a result, cash flow from financing activities increased significantly compared to the previous year.

In the 2017 fiscal year, DEMIRE AG was able to meet all of its payment obligations. The payment obligations could not be financed from the cash flow from operating activities.

Net assets

BALANCE SHEET - ASSETS (Selected information in EUR thousands)	31/12/2017	31/12/2016	CHANGE	%
Assets				
Fixed assets	472,257	331,000	141,257	42.7
Current assets/prepaid expenses	61,424	34,972	26,452	75.6
Total assets	533,681	365,972	167,709	45.8

BALANCE SHEET - EQUITY AND LIABILITIES (Selected information in EUR thousands)	31/12/2017	31/12/2016	CHANGE	%
Equity and liabilities				
Equity	73,573	119,318	-45,745	-38.3
Provisions	1,804	4,602	-2,798	-60.8
Liabilities	458,304	242,052	216,252	89.4
Total equity and liabilities	533,681	365,972	167,709	45.8

The Company's total assets as of the 31 December 2017 reporting date amounted to EUR 533.7 million. This corresponds to an increase of EUR 167.7 million or around 46% compared to the previous year's figure of EUR 366.0 million.

Fixed assets increased in the fiscal year mainly due to the loan granted to Demire Objektgesellschaft Germavest GmbH in the amount of EUR 94.0 million (previous year: EUR 0 million) and loans granted to Kurfürster Immobilien GmbH in the amount of EUR 35.6 million (previous year: EUR 0 million).

Current assets, including prepaid expenses, increased by EUR 26.5 million to EUR 61.4 million compared to their level of EUR 35.0 million as of 31 December 2016. Cash and cash equivalents of EUR 30.1 million represented the largest single item under current assets. The increase in current assets was mainly attributable to the rise in cash and cash equivalents through the placement and tapping of the 2017/2022 corporate bond. A compensating effect on current assets resulted from the offsetting of receivables from affiliated companies against liabilities to these companies. As a result, DEMIRE AG reduced its receivables by approx. EUR 11 million.

Prepaid expenses rose by EUR 3.3 million to EUR 6.1 million (31 December 2016: EUR 2.8 million) as a result of the new 2017/2022 corporate bond, net of the reversal of deferred expenses.

On the equity and liabilities side of the balance sheet, the Company's equity declined from EUR 119.3 million as of 31 December 2016 to EUR 73.6 million as of 31 December 2017. The decline resulted mainly from the net loss for the year of EUR 45.8 million.

The equity ratio fell from 32.6% to 13.8% as of 31 December 2017, due to a higher net loss for the year compared to the previous year.

Provisions of EUR 1.8 million as of 31 December 2017 (31 December 2016: EUR 4.6 million) mainly relate to other staff costs, outstanding invoices and costs for preparing and auditing the annual financial statements and consolidated financial statements. The decline resulted from the utilisation of the provision in connection with the early repayment of financial liabilities.

The Company's liabilities increased from EUR 242.1 million to EUR 458.3 million as of 31 December 2017. The main reason for this increase was the issue of the 2017/2022 corporate bond totalling EUR 400.0 million. Liabilities due to affiliated companies declined from EUR 73.0 million to a total of EUR 26.2 million as of 31 December 2017 as a result of the netting of loans and receivables from affiliated companies.

DEMIRE AG is better positioned for the years ahead as a result of several optimisation measures undertaken as part of its DEMIRE 2.0 corporate strategy. The issue of the new corporate bond leads to a sustained reduction in financial expenses, and the additional profit transfer agreements concluded in 2017 reduced the Group's tax expense for the 2017 fiscal year.

Comparison of prior-year forecasts with actual business development

The 2017 annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG are strong reflections of the restructuring of the liabilities side of the balance sheet and the optimisation of the tax structure. As a result of the severance payments upon the departures of Hon. Prof. Andreas Steyer and Mr Markus Drews and the increase in the number of employees, staff costs increased by more than half in the reporting year. Bringing major tasks for the holding company back in house during the fiscal year that were previously carried out by external providers helped to offset this rise in staff costs and has already led to a reduction in legal, advisory and accounting costs. DEMIRE, however, has not yet been able to realise all of the potential savings from these changes during the transitional phase.

The previous year's target for a slight improvement in both the EBIT and net profit/loss for the period was not achieved due to various one-time effects related to the refinancing of financial liabilities.

Impairments of receivables from affiliated companies in the amount of TEUR 835 had a negative impact on EBIT. In addition, consulting costs related to additional optimisation measures increased by more than EUR 3 million compared to the previous year.

The net profit/loss for the period was mainly influenced by additional impairment on financial assets of EUR 10.5 million. Due to the redemption of old financial liabilities, early repayment fees became due. As a result, interest expenses were significantly higher than in the previous year. Another negative effect on the net profit/loss for the period came from the losses assumed from subsidiaries.

Report on outlook

For the 2018 fiscal year, the Company is forecasting a slight improvement in EBIT and in the net profit/loss for the period. As a result of the profit-and-loss transfer agreements concluded in previous years, the results achieved by the subsidiaries are transferred to DEMIRE AG. Consequently, in the 2018 financial year, management fees will only be agreed with entities outside of the tax group, which is expected to result in a decline in revenues and an increase in profit-and-loss transfers compared to the prior year. In order to optimise the Group structure, a similar level of expenses is expected in the 2018 fiscal year compared to the previous year. Furthermore, the Company does not expect any significant unplanned expenses from refinancing in the 2018 fiscal year as in the previous year.

Frankfurt am Main, 25 April 2018
DEMIRE Deutsche Mittelstand Real Estate AG



Dipl.-Betriebsw. (FH) Ralf Kind
Member of the Executive Board (CEO/CFO)

BALANCE SHEET

as of 31 December 2017

ASSETS in EUR	31 / 12 / 2017	31 / 12 / 2016
A. FIXED ASSETS		
I. Intangible assets		
1. Paid concessions, commercial property rights and similar rights and assets as well as licences to such rights and assets	14,448.00	18,227.00
	14,448.00	18,227.00
II. Tangible assets		
1. Land, leasehold rights and buildings, incl. buildings on third-party land	56,075.00	35,955.00
2. Other equipment, operating and office equipment	142,941.00	105,411.00
	199,016.00	141,336.00
III. Financial assets		
1. Investments in affiliated companies	140,588,899.64	147,520,718.00
2. Loans to affiliated companies	331,454,615.48	183,319,219.57
	472,043,515.12	330,839,937.57
	472,256,979.12	330,999,530.57
B. CURRENT ASSETS		
I. Receivables and other assets		
1. Trade accounts receivable	2,768,657.00	13,988,245.04
2. Receivables due from affiliated companies	2,022,809.83	3,092,687.89
3. Receivables due from investments	0.00	18,424.19
4. Other assets	20,388,443.85	14,747,456.72
thereof with a remaining term of less than one year EUR: 7,594,257.77 (previous year: EUR 7,368,455.11)		
	25,179,910.68	31,846,813.84
II. Cash on hand, bank deposits	30,116,218.43	287,878.57
C. PREPAID EXPENSES	6,128,007.11	2,837,508.54
	533,681,115.34	365,971,731.52

EQUITY AND LIABILITIES in EUR	31 / 12 / 2017	31 / 12 / 2016
A. EQUITY		
I. Subscribed capital	54,270,744.00	54,246,944.00
II. Capital reserves	57,748,641.29	207,748,641.29
III. Accumulated loss	-38,446,631.13	-142,677,471.45
thereof loss carried forward EUR - 142,677,471.45 (previous year: EUR - 133,453,403.58)		
	73,572,754.16	119,318,113.84
B. PROVISIONS		
1. Other provisions	1,803,748.44	4,602,475.54
	1,803,748.44	4,602,475.54
C. LIABILITIES		
1. Bonds	425,613,963.00	125,637,763.00
thereof convertible: EUR 25,613,963.00 (previous year: EUR 25,637,763.00)		
2. Bank liabilities	16,270.94	7,920,516.92
thereof with a remaining term of less than one year EUR: 16,270.94 (previous year: EUR 0.00)		
3. Trade payables	445,083.49	737,483.29
thereof with a remaining term of less than one year EUR: 445,083.49 (previous year: EUR 737,483.29)		
4. Liabilities due to affiliated companies	26,157,646.27	73,019,484.88
thereof with a remaining term of less than one year EUR: 19,566,673.67 (previous year: EUR 35,863,356.08)		
5. Other liabilities	6,071,649.04	34,735,894.05
thereof tax liabilities EUR 544,386.37 (previous year: EUR 317,816.75)		
thereof relating to social security EUR 8,800.36 (previous year: EUR 4,680.32)		
thereof with a remaining term of less than one year EUR: 6,071,649.04 (previous year: EUR 2,735,894.05)		
	458,304,612.74	242,051,142.14
	533,681,115.34	365,971,731.52

STATEMENT OF INCOME

for the fiscal year from 1 January to 31 December 2017

in EUR	2017	2016
1. Revenue	7,104,311.64	5,774,092.35
2. Other operating income	2,365,630.61	3,117,510.42
thereof from currency translation: EUR 21.64 (previous year: EUR 105.20)		
	9,469,942.25	8,891,602.77
3. Staff costs		
a) Wages and salaries	4,858,489.86	2,351,173.12
b) Social security contributions and expenses for pension schemes and related benefits thereof pension expenses EUR 14,311.51 (previous year: EUR 9,514.46)	300,498.43	210,496.43
4. Amortisation of intangible fixed assets and depreciation of tangible assets	902,302.88	38,711.13
a) on intangible assets and property, plant and equipment	67,094.29	38,711.13
b) on assets, to the extent those in the Company exceed the usual depreciation	835,208.59	0.00
5. Other operating expenses		
thereof from currency translation EUR 0.00 (previous year: EUR 2,774.08)	10,453,738.38	9,290,074.77
	16,515,029.55	11,890,455.45
6. Income from investments	55,765.61	658,446.55
thereof from affiliated companies EUR 55,765.61 (previous year: EUR 658,446.55)		
7. Profits received on the basis of profit pooling, a profit transfer agreement or partial profit transfer agreement	938,566.25	0.00
8. Income from loans of financial fixed assets	14,741,720.05	12,302,621.95
thereof from affiliated companies EUR 14,741,720.05 (previous year: EUR 12,302,621.95)		
9. Other interest and similar income	410,925.26	912,683.03
thereof from investments EUR 0,00 (previous year: EUR 163,320.82)		
10. Write-downs of financial assets	10,522,334.31	1,034,632.57
11. Expenses from the assumption of losses	19,560,330.31	3,520,507.56
12. Interest and similar expenses	24,646,416.93	15,829,706.69
thereof from affiliated companies EUR 1,912,157.31 (previous year: EUR 2,310,162.80)		
	-38,582,104.38	-6,511,095.29
13. Earnings before taxes	-45,627,191.68	-9,509,947.97
14. Income taxes	0.00	23.20
15. Earnings after taxes	-45,627,191.68	-9,509,971.17
16. Other taxes	0.00	-285,903.30
17. Expenses from compensation payments to minority shareholders	141,968.00	0.00
18. Net loss	-45,769,159.68	-9,224,067.87
19. Loss carried forward from previous year	-142,677,471.45	-133,453,403.58
20. Withdrawals from capital reserves	150,000,000.00	0.00
21. Accumulated loss	-38,446,631.13	-142,677,471.45

GENERAL INFORMATION AND BASIC PRINCIPLES OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG („DEMIRE AG“ or „the Company“) as of 31 December 2017 were prepared in accordance with the provisions of the German Commercial Code (HGB) 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 thousands of euros, i. e. TEUR.


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 entities and is also responsible for the Group’s management, control and risk management systems.

As of the reporting date, the Company met 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 (11) WpHG through securities issued, the Company is considered a large corporation pursuant to Section 267 (3) sentence 2 HGB. Therefore, the Company is subject to the regulations for large corporations under commercial law.

The balance sheet categories comply with the category 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 am Main. The Company’s business address and head management office changed from Frankfurt am Main to Langen (state of Hesse) upon the entry into the commercial register of the District Court of Frankfurt am Main on 23 December 2016. The Company is recorded under HRB 89041 in the commercial register in Frankfurt am 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 of 31 December 2017 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the supplementary provisions of the German Commercial Code pursuant to Section 315e (1) HGB. The consolidated financial statements have been published in the Federal Gazette and can also be downloaded from the [Company’s website](#). 

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 these appear in the consolidated financial statements.

The Company's management report was combined with the group management report by applying the provisions of Section 315 (5) HGB in conjunction with Section 298 (2) HGB.

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

Control and profit-and-loss transfer agreements have been concluded between DEMIRE AG and its subsidiaries DEMIRE Commercial Real Estate GmbH, Logistikpark Leipzig GmbH, DEMIRE Condor Properties Management GmbH, DEMIRE Commercial Real Estate ZWEI GmbH, DEMIRE Commercial Real Estate DREI 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.

ACCOUNTING AND VALUATION PRINCIPLES

The accounting and valuation principles applied and presented below are essentially unchanged compared to the previous year:

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 depreciation 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

Movable 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 is 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 “Write-downs of financial assets” in the 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 the 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 expected default risk.

Cash on hand, bank deposits

Cash on hand and bank deposits are carried at their nominal values as of 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 write-downs 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 on the balance sheet as deferred tax liabilities. Any resulting net tax income is not recognised under the respective capitalisation option. An unrecognised deferred tax asset resulted overall in the reporting year.

Deferred taxes are calculated based on the Company's combined income tax rate of 28.78% (31 December 2016: 28.78%), expected to be applicable at the time the differences will be reversed. The combined income tax rate includes corporate taxes, trade taxes and the solidarity surcharge.

The different accounting of prepaid expenses resulted in the recognition of deferred tax liabilities while the different valuation of investments in affiliated companies resulted in the recognition of deferred tax assets. Overall, there is a surplus of deferred tax assets that is not recognised on the balance sheet due to the exercise of the option provided by Section 274 (1) sentence 2 HGB.

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 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 by 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 "Interest and similar 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 annotations "thereof from currency translation" contained in the statement of income include both realised and unrealised exchange rate differences.

Contingent liabilities

The carrying amount of contingent liabilities corresponds to the liability's scope as of the balance sheet date. For more information, please refer to the presentation of the contingencies.

NOTES TO THE BALANCE SHEET

FIXED ASSETS

The classification and development of fixed assets, including depreciation and amortisation, during the 1 January to 31 December 2017 fiscal year is contained in the statement of changes in fixed assets (see Appendix 1 of the notes to the consolidated financial statements).

FINANCIAL ASSETS

Investments in affiliated companies amounted to TEUR 140,589 (31 December 2016: TEUR 147,521).

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

	AFFILIATED COMPANIES	EXPLANATION
1	FVR Beteiligungsgesellschaft Erste mbH & Co. KG	Disposal through private withdrawal
2	FVR Beteiligungsgesellschaft Zweite mbH & Co. KG	Disposal through private withdrawal
3	FVR Beteiligungsgesellschaft Dritte mbH & Co. KG	Disposal through private withdrawal
4	FVR Beteiligungsgesellschaft Vierte mbH & Co. KG	Disposal through private withdrawal
5	FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG	Disposal through private withdrawal
6	FVR Beteiligungsgesellschaft Sechste mbH & Co. KG	Disposal through private withdrawal
7	FVR Beteiligungsgesellschaft Siebente mbH & Co. KG	Disposal through private withdrawal
8	FVR Beteiligungsgesellschaft Achte mbH & Co. KG	Disposal through private withdrawal

Furthermore, impairment on financial assets was recognised in the amount of TEUR 10,522 (31 December 2016: TEUR 1,035) in order to align the carrying amounts with their fair values.

Loans to affiliated companies of TEUR 331,455 (31 December 2016: TEUR 183,319) 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 TEUR 148,135 primarily resulted from the grant of a loan to DEMIRE Objektgesellschaft Germavest GmbH totalling TEUR 94,008 for the redemption of the A and B notes, the repayment of the LBBW loan by CAM Commercial Asset Management EINS GmbH amounting to TEUR 12,085, CAM Commercial Asset Management ZWEI GmbH in the amount of TEUR 6,028, CAM Commercial Asset Management DREI GmbH in the amount of TEUR 8,184, CAM Commercial Asset Management VIER GmbH in the amount of TEUR 6,597 and Schwerin Margaretenhof 18 GmbH in the amount of TEUR 5,169. A loan in the amount of TEUR 35,578 was granted to Kurfürster Immobilien GmbH.

With regard to disclosures about shareholdings, we refer to the schedule of shareholdings as of 31 December 2017 (see Appendix 2 of the notes to the consolidated financial statements in the Annual Report 2017) in accordance with Section 285 nos. 11a and 11b HGB.

CURRENT ASSETS

Current assets consisting of receivables and other assets, as well as cash on hand and bank deposits, totalled TEUR 55,296 as of the balance sheet date (31 December 2016: TEUR 32,135).

Impairment of current assets was recognised in the amount of TEUR 835 to align the carrying amounts to their fair values.

RECEIVABLES AND OTHER ASSETS

Trade receivables of TEUR 2,769 (31 December 2016: TEUR 13,988) mainly relate to claims arising from agency agreements with affiliated companies.

Receivables from affiliated companies of TEUR 2,023 (31 December 2016: TEUR 3,093) concern receivables from clearing transactions, expenses passed on to other parties and short-term loans.

Receivables due from investments amounted to TEUR 0 (31 December 2016: TEUR 18).

As in the prior year, all receivables are due within one year.

Other assets in the amount of TEUR 20,388 (31 December 2016: TEUR 14,747) rose by TEUR 5,641. The increase resulted from the capital gains tax withheld and the solidarity surcharge withheld on the distribution of the dividends of Fair Value REIT-AG to the FVR companies.

Reclassifications of interest receivables from affiliated companies from fixed assets resulted in an increase in other assets of TEUR 4,522. In total, assets totaling TEUR 5,220 were reclassified from fixed assets to other assets in the 2017 fiscal year. The reclassification took place in view of the residual maturity of the interest receivables.

Of the other assets amounting to TEUR 20,388, a total of TEUR 12,794 are due within one year (31 December 2016: TEUR 7,379), and TEUR 7,594 (31 December 2016: TEUR 7,368) have a residual term of more than one year. Other assets with a remaining term of more than one year include interest receivables from affiliated companies in the amount of TEUR 4,522.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents of TEUR 30,116 (31 December 2016: TEUR 288) include cash on hand and current bank deposits.

PREPAID EXPENSES

Prepaid expenses primarily include a discount of TEUR 5,832 from the issue of the 2017/2022 corporate bond (31 December 2016: TEUR 2,264 from the 2014/2019 bond), which is to be amortised over the remaining term of the bond. Prepaid expenses also include a discount of TEUR 225 (31 December 2016: TEUR 454) 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.

SHAREHOLDERS' EQUITY**Subscribed capital**

On 31 December 2017, the Company had fully paid in subscribed capital in the amount of EUR 54,270,744.00 divided into 54,270,744 no-par value bearer shares with a notional interest of EUR 1.00. Of this amount, 5,000 shares were held by the Group. A total of 13,000 no-par value bearer shares were entered into the commercial register only at the beginning of February 2018. The shares of DEMIRE Deutsche Mittelstand Real Estate AG have been admitted for trading in the Prime Standard segment of the Frankfurt Stock Exchange.

Conversions of the 2013/2018 convertible bond

Subscribed capital increased by 23,800 shares or TEUR 24, from conversions of the 2013/2018 convertible bond during the 2017 reporting year.

The Company's subscribed capital is conditionally increased by up to EUR 6,261,288.00 and divided into a maximum of 6,261,288 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 23,800 new shares from Conditional Capital I/2013. The original number of convertible bonds was 11,300,000. Following the conversion of a further 23,800 bonds in the reporting period, the remaining number of conversion rights totalled 10,613,963. 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 on 23 October 2013.

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE NEW SHARES

Conditional Capital I/2013

By resolution of the Annual General Meeting on 23 October 2013 and with the consent of the Supervisory Board, the Executive Board is authorised to increase the Company's subscribed capital until 22 October 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 (Conditional Capital I/2013). Shareholders are generally entitled to subscription rights. The purpose of the conditional capital increase is 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 23 October 2013.

Since the creation of the Conditional Capital, the Company's subscribed capital has been conditionally increased by EUR 686,037.00 to EUR 6,261,288 and divided into 686,037 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 on 28 August 2015 and with the consent of the Supervisory Board, the Executive Board is authorised to increase the Company's subscribed capital until 27 August 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 Ordinary General Meeting on 30 June 2016 resolved to cancel the unutilised portion of Authorised Capital II/2015.

AUTHORISED CAPITAL III/2015

By resolution of the Extraordinary General Meeting on 14 September 2015 and with the Supervisory Board's consent, the Executive Board is authorised to increase the Company's subscribed capital until 13 September 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 on 30 June 2016 resolved to cancel the unutilised portion of Authorised Capital III/2015.

AUTHORISED CAPITAL I/2016

By resolution of the Annual General Meeting on 30 June 2016 and with the Supervisory Board's consent, the Executive Board is authorised to increase the Company's subscribed capital until 29 June 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 10 August 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.

AUTHORISED CAPITAL I/2017

By resolution of the Annual General Meeting of 29 June 2017, Authorised Capital I/2016 of EUR 19,722,889.00 and the related provisions of Section 6 of the Articles of Association (Authorised Capital) were cancelled. With the Supervisory Board's consent, the Executive Board was authorised to increase the Company's share capital by up to EUR 27,128,872.00 (Authorised Capital I/2017) by issuing up to 27,128,872 new, no-par value bearer shares against contribution in cash and/or in kind once or several times in partial amounts until 28 June 2022. Shareholders are generally entitled to subscription rights. The new shares can also be subscribed to by one or several banks with the obligation to offer the new shares to shareholders for subscription. With the Supervisory Board's consent, the Executive Board is authorised to exclude shareholder subscription rights for fractional amounts, in the case of cash capital increases of up to 10% of the share capital at issue prices not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, issue shares to employees and execute capital increases against contribution in kind.

AUTHORISED CAPITAL I/2018

For the changes after 31 December 2017, please refer to the events after the balance sheet date.

CONDITIONAL CAPITAL I/2016

The Annual General Meeting on 30 June 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 on 30 June 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).

By resolution of the Annual General Meeting on 29 June 2017, Conditional Capital II/2016 in the amount of EUR 14,359,523.00 and divided into up to 14,359,523 no-par value bearer shares and the related provisions in Section 5 (7) of the Articles of Association were cancelled.

CONDITIONAL CAPITAL I/2017

The Annual General Meeting on 29 June 2017 resolved to create Conditional Capital I/2017 in an amount up to EUR 16,854,584.00 and divided into a maximum of 16,854,584 new, no-par value bearer shares with the corresponding amendments to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or a combination of these instruments) that were issued or will be issued (i) based on the authorisation resolved by the Annual General Meeting of 28 August 2015 under Agenda Item 8 to grant convertible bonds and/or bonds with warrants and/or (ii) the authorisation resolved 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 directly or indirectly affiliated companies and grant conversion or option 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 I/2017 will be carried out only to the extent that the holders or creditors of conversion or option rights exercise these rights or to the extent that holders meet their conversion obligation, unless a cash settlement is granted or own shares or shares created from authorised capital are used for servicing. The shares will participate in profits as of the start of the previous fiscal year provided they are created as a result of exercise before the start of the Company's Annual General Meeting, or otherwise as of the start of the fiscal year in which they were created from the exercise of subscription rights. With the Supervisory Board's consent, the Executive Board is authorised to determine the further details of the conditional capital's execution.

AUTHORISATION TO REPURCHASE OWN SHARES

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

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

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

The volume of the offer may be limited. If the total subscription to the offer exceeds this volume, acceptance takes place on a pro rata basis. 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.

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 Programme and with the consent of the Supervisory Board, the Executive Board is authorised until 31 December 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 6 March 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.

The beneficiaries and the number 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 basic price. The basic 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 basic 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 Programme 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 (7 April 2015 and 9 December 2015).

Provisions are recognised to the extent that the Company's stock option programme for the Executive Board results in obligations as of the balance sheet date.

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 2015 fiscal 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. One of the departing Executive Board members retained his entitlements under the stock option programme. Since his departure, the corresponding expenses are recognised under other operating expenses. In the case of the other departing Executive Board member, who was entitled to 400,000 stock options, all entitlements under the stock option programme were compensated for by a one-time payment.

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

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

¹ 180-day historical volatility

In addition to fixed and variable remuneration, the remuneration of Executive Board member Ralf Kind includes a payout based on the performance of the Company's share price in accordance with a virtual stock option programme.

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 of 31 December 2017, capital reserves amounted to TEUR 57,749 (31 December 2016: TEUR 207,749).

As of the balance sheet date, capital reserves include amounts pursuant to Section 272 (2) no. 1 HGB of TEUR 14,108 (31 December 2016: TEUR 164,109) and amounts pursuant to Section 272 (2) no. 4 HGB of TEUR 43,640 (31 December 2016: TEUR 43,640). A total of TEUR 150,000 of the capital reserves according to Section 272 (2) no. 1 HGB was utilised in the 2017 fiscal year. As a result, the accumulated loss as of 31 December 2017 declined by TEUR 150,000.

Accumulated loss

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

in EUR thousands	2017	2016
Net loss as of 1 January	45,769	9,224
Loss carried forward from previous year	142,677	133,453
Withdrawal from capital reserves	150,000	0
Accumulated loss as of 31 December	38,446	142,677

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:

EUR	SUBSCRIBED CAPITAL	CAPITAL RESERVES	CONDITIONAL CAPITAL	ACCUMULATED LOSS
As of 1 January 2017	54,246,944	207,748,641		142,677,471
Conversions from 2013/2018 CB	23,800		-23,800 I/2013	
Withdrawal from capital reserves		150,000,000		-150,000,000
2017 net loss for the period				45,769,160
As of 31 December 2017	54,270,744	57,748,641		38,446,631

Other provisions

Other provisions amounted to TEUR 1,804 (31 December 2016: TEUR 4,602) and included mainly obligations for outstanding invoices, accounting and audit costs, legal and consulting fees and staff costs.

The decline in other provisions in comparison to 31 December 2016 was mainly the result of discounted financing costs as part of a debt financing agreement concluded at the end of 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 TEUR 425,614 (31 December 2016: TEUR 125,638) includes the convertible bond (2013/2018 CB; Securities Identification Number A1YDDY2013) amounting to TEUR 10,614 (31 December 2016: TEUR 10,638) issued on 30 December 2013; a promissory note (2014/2019 corporate bond; Securities Identification Number DE000A12T135) amounting to TEUR 0 (31 December 2016: TEUR 100,000) issued on 16 September 2014; the 2015 mandatory convertible bond (2015/2018 MCB; Securities Identification Number DE000A13R863) amounting to TEUR 15,000 (31 December 2016: TEUR 15,000) issued on 22 May 2015; and the new 2017/2022 corporate bond with a volume of TEUR 400,000, divided into tranches of TEUR 270,000 issued on 12 July 2017 and TEUR 130,000 issued on 18 September 2017 (Securities Identification Number XS1647824173).

Convertible bond (2013/2018 CB)

By resolution of the Annual General Meeting on 23 October 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 30 September 2018 for a total nominal amount of up to TEUR 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 TEUR 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 TEUR 11,300 and maturing on 30 December 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 30 September 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 p.a. The interest is payable on 30 March, 30 June, 30 October and 30 December of each year during the convertible bond's term.

As a result of the exercise of 23,800 conversion rights from the 2013/2018 convertible bond, there was an increase in the Company's subscribed capital in the reporting period in the amount of 23,800 no-par value bearer shares, each with a notional interest of EUR 1.00.

Corporate bond (2014/2019)

This corporate bond was fully redeemed in 2017.

Mandatory convertible bond (2015/2018 MCB)

In May 2015, a mandatory convertible bond with a volume of TEUR 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 TEUR 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% p.a. starting from the date of issue and may be converted into shares as of 1 September 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 22 May 2015 and maturing on 22 May 2018 with a total nominal value of up to TEUR 15,000 are divided into 150 bonds with a nominal value of TEUR 100 each.

The details of the convertible bonds are described below:

- The bonds are divided into a maximum of 150 fractional bearer bonds, each with a nominal value of TEUR 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 p.a. with interest payable quarterly in arrears on the dates of 22 March, 22 June, 22 September and 22 December in each year during the convertible bond's term.

The bonds may be callable by the convertible bondholders 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 the failure to meet key (payment) obligations under the 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 31 December 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. No conversions took place during the reporting period.

Corporate bond (2017/2022)

The 2017/2022 corporate bond was issued at the full nominal value of TEUR 400,000 as of the balance sheet date of 31 December 2017.

In the 2017 fiscal year, DEMIRE AG placed a corporate bond with an issue volume of TEUR 400,000. The corporate bond has a maturity of five years and is due on 15 July 2022. The bond was issued with a coupon of 2.875% p. a., which is paid to investors in arrears semi-annually. The inclusion of the corporate bond with a total nominal value of TEUR 270,000 for trading on the Luxembourg Stock Exchange (Euro MTF Market) under ISIN XS1647824173 (sold under Regulation S) and XS1647824686 (sold under Rule 144A) took place on 12 July 2017. An additional tranche of TEUR 130,000 was issued on 18 September 2017. The corporate bond was awarded a BB+ and a Ba2 rating, respectively, from the Standard & Poor's and Moody's rating agencies.

Covenants are generally only valid in the case of a triggering event of debt assumption or the issue of unqualified new capital by the placing parent company or a co-registered subsidiary. Such an event had not occurred as of the balance sheet date.

In addition, the net total loan-to-value ratio must not exceed 65%. This level had not been exceeded as of 31 December 2017, based on a net total loan-to-value ratio of 60.3% according to IFRS financial statements. In addition, the fixed charge coverage ratio must maintain a level of at least 1.45:1. As of 31 December 2017, the value was 1.65 based on the IFRS figures.

Bank liabilities

As of the balance sheet date, bank liabilities amounted to TEUR 16 (31 December 2016: TEUR 7,921).

DEMIRE AG did not conclude any credit agreements with banks during the reporting year. The bank liabilities that exist concern current overdrafts of bank accounts.

Liabilities due to affiliated companies

Liabilities due to affiliated companies amounted to TEUR 26,083 as of the balance sheet date (31 December 2016: TEUR 73,019), of which TEUR 19,505 (31 December 2016: TEUR 35,863) had maturities of up to one year. Liabilities due to affiliated companies mainly include liabilities from loss transfers from DEMIRE Condor Properties Management GmbH, DEMIRE Commercial Real Estate DREI GmbH and DEMIRE Commercial Real Estate GmbH as a result of the control and profit-and-loss transfer agreements.

Other liabilities

Other liabilities totalling TEUR 6,072 (31 December 2016: TEUR 34,736) mainly include a loan from the 2017/2022 bond in the amount of TEUR 4,926 and tax liabilities of TEUR 544 (31 December 2016: TEUR 318). A large portion of the decline resulted from the repayment of the Signal Capital loan in the amount of TEUR 32,000.

The structure and the remaining term of the liabilities and details on collateralisation are shown in the schedule of liabilities below.

EUR	UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
1. Bonds	25,613,963.00 (0.00)	400,000,000.00 (125,637,763.00)	0.00 0.00	425,613,963.00 (125,637,763.00)
2. Bank liabilities	16,270.94 (7,920,516.92)	0.00 (0.00)	0.00 (0.00)	16,270.94 (7,920,516.92)
3. Trade liabilities	445,083.49 (737,483.29)	0.00 (0.00)	0.00 (0.00)	445,083.49 (737,483.29)
4. Liabilities due to affiliated companies	19,566,673.67 (35,863,356.08)	6,590,972.60 (37,156,128.80)	0.00 (0.00)	26,157,646.27 (73,019,484.88)
5. Other liabilities	6,071,649.04 (2,735,894.05)	0.00 (32,000,000.00)	0.00 (0.00)	6,071,649.04 (34,735,894.05)
Total	51,713,640.14 (47,257,250.34)	406,590,972.60 (194,793,891.80)	0.00 (0.00)	458,304,612.74 (242,051,142.14)

Collateral existed for other liabilities in the amount of EUR 80,055,487.01 (31 December 2016: EUR 80,055,487.01). Collateral consists of pledges of shares in affiliated companies and receivables from affiliated companies.

Contingencies

Through the conclusion of credit and loan agreements, DEMIRE AG has pledged liens and other guarantees of TEUR 28,220 (31 December 2016: TEUR 104,992) to affiliated companies:

In addition to the credit agreement with SÜDWESTBANK AG, Stuttgart, dated 8 April 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 TEUR 15,000, corresponding to EUR 4.41 per share, DEMIRE AG undertakes to provide additional guarantees to the lender, providing up to TEUR 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 6.31 per share since 2015, and on 31 December 2017 was quoted at EUR 8.30.

After terminating the loan agreement with Signal Credit Opportunities (Lux) Investco II S.à r.l., Luxembourg, which was concluded on 30 December 2015, all collateral pledged in favour of the lender have been released to DEMIRE AG in the fourth quarter of 2017.

The following contingent liabilities existed as a result of granting guarantees to third-party liabilities. As of the reporting date, contingent liabilities in the amount of TEUR 940 (31 December 2016: TEUR 20,049) were in favour of affiliated companies:

DEMIRE AG entered into a letter of guarantee in the amount of TEUR 940 related to a loan granted to TGA Immobilien Erwerb 1 GmbH by Volksbank Mittweida on 13 May 2015. The underlying obligations under the credit agreement were met given the solid level of net assets, financial position and results of operations of TGA Immobilien Erwerb 1 GmbH. Thus, as of 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.

The overdraft facility of TEUR 10,000 provided by Internationales Bankhaus Bodensee AG, Friedrichshafen, drawn down on 14 November 2016 was terminated in 2017. In this context, DEMIRE AG had assumed guarantees for liabilities of its subsidiary Hanse-Center Objektgesellschaft mbH amounting to TEUR 19,109 as of 31 December 2016. These guarantees have become obsolete as did the letter of comfort issued by DEMIRE AG.

No further contingent liabilities existed.

Other financial obligations and off-balance-sheet transactions

As of the balance sheet date, other financial obligations according to Section 285 no. 3a HGB totalling TEUR 608 (31 December 2016: TEUR 760) mainly consisted of rental and leasing contracts with the following terms:

	TOTAL	UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS
in EUR thousands				
Rental and leasing contracts	608	170	438	0
thereof due to affiliated companies	561	146	415	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 TEUR 7,104 (previous year: TEUR 5,774) comprise domestic revenues of TEUR 6,856 (previous year: TEUR 5,595) and international revenues of TEUR 248 (previous year: TEUR 179). Revenues mainly include income from service agreements with affiliated companies.

in EUR thousands	2017	2016
Domestic revenues	6,856	5,595
International revenues	248	179
Total	7,104	5,774

OTHER OPERATING INCOME

Other operating income of TEUR 2,366 (previous year: TEUR 3,118) mainly includes income of TEUR 1,625 from the bond's premium.

Other operating income includes non-periodic income of TEUR 326 (previous year: TEUR 411), of which TEUR 315 (previous year: TEUR 240) resulted from the reversal of provisions and TEUR 10 (previous year: TEUR 171) resulted from credit notes.

OTHER OPERATING EXPENSES

Other operating expenses totalling TEUR 10,454 (previous year: TEUR 9,290) comprised mainly legal and consulting fees of TEUR 5,031 (previous year: TEUR 1,731); third-party services of TEUR 914 (previous year: TEUR 1,527); expenses of TEUR 860 (previous year: TEUR 1,079) for the accounting, preparation and audit of the annual and consolidated financial statements; expenses of TEUR 667 (previous year: TEUR 526) for the preparation of real estate assessments, financing expenses of TEUR 580 (previous year: TEUR 132) and non-deductible input taxes of TEUR 979 (previous year: TEUR 519).

Other operating expenses include non-periodic expenses of TEUR 0 (previous year: TEUR 349).

The increase in other operating expenses compared to the previous year was due to the refinancing. The placement of the bond and the tapping of the bond and the associated measures led to an increase in other operating expenses.

INCOME FROM INVESTMENTS

Income from investments of TEUR 56 (previous year: TEUR 658) relates to a dividend payment from PRAEDIA GmbH, Berlin. In the previous year, the income from investments stemmed from MAGNAT Asset Management GmbH, Vienna, Austria.

INCOME FROM PROFIT-AND-LOSS TRANSFER AGREEMENTS

Income from profit-and-loss transfer agreements in the amount of TEUR 939 (previous year: TEUR 0) resulted from the profit-and-loss transfer agreement concluded in the fiscal year with Logistikpark Leipzig GmbH, Leipzig.

INCOME FROM LOANS OF FINANCIAL FIXED ASSETS

Income from loans of financial fixed assets of TEUR 14,742 (previous year: TEUR 12,303) 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 resulted from financing arrangements between DEMIRE Deutsche Mittelstand Real Estate AG and third parties in the amount of TEUR 411 (previous year: TEUR 394) from Taurecon RE Consulting GmbH and Taurecon Beteiligungs GmbH.

Interest and similar expenses of TEUR 24,646 (previous year: TEUR 15,830) concern mainly the interest to be paid over the term of existing financial liabilities and trading losses related to the 2014/2019 corporate bond and the 2017/2022 corporate bond issued below nominal value. The increase of TEUR 8,816 compared to the prior year mainly resulted from the conclusion of the 2017/2022 corporate bond in the fiscal year, amounting to TEUR 4,759, and the increase in interest expense of TEUR 4,357 on the 2014/2019 corporate bond. This was in contrast to a decrease of TEUR 286 in the interest expense for the loan from Logistikpark Leipzig GmbH.

Interest and similar expenses due to affiliated companies amounted to TEUR 1,912 (previous year: TEUR 2,310).

IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets was related to impairment losses in the amount of TEUR 10,522 (previous year: TEUR 1,035) on investments in affiliated companies and on loans to affiliated companies

EXPENSES FROM THE ASSUMPTION OF LOSSES

Expenses from the assumption of losses of TEUR 19,560 (previous year: TEUR 3,521) relate to losses assumed under existing control and profit-and-loss transfer agreements with subsidiaries, of which TEUR 402 (previous year: TEUR 3,516) is attributable to DEMIRE Commercial Real Estate GmbH and TEUR 4 (previous year: TEUR 5) is attributable to DEMIRE Commercial Real Estate VIER GmbH, TEUR 10,524 (previous year: TEUR 0) to DEMIRE Condor Properties Management GmbH, TEUR 75 (previous year: TEUR 0) to DEMIRE Commercial Real Estate ZWEI GmbH and TEUR 8,555 (previous year: TEUR 0) to DEMIRE Commercial Real Estate DREI GmbH. The increase resulted from the newly concluded control and profit-and-loss transfer agreements.

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-and-loss transfer agreements.

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

OTHER TAXES

Other taxes amounting to TEUR 0 (previous year: TEUR 286) in the previous year included mainly value-added tax refunds.

NET LOSS/ACCUMULATED LOSS

The net loss in the 2017 fiscal year amounted to TEUR 45,769 (previous year: TEUR 9,224). Based on the accumulated loss from the previous year of TEUR 142,677 and withdrawals from capital reserves according to Section 272 (2) no. 1 HGB of TEUR 150,000, the accumulated loss as of the balance sheet date totalled TEUR 38,446.

OTHER DISCLOSURES

GOVERNING BODIES

Executive Board members and remuneration

The Company's Executive Board in the reporting year consisted of the following members:

- Hon. Prof. Andreas Steyer, Speaker of the Executive Board (CEO), Ginsheim, until 30 June 2017
- Mr Markus Drews, COO, Mülheim an der Ruhr, until 31 December 2017, CEO from 1 July 2017 through 15 November 2017
- Mr Ralf Kind, CFO, Frankfurt am Main, since 1 March 2017, and CEO since 16 November 2017

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, Munich	General member of the supervisory board since 1 March 2016
	Deutsche Zinshaus GmbH, Frankfurt am Main	General member of the advisory board
	Königstein Capital GmbH, Munich	General member of the advisory board until 31 December 2016
Markus Drews	Fair Value REIT-AG, Munich	Deputy chairman of the supervisory board since 1 March 2016
	BF Direkt AG, Stuttgart	General member of the supervisory board since 21 April 2016

Mr Ralf Kind was not a member of any statutory supervisory boards or other comparable supervisory bodies at domestic or foreign commercial enterprises during the reporting year.

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

in EUR thousands	FIXED REMUNERATION	VARIABLE REMUNERATION	SHARE-BASED PAYMENTS	TOTAL 2017	TOTAL 2016
Hon. Prof. Andreas Steyer	685	0	119	804	688
Markus Drews	654	325	158	1,137	685
Frank Schaich	0	0	0	0	415
Ralf Kind	224	554	73	839	0
Total	1,551	879	350	2,780	1,788

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

As of 31 December 2016, as a result of Mr Frank Schaich terminating his employment and leaving the Company, DEMIRE AG recognised a liability of TEUR 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.

This liability was settled in March 2017.

In accordance with the termination agreement dated 12 April 2017, the contractual claims of Mr Steyer until the end of 30 June 2017 were fully met, and he was granted 100% of the 2016 fiscal year bonus. As compensation for the loss of employment, the Company paid compensation to Mr Steyer in the amount of EUR 550,000.00, which became due on 30 June 2017 upon Mr Steyer's departure. The entitlements under the 2015 Stock Option Programme will remain unchanged after the termination of his employment.

In the 2017 fiscal year, Mr Ralf Kind and Mr Markus Drews were granted special bonuses in the amount of TEUR 300 and TEUR 200, respectively, for their extraordinary service in connection with the issue of the 2017/2022 corporate bond in July 2017. Additionally, Mr Ralf Kind was granted a special bonus of TEUR 150 for the 2017 fiscal year.

By resolution of 17 February 2017, the Supervisory Board extended the Executive Board contract of Markus Drews for another three-year term until the end of 2020. His annual basic salary was raised to EUR 250,000.00 as of 1 March 2017.

In accordance with the termination agreement dated November 2017, the contractual claims of Mr Drews until the end of 31 December 2017 were fully met, and he was granted a bonus of 100% for the 2017 fiscal year paid on 31 December 2017. As compensation for the loss of employment, the Company paid Mr Drews compensation of EUR 375,000.00. For the 400,000 stock options granted under the 2015 Stock Option Programme, including the warrant, and to compensate for his claims for stock appreciation rights under his Executive Board employment contract dated 22 February 2017, Mr Drews received a one-time compensation payment in the amount of EUR 590,000.00. Severance and compensation payments were due and paid on 30 November 2017.

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 table below provides the names and professions of the Company's Supervisory Board members:

NAME	FUNCTION	PROFESSION	MEMBER SINCE / UNTIL
Prof. Dr Hermann Anton Wagner	Chairman	Independent auditor and tax consultant, professor at the Frankfurt School of Finance and Management, Frankfurt am Main	
Frank Hölzle	Deputy Chairman	Dipl.-Volksw., CEO of Care4 AG, Basel, Switzerland	Since 14 February 2017, by judicial appointment
Dr Thomas Wetzel	Member	Specialist lawyer and official expert on real estate and construction law	Since 14 February 2017, by judicial appointment
Dr Peter Maser	Deputy Chairman	Lawyer	Until 13 February 2017
Günther Walcher	Member	Entrepreneur	Until 23 January 2017

The Supervisory Board's total remuneration for the fiscal year amounted to TEUR 180 (previous year: TEUR 270). In addition, Supervisory Board members were reimbursed by the Company for travel expenses incurred of TEUR 7 (previous year: TEUR 9) in the context of Supervisory Board meetings.

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

NAME	COMPANY	FUNCTION
Prof. Dr Hermann Anton Wagner	Aareal Bank AG, Wiesbaden	General member of the supervisory board
	btu consultingpartner Holding AG, Oberursel (Taunus)	Vice chairman of the supervisory board
	PEH Wertpapier AG, Frankfurt am Main	Vice chairman of the supervisory board (until 30 June 2017), general member of the supervisory board (since 1 July 2017)
Frank Hölzle (since 14 February 2017)	SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt am Main	Vice chairman of the supervisory board
	Westgrund AG, Berlin	General member of the supervisory board (until 21 December 2017, chairman of the supervisory board)
	clickworker GmbH, Essen	Chairman of the advisory board
	Mindlab Solutions GmbH, Stuttgart	Chairman of the advisory board
	mobileObjects AG, Büren	Chairman of the supervisory board
	rankingCoach GmbH, Cologne	Chairman of the advisory board
	SIC Invent AG, Basel, Switzerland	Member of the board of directors
	Rebuy GmbH, Berlin	Member of the advisory board
	Fair Value REIT-AG, Munich	Chairman of the supervisory board (since 4 December 2017)
	Dr Thomas Wetzel (since 14 February 2017)	Brandenberger + Ruosch AG, Dietlikon, Switzerland
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 board
	Fair Value REIT-AG, Munich	Vice chairman of the supervisory board (since 4 December 2017)

The average number of employees in administrative positions in the 2017 fiscal year was 20 (previous year: 13).


RELATED PARTY TRANSACTIONS

Related parties are legal or natural persons that can exercise influence over the Company or are 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 on the German Corporate Governance Code required under Section 161 AktG was last submitted by the Company's Executive and Supervisory Boards on 12 April 2018 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 *Company's website*. 

AUDITOR'S FEE

The disclosure of the total fee of auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn branch, in accordance with Section 285 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 315e (1) HGB. The consolidated financial statements have been published in the electronic Federal Gazette.

DISCLOSURES UNDER SECTION 160 (1) NO. 8 AKTG

Under Section 160 (1) no. 8 AktG, the Company must disclose existing shareholdings that were notified to the Company in accordance with Section 21 (1) or (1a) of the WpHG within the reporting period, as well as those published under Section 26 (1) WpHG. In addition, further shareholdings that were notified to the Company until the preparation of the annual financial statements under Section 33 (1) or (2) WpHG and disclosed under Section 40 (1) WpHG were taken into account.

The Company received the following notifications:

2017	VOTING RIGHTS AS DEFINED BY SECTIONS 21, 22 WPHG	VOTING RIGHTS NEW (IN %)	THRESHOLD	VOTING RIGHTS THROUGH INSTRUMENTS AS DEFINED BY SECTION 25 (1) WPHG (IN %)	DATE ON WHICH THRESHOLD WAS CROSSED OR REACHED	ATTRIBUTION OF VOTING RIGHTS AS DEFINED BY SECTION 22 WPHG	NAME(S) OF SHAREHOLDER(S) HOLDING 3% OR MORE VOTING RIGHTS
PERSON SUBJECT TO THE NOTIFICATION OBLIGATION							
DeGeLog Deutsche Gewerbe-Logistik Holding	0	0	<3%		30 Dec. 2016	no	
Sigrid Wecken	2,713,880	5.002	>5%		13 April 2017	no	
VP Fund Solutions (Liechtenstein) AG	0	0	<3%, 5%		24 Dec. 2009	no	
S. E. R. Privatstiftung	0	0	<3%		18 March 2013	no	
Günther Walcher & Dr Martin Zuffer	3,015,285	5.56	>5%		22 Aug. 2017	yes	M1 Beteiligungs GmbH
Klaus Wecken	15,727,242	28.98	>30%		1 Sep. 2017	yes	Wecken & Cie.

2018	VOTING RIGHTS AS DEFINED BY SECTIONS 33, 34 WPHG	VOTING RIGHTS NEW (IN %)	THRESHOLD	VOTING RIGHTS THROUGH INSTRUMENTS AS DEFINED BY SECTION 38 (1) WPHG (IN %)	DATE ON WHICH THRESHOLD WAS CROSSED OR REACHED	ATTRIBUTION OF VOTING RIGHTS AS DEFINED BY SECTION 34 WPHG	NAME(S) OF SHAREHOLDER(S) HOLDING 3% OR MORE VOTING RIGHTS
PERSON SUBJECT TO THE NOTIFICATION OBLIGATION							
Klaus Wecken	17,471,893	42.42	>30%	10.23	26 Feb. 2018	yes	Wecken & Cie.
Ferry Wecken	17,471,893	32.19	>30%		26 Feb. 2018	yes	Wecken & Cie.
Ina Wecken	17,471,893	32.19	>30%		26 Feb. 2018	yes	Wecken & Cie.
BRH Holdings GP, Ltd.	17,471,893	32.19	>30%		26 Feb. 2018	yes	Wecken & Cie.
Rolf Elgeti	100,000	0.18	<10%, 5%, 3%		27 Feb. 2018	no	
Klaus Wecken	24,998,082	46.06	>30%	10.23	27 Feb. 2018	yes	Wecken & Cie.; AEPF III 15 S. à r. l.
Oddo BHF Asset Management SAS	2,085,509	3.84	>3%		27 Feb. 2018	no	
Klaus Wecken	32,084,524	59.12	>50%		28 Feb. 2018	yes	Wecken & Cie.; AEPF III 15 S. à r. l.
Ferry Wecken	32,084,524	59.12	>50%		28 Feb. 2018	yes	Wecken & Cie.; AEPF III 15 S. à r. l.
Ina Wecken	32,084,524	59.12	>50%		28 Feb. 2018	yes	Wecken & Cie.; AEPF III 15 S. à r. l.
Willem Rozendaal	0	0	<5%, 3%		27 Feb. 2018	no	
BRH Holdings GP, Ltd.	32,084,524	59.12	>50%		28 Feb. 2018	yes	Wecken & Cie.; AEPF III 15 S. à r. l.
Günther Walcher & Dr Martin Zuffer	0	0	<5%, 3%		27 Feb. 2018	no	
Norbert Ketterer	0	0	<3%		28 Feb. 2018	no	
Sigrid Wecken	2,713,880	4.99	<5%		29 March 2018	no	
Oddo BHF Asset Management SAS	1,650,000	2.76	<3%		9 April 2018	no	

Executive Board's proposal for the appropriation of profits/losses

The Executive Board proposes to carry forward the Company's accumulated loss for the 2017 fiscal year.

Responsibility statement under Section 264 (2) sentence 3 HGB

As the governing body of DEMIRE AG, the Executive Board hereby assures to the best of his knowledge and in accordance with the applicable reporting principles that 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 events of particular importance below occurred but have not been recognised in the statement of income or balance sheet:

On 26 February 2018, with the consent of the Supervisory Board, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG (the "Company") resolved to increase the Company's share capital from authorised capital (the "capital increase") by EUR 5,425,774.00 from EUR 54,270,744.00 to EUR 59,696,518.00 by issuing 5,425,774 new, no-par value bearer shares with a notional interest in the share capital of EUR 1.00 each and full dividend entitlement as of 1 January 2017 (the "new shares") against cash contribution and excluding shareholders subscription rights.

The new shares were issued at the issue price of EUR 4.35 per new share. AEPF III 15 S.à r.l. ("AEPF"), a holding company controlled by funds that are advised by an affiliate of Apollo Global Management, LLC (NYSE: APO) will be entitled to subscribe to all of the new shares. AEPF has entered into a subscription agreement with the Company, in which AEPF undertakes to subscribe for all new shares at an issue price of EUR 4.35. The capital increase was entered in the commercial register on 5 April 2018.

AEPF has entered into a cooperation agreement ("Acting in Concert") connected to the capital increase with the Company's main shareholder, Wecken & Cie. ("Wecken"), and a subsidiary of Wecken and members of the Wecken family (together with Wecken, the "Wecken Group"), who at the time of the announcement collectively held a stake of approx. 29.91% of the Company's share capital and exchangeable bonds that permit the purchase of an additional 10.23% in the Company's current share capital following the exercise of the exchange rights. As a result of its acquired control over the Company, AEPF has announced the publication of a mandatory tender offer to the shareholders of the Company to acquire all shares of the Company at a price of EUR 4.35 per share. The offer document was published on 16 April 2018 at www.aepf-mandatory-offer.de/en/.

The Company was also informed by AEPF of their intention to announce a decision to launch a voluntary takeover offer to acquire all shares in Fair Value REIT-AG ("FVR"). AEPF plans to launch the offer in a way that enables it to revoke the listing of FVR shares on the Regulated Market of the Frankfurt Stock Exchange (so-called "delisting offer"). The offer will be made at the legally prescribed minimum price. The Company is supportive of such an offer. Subsidiaries of the Company holding shares in FVR have entered into a non-tender agreement with AEPF in which they undertake not to accept, in full or in part, the offer with respect to the shares of FVR they hold.

Due to the attribution of voting rights as defined by Section 34 WpHG, Mr Klaus Wecken with 42.42% and Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd., with 32.19% each reported on 26 February 2018 that they have exceeded the 30% threshold. As of 27 February 2018, Mr Klaus Wecken controlled 46.06% and ODDO BHK Asset Management SAS 3.84% of the voting rights due to the attribution of voting rights as defined by Section 34 WpHG. As of 28 February 2018, Mr Klaus Wecken, Mr Ferry Wecken, Mrs Ina Wecken and BRH Holdings GP, Ltd., each controlled 59.12% of the voting rights and exceeded the 50% threshold due to the attribution of voting rights as defined by Section 34 WpHG.

On 29 March 2018, Mrs Sigrid Wecken notified the Company that her voting rights had fallen below the threshold of 5% and amounted to 4.99%.

In the context of the published offer document at www.aepf-mandatory-offer.de/en/, the bidder AEPF III 15 S.à r.l. has given notification that it and the members of the Wecken Group at the time of publication of the Mandatory Offer together held 37,928,711 DEMIRE shares. This number corresponds to approx. 63.51% of the current voting rights and share capital of DEMIRE AG.

On 26 July 2017, DEMIRE issued an unsecured corporate bond at an interest rate of 2.875% p.a. and with a nominal amount of EUR 270 million, which was increased by additional EUR 130 million to an overall amount of EUR 400 million on 2 October 2017 ("Bond 2017/2022"). Pursuant to the bond terms, DEMIRE is obliged to offer to the bondholders early redemption of the bond at a redemption price of 101% of the nominal amount plus any interest accrued and unpaid on the redemption date within 30 days after acquiring knowledge of the change of control ("Redemption Offer"). In the event of a change of control, the maximum total repayment amount under the Redemption Offer would thus be EUR 404 million plus any interest accrued and unpaid.

Based on relevant information, a change of control pursuant to the bond terms has occurred. DEMIRE is therefore obliged to make a Redemption Offer pursuant to the bond terms. DEMIRE intends to comply with this obligation.

The Executive Board take the view that the financing of the repurchase price on the market will be possible and highly probable if and to the extent that bondholders demand early redemption.

Further notifications regarding direct or indirect shareholdings exceeding 3%, 5% and 10% of the voting rights were not available to the Company at the time of publishing this report.

Prior to the publication of the annual financial statements, a total of 30,160 conversion rights were exercised, and 30,160 new no-par value bearer shares were created.

The Company was also informed by AEPF of their intention to announce a decision to launch a voluntary takeover offer to acquire all shares in Fair Value REIT-AG ("FVR"). AEPF plans to launch the offer in a way that enables it to revoke the listing of FVR shares on the Regulated Market of the Frankfurt Stock Exchange (so-called "delisting offer"). The offer will be made at the legally prescribed minimum price. The Company is supportive of such an offer. Subsidiaries of the Company holding shares in FVR have entered into a non-tender agreement with AEPF in which they undertake not to accept, in full or in part, the offer with respect to the shares of FVR they hold.

Frankfurt am Main, 25 April 2018

DEMIRE Deutsche Mittelstand Real Estate AG



Dipl.-Betriebsw. (FH) Ralf Kind
Member of the Executive Board (CEO/CFO)

STATEMENT OF FIXED ASSETS FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2017

	ACQUISITION COST					ACCUMULATED DEPRECIATION AND AMORTISATION				CARRYING AMOUNTS	
	01/01/17	ADDITIONS	DISPOSALS	RECLASSIFICA- TIONS	31/12/2017	01/01/17	ADDITIONS	DISPOSALS	31/12/2017	31/12/17	31/12/2016
EUR											
I. Intangible assets											
Software licenses	25,623.20	6,350.00	0.00	0.00	31,973.20	7,396.20	10,129.00	0.00	17,525.20	14,448.00	18,227.00
	25,623.20	6,350.00	0.00	0.00	31,973.20	7,396.20	10,129.00	0.00	17,525.20	14,448.00	18,227.00
II. Tangible assets											
1. Buildings on third-party property	37,375.07	29,728.07	0.00	0.00	67,103.14	1,420.07	9,608.07	0.00	11,028.14	56,075.00	35,955.00
2. Other equipment, operating and office equipment	155,237.07	84,887.22	0.00	0.00	240,124.29	49,826.07	47,357.22	0.00	97,183.29	142,941.00	105,411.00
	192,612.14	114,615.29	0.00	0.00	307,227.43	51,246.14	56,965.29	0.00	108,211.43	199,016.00	141,366.00
III. Financial assets											
1. Investments in affiliated companies	219,511,618.62	0.00	1,156,689.06	53,300.00	218,408,229.56	71,990,900.62	5,828,429.30	0.00	77,819,329.92	140,588,899.64	147,520,718.00
2. Loans to affiliated companies	185,699,349.23	235,576,776.55	82,694,175.63	-53,300.00	338,528,650.15	2,380,129.66	4,693,905.01	0.00	7,074,034.67	331,454,615.48	183,319,219.57
	405,210,967.85	235,576,776.55	83,850,864.69	0.00	556,936,879.71	74,371,030.28	10,522,334.31	0.00	84,893,364.59	472,043,515.12	330,839,937.57
	405,429,203.19	235,697,741.84	83,850,864.69	0.00	557,276,080.34	74,429,672.62	10,589,428.60	0.00	85,019,101.22	472,256,979.12	330,999,530.57

Independent auditor's report

To DEMIRE Deutsche Mittelstand Real Estate AG

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

OPINIONS

We have audited the annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, which comprise the balance sheet as of 31 December 2017, and the income statement for the fiscal year from 1 January 2017 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of DEMIRE Deutsche Mittelstand Real Estate AG for the fiscal year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance contained in the combined management report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2017 and of its financial performance for the fiscal year from 1 January 2017, to 31 December 2017 in compliance with German legally required accounting principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the statement on corporate governance contained in the combined management report.

Pursuant to Section 322 (3) Sentence 1 HGB (Handelsgesetzbuch – German Com-

mercial Code), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

BASIS FOR THE OPINIONS

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

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

ADEQUATE VALUATION OF THE SHARES IN AFFILIATES AND LOANS TO AFFILIATES

Reasons why the matter was determined to be a key audit matter

DEMIRE AG's annual financial statements contain investments in affiliated companies totalling EUR 140.6 million and loans to affiliated companies amounting to EUR 331.5 million. The valuation of these line items is based on a discounted earnings method applied to determine the fair values of investments and loans to affiliated companies. These entities indirectly hold the Company's properties. In this method that is customary in the industry, the market values of the properties and buildings under the subsidiaries' fixed assets are determined by external independent experts using the capitalised earnings method. The determination of the capitalised earnings values involved assumptions regarding the development of rents, vacancies, deductions and maintenance costs as well as the discount rates. These valuation assumptions are subject to the exercise of judgement and, due to their long-term nature, uncertainty. Against this backdrop and due to the materiality of the balance sheet items "Shares in affiliates" and "Loans to affiliates", the valuation of "Shares in affiliates" and "Loans to affiliates" was a key audit matter.

Auditor's response

The valuation is based on a discounted earnings model, whose methodological and arithmetical appropriateness was reviewed and verified by us. The review included, among others, an assessment of the suitability of the expert opinion by an independent appraiser commissioned by the Company and used as evidence for the review.

We assessed the assumptions underlying the valuations with regard to the development of rents, vacancy rates and maintenance costs together with our internal specialists for real estate valuation and analysed whether they are in line with general and industry-specific market expectations. We also compared the average cost of capital applied with publicly available market data, assessed the change in key assumptions including future market conditions and reperformed calculations. We discussed the key planning assumptions with the executive directors. We also performed additional own sensitivity analyses for the entities in order to estimate any potential impairment risk associated with a reasonably possible change in one of the significant assumptions used in the valuation.

Moreover, we considered the disclosures in the notes to the financial statements on the shares in affiliates and loans to affiliates.

Our procedures did not lead to any reservations relating to the adequate valuation of shares in affiliates and loans to affiliates.

Reference to related disclosures: The disclosures made by the Company on the shares in affiliates and loans to affiliates are contained in the notes to the financial statements under "Fixed financial assets" and in the section on assets and liabilities in the combined management report.

Other information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance contained in the combined management report. The other information also comprises the foreword by the Executive Board, DEMIRE on the capital market, EPRA key figures, the report of the Supervisory Board and the Corporate Governance Report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going-concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken

on the basis of these annual financial statements and this combined management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 29 June 2017. We were engaged by the Supervisory Board on 5 November 2017. We have been the auditor of DEMIRE Deutsche Mittelstand Real Estate AG without interruption since fiscal year 2013/2014.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to Group entities the following services that are not disclosed in the annual financial statements or in the combined management report:

- Issuance of comfort letters in connection with capital market transactions
- Translation services

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the audit is Thomas Schmitt.

Imprint

CONTACT DETAILS

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RESPONSIBLE PUBLISHER

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG

CONCEPT AND LAYOUT

FIRST RABBIT GmbH

STATUS

April 2018



Scan the QR code with your smartphone
to access the corresponding app
and receive a direct link
to our Company website.

