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Separate Financial Statements

Fiscal year
1 January – 31 December 2018

DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE

CONTENTS

Foreword by the Executive Board

Ladies and Gentlemen,

An exciting and eventful year is behind us. Global growth and Germany's economic growth lost momentum in 2018 in the face of political uncertainties, including the US-China trade dispute and Britain's exit from the European Union. These events also took their toll on the stock market and, as a result, investors witnessed a downtrend as the year progressed. The real estate markets, however, behaved quite differently, springing to a new high again in 2018. The market for commercial real estate transactions posted a record volume of more than EUR 60 billion. At the same time, initial yields, unaffected by discussions of rising interest rates, fell to a new historic low. This environment fuelled an upswing in the real estate investment market for the ninth consecutive year and, according to experts, the market will remain at an exceptionally high level in 2019.

The development in the commercial real estate market throughout the 2018 financial year underscores our success in establishing DEMIRE as one of the leading holders of German commercial real estate. This development led us in November 2018 to raise our original forecast published at the beginning of the year. We increased our forecast for FFO I (after taxes and before minorities) from an initial range of EUR 16 million to EUR 18 million to EUR 23 million to EUR 24 million. Based on the strength of our letting performance, we also adjusted our forecast for 2018 rental income from a previous range of EUR 71 million to EUR 73 million to around EUR 74 million.

At the end of the year, we reached the adjusted forecast as planned. Our most important operational and financial key ratios in the 2018 financial year developed as follows:

- We achieved a high letting performance of around 82,600 m², of which approximately 36 % was attributable to new lettings and 64 % to follow-on leases – amounting to approximately 8.9 % of our total lettable space.
- The EPRA vacancy rate of the core portfolio declined as a result of new lettings. Taking into account properties already sold, the rate dropped by a further 190 basis points during the financial year to 7.5 %.
- Annualised rental income from our core portfolio on a like-for-like basis (adjusted for purchases and sales) increased 2.9 % in the 2018 financial year.
- We generated stable rental income compared to the same period of the previous year, achieving a total of EUR 73.7 million (FY 2017: EUR 73.7 million) based on strong letting performance despite the sale of non-strategic real estate over the past 12 months.

- The net loan-to-value ratio improved significantly year-on-year by around 21.4 percentage points to 38.7 % as at 31 December 2018 (31 December 2017: 60.1 %) due to an increase in the value of existing real estate and higher cash and cash equivalents as at the reporting date following the capital increases.
- Funds from operations I (FFO I, after taxes and before minorities) nearly doubled as at the reporting date at EUR 23.4 million (31 December 2017: EUR 11.7 million) compared to the previous year and met our latest forecast. This strong performance was mainly due to a significantly improved financial result, lower maintenance costs and an increase in the profit from the rental of real estate.
- Basic EPRA NAV per share was EUR 5.52 at the end of 2018 (31 December 2017: EUR 5.96), and diluted EPRA NAV amounted to EUR 5.50 (31 December 2017: EUR 4.94).

In April 2018, we gained a new strategic anchor shareholder – Apollo Global Management – in the course of our 10 % capital increase. Since becoming a shareholder, Apollo, together with our other major shareholder, Wecken Group, has been driving forward the implementation of our growth strategy. Through the further increase in their shareholdings, which included a takeover offer in April 2018, the early conversion of a majority of the outstanding 2013 / 2018 convertible bond and the subscription to a cash capital increase in November 2018, our major shareholders have significantly strengthened DEMIRE's equity position during the 2018 financial year for further growth in 2019.

Backed by this positive operating performance, we paved the way at the end of October 2018 for continued cash flow growth in the 2019 financial year. Given the successful placement of the cash capital increase in the amount of roughly EUR 150 million, we are in a position to acquire further commercial real estate. At the beginning of November 2018, we announced the conclusion of a purchase agreement for the acquisition of a portfolio consisting of four office properties in attractive locations for an investment volume of around EUR 167 million. This portfolio currently generates net rental income, excluding utilities of more than EUR 8 million annually, and the FFO contribution is more than EUR 3 million annually. Using our active management approach, our plan is to successively reduce vacancies and optimise the management of the acquired real estate and bring the portfolio's FFO contribution gradually up to around EUR 6 million annually by the year 2023. We expect to complete the transaction and the transfer of the properties in the first half of 2019.

In 2019, we want not only to continue on our growth path but also increase the speed of our transactions. Two strategic decisions implemented already at the end of 2018 and early 2019, are of particular importance for DEMIRE's future in pursing growth in a targeted and efficient manner.

- After outsourcing the property and facility management activities at the end of 2018, we are relying on a significantly more flexible and scalable real estate management model for German commercial real estate for our future growth. As an external and internationally renowned service provider, we have assigned a major portion of the property management for the DEMIRE portfolio to STRABAG Property and Facility Services. The roughly 20 % of the portfolio that remains is our indirect ownership through our subsidiary Fair Value REIT AG, which is overseen by IC Property Management GmbH.
- At the Extraordinary General Meeting on 11 February 2019, DEMIRE's shareholders demonstrated their continued faith in the company and in the Executive Board by approving the meeting's agenda items of creating new authorised and conditional capital with a large majority. In creating this capital, we have significantly boosted our flexibility to acquire further real estate at opportune times.

Our common goal is to build a leading listed commercial real estate platform in Germany with a portfolio in excess of EUR 2 billion. At the same time, with an active approach to real estate management, we want to gradually strengthen our real estate portfolio by continuing to reduce vacancies, making targeted building improvements, exploiting the potential value added and disposing of non-strategic real estate.

Based on the tools we have available, we believe we are well-positioned to tackle the next steps in our growth in the 2019 fiscal year and beyond. Our business model offers a high level of potential added value in the German commercial real estate market, which we intend to use as much as possible in the months and years ahead from a position of strength. We are confident that we will soon find other attractive properties to purchase and add to our portfolio. These properties will not only help us achieve steadily increasing cash flow but also economies of scale from our active "manage-to-core" approach, as well as better and more efficient management of our real estate portfolio.

Dear shareholders, we look forward to the exciting challenges at DEMIRE AG. You have placed your trust in DEMIRE in the past and have followed our path to this point, and we hope you will continue to support us in the next phase of our growth. We would like to extend our appreciation to the DEMIRE employees, whose strong commitment makes DEMIRE's profitability stronger by the day. We are particularly grateful for their dedication in the 2018 financial year.

Together, we would like to continue our positive corporate development in 2019. We therefore invite all shareholders, business partners, employees and friends of DEMIRE to join us on this journey.

Frankfurt am Main, 18 March 2019

Ingo Hartlief FRICS
Chief Executive Officer (CEO)

Tim Brückner
Chief Financial Officer (CFO)

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG: Ingo Hartlief FRICS, CEO (right) and Tim Brückner, CFO (left)

Report of the Supervisory Board

Ladies and Gentlemen,
In the 2018 financial 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 informed the Supervisory Board on the basis of written and verbal reports. These reports included a detailed discussion of 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 Supervisory Board reviewed the detailed clarifications submitted by the Executive Board when business development diverged from the previously approved plans and targets as well as information on measures necessary to counter any divergence and communicate them to the capital market. After careful examination and consultation, the Supervisory Board members approved the reports and resolution proposals of the Executive Board to the extent required by the provisions of the law, the Articles of Association and the Rules of Procedure.

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

Consultancy and other services provided by members of the Supervisory Board to the Company existed with Prof Dr Alexander Goepfert, Chairman of the Supervisory Board of the Company. Prof Dr Goepfert was active until 31 December 2018 as a partner of the law firm Noerr LLP. The law firm Noerr LLP became legal advisers in 2018 to DEMIRE Deutsche Mittelstand Real Estate AG. Further conflicts of interest of members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information to the Annual General Meeting did not arise in the year under review.

COMPOSITION OF THE SUPERVISORY BOARD

MITGLIEDER DES AUFSICHTSRATS IM GESCHÄFTSJAHR 2018

- Prof Dr Hermann Anton Wagner (from 17 April 2013 until 27 June 2018, chairman from 23 October 2013 until 27 June 2018)
- Frank Hölzle (since 14 February 2017, vice chairman)
- Dr Thomas Wetzel (since 14 February 2017)
- Prof Dr Alexander Goepfert (since 27 June 2018, chairman)

CHANGES IN THE SUPERVISORY BOARD

At the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG on 27 June 2018, Prof Dr Alexander Goepfert was newly elected to the Supervisory Board. At the constituent meeting, he also assumed the chair of the Supervisory Board from Prof Dr Hermann Wagner, who left the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG at the end of the Annual General Meeting.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board consisted of three members in the 2018 financial year. 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 with Chairman Prof Dr Alexander Goepfert (middle), Vice Chairman Frank Hölzle (left) and Dr Thomas Wetzel (right)

WORK OF THE PLENUM IN THE REPORTING YEAR

The Supervisory Board met eight times in the 2018 financial year: 19 March, 10 April, 5 June, 27 June, 9 July, 7 August, 13 December and 20 December 2018. In addition, in a number of conference calls, the Board discussed current topics specifically in connection with the 10 % capital increase in April 2018, in the course of which AEPF III 15 S.à r.l. became the Company's new major shareholder; the related mandatory offer in April 2018, and the cash capital increase in November 2018 with gross issue proceeds of around EUR 150 million. All of the members of the Supervisory Board participated in all of the meetings and conference calls during their respective periods of office, except for Prof Dr Wagner, who was excused from the meeting on 5 June 2018.

1ST QUARTER 2018

In a conference call on 26 February 2018, and at its meeting on 19 March 2018, the Supervisory Board dealt in detail with the business development and optimisation projects in the 2018 financial year.

On 26 February 2018, the Supervisory Board approved the increase in the Company's share capital of EUR 5,425,774.00 from authorised capital by issuing 5,425,774 new no-par-value bearer shares. AEPF III 15 S.à r.l., a holding company owned by Apollo European Principal Finance Fund III, subsidiaries of Apollo Global Management LLC (Apollo), had signed a subscription agreement to fully subscribe to the new shares. The subscription to the new shares by AEPF III 15 S.à r.l. was subject to the approval of the Federal Cartel Office. The implementation of the capital increase was entered into the commercial register on 5 April 2018. On 19 March 2018, the Executive Board presented the preliminary business plan to the Supervisory Board for the 2018 financial year.

2ND QUARTER 2018

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

On 10 April 2018, 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 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 Federal Gazette as amended on 7 February 2017, as well as the deviations from these recommendations. On 12 April 2018, the Declaration of Conformity was 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 25 April 2018, thereby adopting the annual financial statements of the Company.

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The auditor participated in this conference call and reported on the key findings of the audit and confirmed that it would attach an unqualified audit opinion to the audit of the separate financial statements and the consolidated financial statements of the 2017 financial year including the combined management report for the Company and the Group.

Based on its shareholding in DEMIRE Deutsche Mittelstand Real Estate AG and a shareholder voting agreement with Wecken & Cie. ("Acting in Concert"), AEPF III 15 S.à r.l. has made an offer to the Company's other shareholders on 16 April 2018 to acquire all of the no-par bearer shares, including the ancillary rights existing at the time of the offer's settlement, for cash consideration of EUR 4.35 per share (Mandatory Offer). The offer document, whose publication was authorised by the German Federal Financial Supervisory Authority (BaFin) on 13 April 2018, was submitted to the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG by the bidder on 16 April 2018 and, subsequently, to the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG and the employees. The Executive and Supervisory Boards of DEMIRE Deutsche Mittelstand Real Estate AG have carefully examined the offer and deliberated in separate meetings, passing a resolution on 25 April 2018 on a joint statement in accordance with Section 27 (1) WpÜG.

The Executive and Supervisory Boards were of the opinion that the consideration offered by the bidder in the amount of EUR 4.35 per DEMIRE share corresponded to the fair value of the DEMIRE share and is therefore financially appropriate and that the offer is in the interests of DEMIRE Deutsche Mittelstand Real Estate AG. The Executive and Supervisory Boards therefore supported the offer and recommended that DEMIRE shareholders accept the offer. In order to prevent any potential conflicts of interest, the deputy chairman of the Supervisory Board, Mr. Frank Hölzle, CEO and member of the Board of Directors of Care4 AG, a company controlled by Klaus Wecken, did not take part in the discussion on the Supervisory Board's statement but did take part in passing the resolution by abstaining from voting to ensure a quorum of the Supervisory Board. The joint statement by the Executive and Supervisory Boards of DEMIRE Deutsche Mittelstand Real Estate AG was published on 26 April 2018.

The measures to publish a repurchase offer for investors in the 2017 / 2022 corporate bond as a result of the change of control and the assumption of bridge financing of up to EUR 400 million, including the associated total costs (bank fees, legal fees, etc.), have been approved by the Supervisory Board in a conference call on 4 May 2018. These were also the topics of the conference calls on 14 May 2018 and 14 June 2018, in addition to approving the convening documents for the Annual General Meeting on 27 June 2018.

On 14 June 2018, the Supervisory Board approved the necessary bridge financing in the amount of approximately EUR 34 million after the repurchase offer for EUR 33,375,000.00 had been accepted.

At the Annual General Meeting on 27 June 2018, the Supervisory Board proposed the election of the PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the auditor and Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG for the 2018 financial year as well as the auditor for any audit reviews of condensed financial statements and interim reports as well as for interim financial reports in the financial years 2018 and 2019 until the next Annual General Meeting. Before submitting this proposal, the Supervisory Board conducted a selection procedure in accordance with the Auditors Ordinance and obtained the declaration of the auditing firm as to its independence provided for by the German Corporate Governance Code. At the constituent meeting of the same day, the newly elected Supervisory Board member, Prof Dr Alexander Goepfert, was also elected chairman of the Supervisory Board.

3RD QUARTER 2018

At its meeting on 9 July 2018, the Supervisory Board approved the purchase of a further 238,064 shares in Fair Value REIT-AG from AEPF III 15 S.à r.l. through FVR Beteiligungsgesellschaft Achte GmbH & Co. KG, Frankfurt am Main. The Supervisory Board also approved a corresponding increase in the stake in Fair Value REIT-AG and adopted the updated business plan for the 2018 financial year. Potential property acquisitions were also presented to the Supervisory Board.

At a meeting on 7 August 2018, the Executive Board presented the results of the first half of 2018 and discussed the development of the key earnings figures with the Supervisory Board. The Supervisory Board approved the publication of the half-year report on 16 August 2018.

In two conference calls in mid-August, the Executive Board presented a selection of new potential external property management service providers as an alternative to the previous intragroup solution, as well as the associated liquidation of the subsidiary Demire Immobilien Management GmbH. The Supervisory Board approved the contract with STRABAG Property and Facility Services GmbH on 20 August 2018.

4TH QUARTER 2018

In the conference call on 25 October 2018, the Executive Board's resolution on a capital increase by issuing 34,512,703 new shares was approved. Previously, the capital increase and the purchase opportunities for the use of the resulting liquid funds amounting to approximately EUR 150 million were discussed in detail, and the financial impact on the current financial year and subsequent years was examined. In the conference call on 30 October 2018, the purchase of a real estate portfolio for EUR 167 million consisting of four properties in attractive B locations was approved by the Supervisory Board.

In the conference call on 30 October 2018, the Supervisory Board approved the sale of the 51% interest in PRAEDIA GmbH, thereby approving the outsourcing of the facility management in addition to the outsourcing of the property management.

In the conference call on 7 November 2018, the Executive Board presented the results of the 2018 nine-month period and discussed the development of the key earnings figures with the Supervisory Board, specifically the forecast for rental income and funds from operations (FFO) for 2018. The Supervisory Board approved the ad hoc publication to increase the forecast on the same day as well as the publication of the quarterly statement on 15 November 2018.

At the meeting on 13 December 2018, the Supervisory Board was presented with a detailed analysis of selected real estate properties, as well as further financing possibilities and an initial preliminary business plan for 2019.

At the meeting on 20 December 2018, Mr Ingo Hartlief was appointed as a member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, as well as the chairman of the Executive Board with immediate effect until the end of 31 December 2021. The Supervisory Board also discussed the possibility of an Extraordinary General Meeting in February 2019 and subsequently approved this meeting by way of written circulation.

WORK OF THE PLENUM AFTER THE END OF THE REPORTING YEAR

At the meeting on 3 January 2019, the Supervisory Board dismissed Mr Ralf Kind as a member of the Executive Board with immediate effect, terminated the contract of employment with Mr Ralf Kind for good cause and entrusted Mr Ingo Hartlief with the tasks of Mr Kind on an interim basis.

In the conference call on 17 January 2019, the Supervisory Board appointed Tim Brückner as a further member of the Company's Executive Board with responsibility for the finance area effective 1 February 2019 until the end of 31 December 2021.

On 6 March 2019, together with the Executive Board, the Supervisory Board approved the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG pursuant to Section 161 AktG 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 Federal Gazette in the version of 7 February 2017, as well as the Corporate Governance Report and the Corporate Governance Statement in accordance with Sections 315 and 289f of the German Commercial Code. The Declaration of Conformity was subsequently published on the *Company's website.*

At the meeting on 6 March 2019, the Supervisory Board dealt comprehensively with the separate and consolidated financial statements for the 2018 financial year, including the combined management report for the Company and the Group. The auditors PricewaterhouseCoopers GmbH attended this meeting and reported on the main findings of their audit to date. The auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, was elected by the Annual General Meeting on 27 June 2018 and appointed by the Supervisory Board as the auditor and Group auditor as well as the auditor for a possible audit review of the condensed financial statements and interim reports, as well as interim financial reports in the financial years 2018 and 2019 until the next annual general meeting.

At the same meeting, the Executive Board presented possible measures for optimising the real estate portfolio, the property management and the organisation.

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

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MATTERS OF THE EXECUTIVE BOARD

Mr Ralf Kind was the only member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG until 20 December 2018. On 20 December 2018, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG appointed Mr Ingo Hartlief as a new member of the Executive Board and Chief Executive Officer of the Company with immediate effect until the end of 2021. The purpose of expanding the Executive Board was to prepare for the growing demands of the Company's planned portfolio growth.

On 3 January 2019, the Supervisory Board dismissed Mr Ralf Kind as a member of the Executive Board with immediate effect, and the contract of employment was terminated for good cause. As announced in a related statement, on 17 January 2019, the Supervisory Board appointed Tim Brückner effective 1 February 2019 as a further member of the Company's Executive Board with responsibility for the finance area.

ABHÄNGIGKEITSBERICHT GEMÄSS § 312 ABS. 1 AKTG

In the 2018 financial year, DEMIRE Deutsche Mittelstand Real Estate AG was a dependent company of BRH Holdings GP Ltd. through Apollo Global Management LLC as defined by Section 312 AktG. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG has therefore prepared an Executive Board report on the relations with affiliates ("Dependency Report") in accordance with Section 312 (1) AktG, which contains the following concluding statement:

In the 2018 financial year, DEMIRE Deutsche Mittelstand Real Estate AG was a dependent company of BRH Holdings GP Ltd. through Apollo Global Management LLC as defined by § [Article] 312 AktG. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG has therefore prepared an Executive Board report on the relations with affiliates ("Dependency Report") in accordance with § [Article] 312 (1) AktG, which contains the following concluding statement:

"In accordance with the circumstances known to us at the time when the legal transactions were entered into, our company received appropriate consideration for each legal transaction listed in the report on relationships with affiliated companies. In the year under review, no reportable measures were taken or omitted by our company within the meaning of § [Article] 312 of the German Stock Corporation Act (AktG)."

The Supervisory Board received and reviewed the Dependency Report in good time. The auditor was present at this meeting. The auditor reported on the key findings of his audit and was available for additional information. On 18 March 2019, the auditor furnished the Dependency Report with the following unqualified audit opinion:

"As engaged by the Company, we audited the report of the management board according to § [Article] 312 AktG [Aktiengesetz: German Stock Corporation Act] on relations with affiliated companies according to § 313 AktG for the reporting period from 5 April to 31 December 2018. As the final result from our audit has not led to any reservations, we issue according to § 313 Abs. [paragraph] 3 Satz [sentence] 1 AktG the following auditors report:

Following our mandatory audit and evaluation, we confirm that
1. the disclosures made in the report are correct,
2. for the transactions presented in the report, the efforts of the Company were not inadequately high."

STRENGTHENING THE GROUP'S FUTURE GROWTH THROUGH SUCCESSFUL CAPITAL INCREASES AND ACQUISITIONS

As part of a 10 % increase in the share capital in February 2018, the Company gained a new, experienced strategic investor, Apollo Global Management LLC, who together with the other anchor shareholder Wecken & Cie. is fully in favour of the DEMIRE 2.0 strategy and actively supports the planned growth of DEMIRE Deutsche Mittelstand Real Estate AG.

Despite the repurchase offer as a result of the change of control, over 90% of the unsecured 2017/2022 corporate bondholders waived their early repayment, leaving their capital with the company while clearly indicating their confidence in the solid performance of DEMIRE Deutsche Mittelstand Real Estate AG.

With the completion of the capital increase from authorised capital against cash contribution announced on 25 October 2018, the Company generated gross proceeds of around EUR 150 million in November and laid a major cornerstone for financing its further growth. The number of shares in the Company increased by 34,512,703 from 73,085,728 to 107,598,431 as a result of the public offering of new shares against subscription rights. The execution of the capital increase was registered on 12 November 2018 in the commercial register of the District Court of Frankfurt am Main. The gross proceeds from the capital increase, net of fees and expenses associated with the capital increase, will be used to fund further portfolio growth, including the acquisition of four office properties valued at EUR 167 million already secured by a contract.

These are examples of how the Executive Board is consistently implementing the planned measures planned to enhance the existing commercial real estate portfolio and further expand it to more than EUR 2 billion. The forecast of the funds from operations (FFO) for the 2018 financial year was raised already in November 2018 from a range of EUR 16 to EUR 18 million to EUR 23 to EUR 24 million, and the forecast for rental income from EUR 71 to 73 million to around EUR 74 million.

This latest forecast was confirmed by the Group's financial figures as at 31 December 2018, with rental income of EUR 73.7 million and funds from operations amounting to EUR 23.4 million before minority interests and after taxes.

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Group's employees for their great commitment – particularly in the context of the closing of transactions, capital increases, outsourcing and acquisition projects – and for their constructive collaboration during the 2018 financial year.

This report was discussed in detail and adopted by the Supervisory Board during its conference call on 18 March 2019.

Frankfurt am Main, March 2019

Prof Dr Alexander Goepfert
(Chairman of the Supervisory Board)

Group principles

The following presents the combined management report for DEMIRE Deutsche Mittelstand Real Estate AG ("the Company"), Frankfurt/Main, and the Group ("DEMIRE" or the "DEMIRE Group") for the financial year from 1 January to 31 December 2018. 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/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 Düsseldorf stock exchanges.

DEMIRE holds commercial real estate in medium-sized cities and up-an-coming peripheral areas of metropolitan centres throughout Germany. The Company's special strength is in these secondary locations. DEMIRE grew especially rapidly in the period 2013 to 2016, both through acquiring individual properties and interests in companies and currently has a portfolio consisting of roughly 0.9 million m² in lettable space and a market value of more than EUR 1.1 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.

The DEMIRE Group's own real estate management carries out the acquisition, asset management and letting of commercial real estate. Increases in value are to be achieved through an active real estate management approach. Part of this approach is the targeted sale of properties when they no longer correspond to the business model or their potential for value appreciation 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 were largely part of the Group prior to the takeover of Fair Value REIT-AG.

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 contains the effects of the legacy portfolio, which was sold off and deconsolidated and is no longer significant for 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 1.1 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.

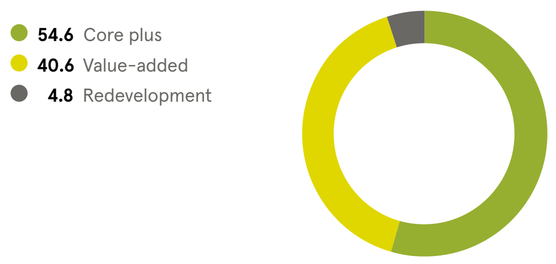
The Company's investment strategy is based on a balanced risk-opportunity profile, which is reflected in the fact that DEMIRE invests only in those properties that generate positive cash flow from the outset and have several financially sound tenants, especially when they permit the alternative use of 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 ("A locations" Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, 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. Secondary locations have tenants who are mainly medium-sized companies that have a high degree of loyalty to a location as well as 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 SUB-DIVIDED INTO THREE CATEGORIES:

- The Core Plus portfolio comprises real estate whose current risk / return profile is characterised by a vacancy rate of up to 5 % and an average remaining lease term of at least five years. These properties provide safe and sustainable cash flows from long-term rental income and tenants with high credit ratings.
- 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 up to 10 % of the total real estate in the DEMIRE portfolio, which from today's perspective should be repositioned on the market by means of 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 reduces 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 individual investments, 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



(Status: 31 / 12 / 2018)

Objectives

At its Annual General Meeting at the end of June 2017, DEMIRE defined its concrete targets for further growth 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 1.1 billion to a future total of more than 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 I before minorities, after taxes) as its key performance indicator. To increase FFO I, the management is tasked with improving the cash flow of the real estate portfolio over time. On an operating level, the trend in occupancy rates, actual net rents per square metre excluding service charges, ongoing maintenance and operating costs, allocable service charges, delinquent rents and net operating income (NOI) are all monitored and managed using periodic target-performance comparisons. Integrated cash flow planning links the business segments to the individual properties. Continuous monitoring of the liquidity and the occupancy rate is carried out in addition to the use of the financial performance indicators. 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 net profit/loss for the period and the cash flow. The active and ongoing management of the portfolio of financial liabilities combined with the continuous market observation, monitoring and assessment are carried out to achieve an ongoing improvement in the financial result.

Economic Report

MACROECONOMIC ENVIRONMENT AND SECTOR ENVIRONMENT

MACROECONOMIC ENVIRONMENT

Trade conflicts and a tighter US monetary policy: The global economy lost momentum in the course of 2018, but still grew – similar to the previous year – by 3.7 %. Gross domestic product (GDP) for the eurozone rose by only an estimated 1.8 %.

Germany's economic growth also lost considerable momentum. According to the Federal Statistical Office, real GDP was 1.5 % higher in 2018 than in the previous year. Growth impetus came from both consumption and investment, mainly from domestic sources. Construction investment increased by 3.0 %. Gross value added increased in almost all sectors of the economy. At 3.6 %, growth was also above average in the construction sector. Germany again registered a record 44.8 million employed people.

SECTOR ENVIRONMENT

The construction boom continued in 2018; Demand for housing continued unabated and financing conditions remained favourable. With incoming orders EUR 72.3 billion, the construction industry had already reached the same level for full-year 2017 in just the first eleven months of 2018.

The Federation of the German Construction Industry (Hauptverband der Deutschen Bauindustrie – HDB), predicts sales growth for the entire industry (including small businesses) in 2018 of a nominal 6 % (real: 1.5 %). This industry growth was reflected positively in the development of the labour market with the average number of employees in the construction sector in 2018 amounting to 832,000, for a year-on-year rise of 20,000 or 2.5 %.

The transaction market for commercial real estate and residential portfolios

The commercial investment market can reflect on a sensational year in 2018: Record volume combined with yields at historically low levels. The moderate increase in interest rates left the real estate market unimpressed in 2018. Numerous investors – such as pension funds and insurance companies – increased their investment weightings in real estate, marking the ninth consecutive year of the upturn in the investment market. The commercial real estate segment set a new record in 2018, with transaction volumes up a good 6 % year-on-year reaching a level of EUR 60.3 billion. Also worth noting was the fact that it was the fourth year in a row that turnover exceeded more than EUR 50 billion. When the "living" category is also included, the transaction volume reaches EUR 79 billion. The "living" category comprises multi-family homes and residential portfolios with ten or more residential units, apartment houses, student halls, senior / nursing homes and clinics.

Within the commercial real estate sector, office properties continued to be the preferred asset class in the reporting year. Of the total transaction volume (including "living"), office properties accounted for around 37 %, or EUR 29 billion. Residential real estate took second place with 27 %. At EUR 18.7 billion, the transaction volume of this segment exceeded the value of the previous year. Almost all of this increase, however, is attributable to higher prices. Retail real estate took third place in 2018 with a share of 13 %. Transaction volume for this segment continued to decline and – at EUR 10.5 billion – was 9 % lower than in the prior year. In contrast to this, investments in the logistics sector increased due to investors' expectations of the sector's potential for long-term value appreciation.

Domestic investors reinforced their strong position in the year under review, with German buyers accounting for 57 % of investors. Domestic buyers reached an investment volume of EUR 2.2 billion and ranked first in 2018.

The market for office properties

As the number of people employed increased in 2018, corporate demand for office space increased accordingly. As a result, the German office property market continued to show strong but less buoyant momentum due to supply shortages. According to an analysis by Deutsche Immobilien-Partner (DIP), office space turnover (including owner-occupied space) totalled 4.58 million square metres, which was below the previous year's level (previous year: 5.08 million square metres). The DIP analyses not only includes the seven top locations (Berlin, Düsseldorf, Frankfurt / Main, Hamburg, Cologne, Munich, Stuttgart), which accounted for around 84 % of total DIP office space turnover in 2018, but also important secondary locations (Bremen, Dresden, Essen, Hanover, Karlsruhe, Leipzig, Magdeburg and Nuremberg).

Office completions rose by just under 8 % to 927,000 square metres in the 2018 reporting year. The inventory of office space fell in the selected office markets in the course of the year by about 900,000 sqm to about 4.6 million sqm (as at the end of 2018). As a result, the vacancy rate fell to 4.1 % (end of 2017: 4.9 %).

The seven largest German office markets ("Top 7") suffered a 10 % decline in office space turnover in the year under review. The most popular seven German office markets once again achieved above-average turnover of 3.8 million square metres in 2018 but did not surpass the previous year's record (2017: approx. 4.3 million sqm). The office market was, however, robust in terms of lettings. While prime rents in many areas grew much more slowly than in the previous year, the increase in average rents was significantly stronger. The same applies to the other eight medium-sized DIP office centres, which recorded office space turnover of around 729,000 square metres in 2018 (2017: around 809,000 square metres). There was a wide spread in the market for medium-sized locations. Magdeburg stood out with an increase in turnover of 24 %. The office markets in Essen and Bremen also grew. In contrast to those markets, the space turnover in Hanover declined 22 %, with the turnover in Dresden and Karlsruhe declining 19 % each.

The slightly lower level of new construction limited the availability of newly built space in inner-city locations, among others. The so-called completed space volume in the year under review was almost 850,000 square metres. Despite being slightly above the previous year's level, this level was below the average of the previous five years (of around 900,000 square metres). This led to an increase in weighted prime rents across all markets, which had settled at the end of 2018 at around EUR 30.10 per square metre (end of 2017: EUR 28.50 per square metre). While prime rents in Essen, Karlsruhe and Stuttgart remained stable, they rose in the other DIP cities. Berlin was in the lead with a rise of 13 % in prime rents, whereas Bremen and Hamburg were the laggards with a plus of 2 % each.

The market for retail properties

The retail sector continues to struggle with structural changes. As a result, the German investment market for retail properties declined by EUR 2.5 billion to EUR 10.6 billion. Although the market managed to stay slightly above the long-term average, this level still represented a drop of 24 % compared to the previous year. The market environment in 2018 was mixed. Specialty stores and specialty centres are still the most popular asset class and, with an investment volume of EUR 4.4 billion, accounted for 42 % of the total. These types of retail properties are particularly popular when they also include grocery stores.

Retail properties in central inner city locations increased their share of the total volume to 39 % or EUR 4.1 billion. This is in contrast to the proportion invested in shopping centres, which fell sharply to 14 % or EUR 1.4 billion (previous year: 20 % or EUR 2.7 billion). The reason for this decline is growing online retailing. Overall, market activity in the year under review shifted once again towards the major cities (Top 7 locations), whose transaction volume accounted for just under one-third of the overall market.

Although the sentiment in the brick-and-mortar retail sector continues to be tense due to online competition, retail lettings in 2018 still reached a total of around 480,000 sqm spread among 1,079 individual transactions. As a result, turnover was 7 % higher than in the previous year. One reason for this favourable development was the demand for retail space in the ten largest metropolitan areas ("Big 10") from international retailers in 2018. International retailers now rent around 30 % of the large spaces offered in those areas. The BIG 10 locations accounted for 42 % of the total letting volume in 2018 compared to only 28 % in the previous year.

Prime rents fell slightly across Germany with the ten most popular locations seeing a marginal decline in prime rents of 0.2 % in the reporting year. Prime rents for the 185 German retail markets as a whole fell by 3.3 % year-on-year.

The market for warehouse and logistics properties

The year 2018 marked a new record year for the warehouse and logistics property market in Germany. The turnover volume amounted to approximately 7.2 million square metres (owner-occupied and lettings) and exceeded the previous record year of 2016 (6.7 million square metres) by 8 %.

The five largest metropolitan areas ("Big 5") in 2018 consisted of Berlin, Düsseldorf, Frankfurt, Hamburg and Munich with turnover of around 2.1 million square metres. This level represented a year-on-year increase of 5 %.

Outside of the Big 5 metropolitan areas, turnover broke through the "sound barrier" of 5 million square metres for the first time. This figure exceeded the previous year's turnover by 14 % (previous year: 4.5 million square metres).

The largest percentage of turnover (around 40 %) in all regions came from companies in the transport, transportation and warehouse sectors. While second place among the Big 5 were retailers, at secondary locations it was the industrial companies.

Development of the commercial real estate and implications for DEMIRE

In the 2018 reporting year, the environment was favourable for the DEMIRE Group – both in terms of the overall economy and the main pillars of the real estate market. Because DEMIRE's strategic focus is on German secondary locations, the Company benefits from the dynamic market development in these locations.

BUSINESS DEVELOPMENT

GENERAL STATEMENT ON BUSINESS PERFORMANCE AND POSITION OF THE GROUP

In the 2018 financial year, DEMIRE was able to achieve further milestones in the implementation of its DEMIRE 2.0 strategy. The DEMIRE 2.0 strategy represents the Company's plan for the next growth phase and for optimising and increasing the efficiency of its real estate platform in Germany's secondary locations. At the centre of this strategy is a focus on Germany's "Secondary Locations" – a key differentiator from DEMIRE's competitors. DEMIRE plans to sustainably establish its market position by doubling the size of its current portfolio from around EUR 1.1 billion to EUR 2 billion. DEMIRE invests in a heterogeneous portfolio with a balanced, diversified risk / opportunity profile through categorising its real estate portfolio into the Core Plus, Value-Added and Redevelopment investment categories. An active "manage-to-core" approach is intended to exploit the valuation potential of the existing real estate portfolio and generate additional and, more importantly, sustainable rental income through a targeted reduction of vacancies. The more efficient management of properties and the optimisation of the corporate structure is expected to result in additional income and further cost savings in the short to medium term, leading to higher profitability for the company in the medium term.

The first milestone in the DEMIRE 2.0 strategy was achieved with the refinancing of liabilities through the placement and increase in a rated, unsecured corporate bond at more favourable terms in the 2017 financial year. As a result of this transaction, interest expenses have fallen significantly in the past 2018 financial year, resulting in a marked rise in funds from operations compared to the 2017 financial year. The positive effect from this transaction expected to materialise in subsequent years led DEMIRE to originally forecast funds from operations (FFO) of around EUR 16 to 18 million and rental income of approximately EUR 71 to 73 million for the 2018 financial year.

The real estate portfolio developed positively during the 2018 financial year, and DEMIRE was able to record stable rental income at the year's end despite the sale of non-strategic real estate. Rental income on a like-for-like basis (excluding acquisitions and disposals made in the 2018 financial year) increased by 2.9 %. DEMIRE was also once again able to reduce its EPRA vacancy rate by 190 basis points to 7.5 %. In the transaction market, DEMIRE successfully completed its first office portfolio purchase in November 2018 within the scope of its DEMIRE 2.0 strategy. The total investment volume of EUR 167 million will generate additional and attractive cash flows in the 2019 financial year upon the transfer of ownership, benefits and obligations. DEMIRE also sold and notarised three properties worth a total of EUR 1.1 million during the past financial year. Specifically, these were sales of non-strategic real estate whose management in the portfolio was no longer considered by DEMIRE to be economically efficient.

In November 2018, there was a significant change in the organisational structure of the DEMIRE Group. By outsourcing services for property and facility management which had been previously performed in-house, DEMIRE has chosen to apply a much more flexible and scalable real estate management model in the German commercial real estate market than before for its planned growth, which is also more in line with its listed competitors. The renowned service provider STRABAG assumed the property management from DEMIRE for around 80 % of the real estate portfolio, which had a total market value of more than EUR 1.1 billion in November 2018. The remaining 20 % of the real estate portfolio represents the indirect ownership of the DEMIRE Group through its investment in Fair Value REIT and is managed externally by IC Property Management GmbH. In addition, Facility Management was also fully outsourced through the complete sale of shares in Praedia GmbH. After outsourcing the property and facility management in the fourth quarter of 2018, DEMIRE anticipates annual savings of up to EUR 1 million p. a.

Based on solid operating performance and first achievements within the scope of the DEMIRE 2.0 strategy, the Company adjusted its forecast for funds from operations in November 2018 and raised it to EUR 23 to 24 million. The expected level of rental income was increased to around EUR 74 million. In the past 2018 financial year, DEMIRE fully met and in some areas even exceeded its forecast. As at the reporting date, funds from operations (FFO I, before minority interests, after taxes) reached EUR 23.4 million. Rental income was EUR 73.7 million, which was within the latest forecast range.

The Company developed profitably in the 2018 financial year and is well equipped to further expand its investment allure. In addition to further optimising the real estate management platform, the focus of DEMIRE and its shareholders is on achieving portfolio growth targeted at more than EUR 2 billion. The Company therefore expects a further substantial improvement in FFO I over the medium term, as well as a continued increase in its net asset value (NAV). In achieving this, DEMIRE will be establishing the basis for distributing attractive and sustainable dividends to its shareholders in the medium term from rising cash flows.

2018 Target Achievement

KEY EARNINGS FIGURES

23.4

in EUR millions

Original forecast for FFO I (after taxes, before minorities) of EUR 16 – 18 million exceeded, reaching the latest forecast of EUR 23 – 24 million

PORTFOLIO DEVELOPMENT

73.7

in EUR millions

Latest forecast on rental income of EUR 74 million achieved

7.5

in per cent

Successful reduction in EPRA vacancy rate by a further 1.9 percentage points

KEY FINANCIAL INDICATORS

38.7

in per cent

Material reduction of 21.4 percentage points in the net loan-to-value ratio (net LTV); high non-recurring effect from raising equity capital within the scope of a cash capital increase of EUR 150 million in October 2018

3.00

in per cent p.a.

Average interest costs

5.50

in EUR

EPRA NAV (basic) rises significantly by EUR 0.56 per share

DEVELOPMENT OF THE REAL ESTATE PORTFOLIO

As at 31 December 2018, the real estate portfolio consisted of 84 commercial properties with total lettable floor space of roughly 926,000 sqm and a market value of around EUR 1.1 billion. Based on the market value as of 31 December 2018, office properties accounted for the largest share of the total portfolio at around 68 % (31 December 2017: around 67 %). Roughly 23 % of the total portfolio consisted of retail real estate (31 December 2017: around 24 %). Around 6 % was attributed to logistics properties (31 December 2017: around 6 %) and around 3 % of the total portfolio at the end of 2018 contained other-use real estate (31 December 2017: around 3 %).

The independent real estate appraisal of DEMIRE's entire portfolio as at 31 December 2018 was carried out by the global real estate appraiser Savills Immobilien Beratungs-GmbH. Taking into account the real estate already sold, the portfolio's EPRA vacancy rate reached 7.5 % at the reporting date, which is about 1.9 percentage points below the level as at 31 December 2017. DEMIRE's real estate management in the past financial year achieved letting performance of around 82,600 sqm (equivalent to around 8.9 % of the lettable space of the entire portfolio), of which approx. 36 % was attributable to new lettings and around 64 % to follow-on lettings. This corresponds to a total rental volume over the entire rental period of around EUR 27.0 million. The average rental period of the letting performance in the past financial year was around 4.8 years. The weighted average lease term (WALT) of the entire portfolio was 4.5 years as at the reporting date, which represented a year-on-year decline of 0.4 years. Over the next two years, the share of the expiring rental contract volume amounts to around 17.7 %. Approximately 4.1 % of the rental contract volume has no set termination date. The rental income of the real estate portfolio increased roughly 2.9 % or EUR 2.1 million in 2018 on a like-for-like basis.

PORTFOLIO BY INVESTMENT CATEGORY (VALUE)

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN THOUSAND SQM)	VALUE/M²	CONTRACTUAL RENT IN EUR MILLION P.A.	CONTRACTUAL RENT PER SQM	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Core plus	38	617.7	54.6	368.4	1,677	39.5	9.2	6.4	2.2	5.4
Value-added	40	458.5	40.6	520.4	881	30.7	5.7	6.7	13.9	3.3
Redevelopment	6	54.2	4.8	37.7	1,438	3.0	7.8	5.5	0.6	2.1
Total 31/12/2018	**84**	**1,130.4**	**100**	**926.5**	**1,220**	**73.2**	**7.2**	**6.5**	**7.5**	**4.5**
Total 31/12/2017	**86**	**1,034.1**	**100**	**968.9**	**1,067**	**72.1**	**7.2**	**7.0**	**9.4**	**4.9**
Change in %/pp	–2	+9.3%		–4.4%	+14.3%	+1.5%	+0%	–50bp	–190bp	–0.4 years

* Excluding real estate held for sale

PORTFOLIO BY ASSET CATEGORY (VALUE)

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN THOUSAND SQM)	VALUE/M²	CONTRACTUAL RENT IN EUR MILLION P.A.	CONTRACTUAL RENT PER SQM	RENTAL YIELD IN %	EPRA VACANCY RATE IN %*	WALT IN YEARS
Office	61	765.0	67.3	547.8	1,396	49.3	8.1	6.4	7.2	4.0
Retail	16	263.5	23.9	159.8	1,649	17.5	10.4	6.6	7.4	6.0
Logistics	1	65.5	6.0	178.3	367	4.4	2.3	6.7	12.9	1.6
Other	6	36.4	2.8	40.5	899	2.0	4.4	5.5	0.2	5.9
Total 31/12/2018	**84**	**1,130.4**	**100**	**926.5**	**1,220**	**73.2**	**7.2**	**6.5**	**7.5**	**4.5**
Total 31/12/2017	**86**	**1,034.1**	**100**	**968.9**	**1,067**	**72.1**	**7.2**	**7.0**	**9.4**	**4.9**
Change in %/pp	–2	+9.3%		–4.4%	+14.3%	+1.5%	+0%	–50bp	–190bp	–0.4 years

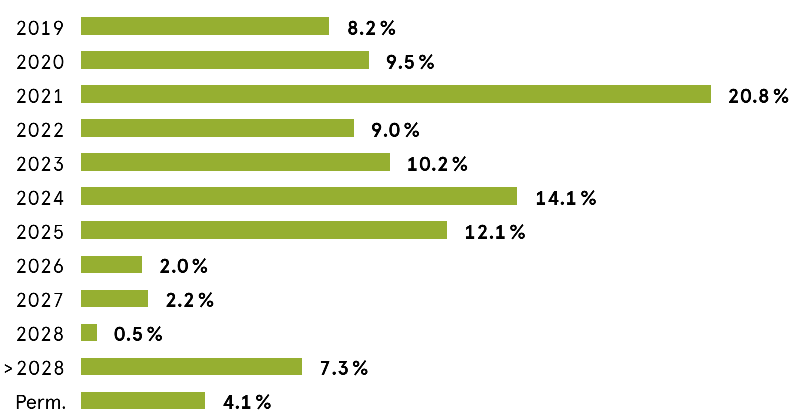
* Excluding real estate held for sale

PORTFOLIO VALUATION & TRANSACTIONS

The independent real estate appraiser Savills Immobilien Beratungs-GmbH assessed the market value of DEMIRE's real estate portfolio (including real estate held for sale) at EUR 1,130.4 million as at the 31 December 2018 reporting date (31 December 2017: EUR 1,034.1 million), for a total increase of around EUR 96.3 million.

Im Geschäftsjahr 2018 wurden insgesamt drei Immobilienverkäufe notariell beurkundet. Für drei Immobilien im Wert von rund EUR 1,1 Millionen erfolgte der Besitz-, Nutzen- und Lastenübergang im Geschäftsjahr 2018. Three properties with a sales volume of around EUR 12.3 million were held for sale (IFRS 5). Their transfer of ownership, benefits and obligations is expected to take place sometime in the 2019 financial year.

TERM OF RENTAL CONTRACTS



Based on annualised rental income

SALES

PORTFOLIO	LOCATION / DESCRIPTION	LATEST MARKET VALUE (EUR thousands)	SALE PRICE (EUR thousands)	NOTARISED	TRANSFER OF OWNERSHIP, BENEFITS AND OBLIGATIONS
DEMIRE	Yellow Portfolio (1 property)	70.0	61.4	December 2016	Still pending
DEMIRE	Darmstadt	6,565.5	10,400.0	December 2016	Still pending
DEMIRE	Apolda	1,840.0	1,875.0	August 2017	Still pending
DEMIRE	Bad Hersfeld	350.0	400.0	April 2018	July 2018
DEMIRE	Bayreuth	20.0	23.0	June 2018	August 2018
Fair Value REIT	Trappenkamp	620.0	625.0	October 2018	November 2018
	Total	**9,494.5**	**13,384.0**		

TOP 5 NEW RENTALS

PORTFOLIO CLUSTER	CITY	STREET	TENANT	LETTABLE SPACE IN M²*	TERM OF RENTAL CONTRACT (IN MONTHS)
Value-Added	Leipzig	Am Alten Flughafen 1	Q CELLS Hanwha GmbH	15.500	9
Value-Added	Leipzig	Am Alten Flughafen 1	Neumann & Müller Event Technology GmbH & Co. KG	3.400	60
Value-Added	Bayreuth	Nürnberger Str. 38	Uni Bayreuth	970	60
Value-Added	Ludwigsburg	Uhlandstraße 21	Stadt Ludwigsburg	880	60
Value-Added	Düsseldorf	Wiesenstraße 70	L & W LORENZO WILMOWSKY GmbH	700	36

*Rounded figures.

TOP 5 FOLLOW-ON RENTALS

PORTFOLIO CLUSTER	CITY	STREET	TENANT	LETTABLE SPACE N M²*	TERM OF RENTAL CONTRACT (IN MONTHS)
Value-Added	Leipzig	Am alten Flughafen 1	Q CELLS Hanwha GmbH	15.500	6
Core +	Münster	Hammer Straße 455 – 459	toom Baumarkt GmbH	7.400	120
Value-Added	Leipzig	Am alten Flughafen 1	Neumann & Müller Event Technology GmbH & Co. KG	7.000	60
Value-Added	Leipzig	Am alten Flughafen 1	TI Automotive GmbH	3.100	12
Value-Added	Dresden	Nossener Brücke 8 – 12	Bundesanstalt für Immobilienaufgaben	2.700	60

*Rounded figures.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

In the 2018 financial year, rental income increased slightly year-on-year based on successful new lettings. Earnings included valuation gains from a significant increase in fair value adjustment to investment properties. These gains were partially offset by higher general and administrative expenses, which stemmed mainly from the higher non-recurring legal and consulting fees in connection with capital market transactions executed in the past financial year. Due to the large extent of refinancing measures in the 2017 financial year, financial expenses almost halved in the year under review.

CONSOLIDATED STATEMENT OF INCOME (Selected information in EUR thousands)	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	IN %
Rental income	73,709	73,716	–7	0.0
Income from utility and service charges	15,101	14,624	477	3.3
Operating expenses to generate rental income	–30,310	–32,708	2,398	–7.3
Profit / loss from the rental of real estate	**58,500**	**55,632**	**2,868**	**5.2**
Income from the sale of real estate and real estate companies	1,052	28,389	–27,338	–96.3
Expenses from the sale of real estate and real estate companies	–1,002	–27,445	26,444	–96.3
Profit / loss from the sale of real estate and real estate companies	**50**	**944**	**–894**	**–94.7**
Profit / loss from fair value adjustment to investment properties	93,059	48,560	44,499	91.6
Impairments of receivables	–1,874	–2,763	889	–32.2
Other operating income and other effects	2,513	5,052	–2,539	–50.3
General and administrative expenses	–19,007	–15,304	–3,703	24.2
Other operating expenses	–6,176	–7,524	1,348	–17.9
Earnings before interest and taxes	**127,065**	**84,597**	**42,468**	**50.2**
Financial result	–38,308	–56,968	18,661	–32.8
Profit / loss before taxes	**88,757**	**27,629**	**61,128**	**>100**
Current incomes taxes	–540	–333	–207	62.2
Deferred taxes	–19,164	–7,864	–11,300	>100
Net profit / loss for the period	**69,053**	**19,432**	**49,621**	**>100**
Thereof attributable to parent company shareholders	61,575	13,783	47,792	>100
Basic earnings per share (EUR)	0.85	0.25	0.60	>100
Weighted average number of shares outstanding (in thousands)	72,178	54,261		
Diluted earnings per share (EUR)	0.85	0.22	0.63	>100
Weighted average number of shares outstanding, diluted (in thousands)	72,698	67,875		

Profit / loss from the rental of real estate

In the financial year 2018, the DEMIRE Group achieved rental income of EUR 73.7 million (2017 financial year: EUR 73.7 million). Compared to the previous year, rental income was stable thanks to a successful letting performance, despite the sale of non-strategic real estate. Rental income thus reached the most recent adjusted forecast of around EUR 74 million (previously: EUR 71 to 73 million).

Income from utility and service charges of EUR 15.1 million (2017 financial year: EUR 14.7 million) includes tenant payments for utilities. Utility and service charges were recognised as expenses to generate rental income and amounted to EUR 30.3 million in the reporting year (2017 financial year: EUR 32.7 million). Of the operating expenses, an amount of EUR 19.9 million (2017 financial year: EUR 19.1 million) is generally allocable and can be passed on to tenants. Operating expenses of EUR 10.4 million (2017 financial year: EUR 13.6 million) are non-allocable.

The profit / loss from the rental of real estate in the reporting year amounted to EUR 58.5 million, increasing year-on-year by 5.2 % (2017 financial year: EUR 55.6 million). This was attributable to stable rental income as a result of letting activities and a reduction in vacancies in the core portfolio, as well as to a lower level of operating expenses than in the same prior-year period to generate rental income.

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

The profit / loss from the sale of real estate reached EUR 0.1 million in the 2018 financial year (2017 financial year: EUR 0.9 million) due to sales in the amount of EUR 1.1 million.

Other operating income and expenses

The result from fair value adjustment in investment properties amounted to EUR 93.1 million (2017 financial year: EUR 48.6 million) and almost doubled compared to the previous year. Other operating income fell by EUR 2.5 million year-on-year to EUR 2.5 million (2017 financial year: EUR 5.1 million). This decline was mainly due to lower non-period income that had resulted in the previous year from the derecognition of liabilities and claims for damages.

Impairment losses on receivables decreased by EUR 0.9 million to EUR 1.9 million as a result of offsetting with corresponding expenses..

Other operating expenses decreased by EUR 1.3 million year-on-year to EUR 6.2 million (2017 financial year: EUR 7.5 million). An increase within the item resulted primarily from the deconsolidation of the legacy portfolio and an increase in non-deductible input tax from higher administrative expenses. In contract to this, non-period expenses declined as a result of invoicing operating costs for previous years, as well as from a decline in agent commissions.

General and administrative expenses

General and administrative expenses increased by 24.2 % to EUR 19.0 million at the end of 2018 (2017 financial year: EUR 15.3 million). The increase mainly resulted from higher one-time legal and consulting fees in connection with capital market transactions in the past financial year.

Financial result

The financial result as at the 2018 reporting date amounted to EUR – 38.3 million (2017 financial year: EUR – 57.0 million) and had improved significantly in the 2018 financial year mainly due to the extensive and successful refinancing in the 2017 financial year. Financial expenses fell by EUR 23.3 million to a total of EUR 26.4 million (2017 financial year: EUR 49.7 million). In addition, interests of minority shareholders in the subsidiaries of Fair Value REIT-AG in the amount of EUR 12.4 million increased significantly (2017 financial year: EUR 8.3 million) due to a positive EUR 7.7 million in unrealised gains in the fair value of the real estate in the funds of Fair Value REIT.

Earnings before interest and taxes (EBIT) increased by EUR 42.5 million to EUR 127.1 million compared to financial year 2017 (EUR 84.6 million). The increase resulted mainly from the fair value adjustment to investment properties.

Net profit / loss for the period

The profit / loss for the period (earnings after taxes) reached EUR 69.1 million in the 2018 financial year, representing a more than 250 % increase above the previous year's result of EUR 19.4 million. The lower financial expenses from the refinancing activities in 2017 alongside valuation effects, helped boost the profit / loss for the period in the 2018 financial year.

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 on page 187.

NET ASSETS

Total assets of the DEMIRE Group amounted to EUR 1.379 billion as at 31 December 2018 (31 December 2017: EUR 1.147 billion) for an increase of EUR 231.6 million compared to the end of 2017. Non-current assets amounted to EUR 1,150.9 million (31 December 2017: EUR 1,032.9 million). Current assets have increased to EUR 215.5 million since the end of 2017 due to higher cash and cash equivalents from the capital increase in November 2018 (31 December 2017: EUR 102.0 million). Non-current assets held for sale as at 31 December 2018 and 2017 include EUR 12.3 million in real estate still held.

Group equity increased to EUR 582.3 million in the 2018 financial year (31 December 2017: EUR 325.5 million; after adjusting for new IFRS standards). The equity ratio was 42.2 % and was well above the previous year's level (by around EUR 256.9 million) following the cash capital increases in early April and November 2018 and the strong profit / loss for the period. Non-controlling minority interests in the amount of EUR 73.1 million are recognised under non-current liabilities and not in equity, mainly due to their legal form as a partnership in accordance with IFRS. The adjusted Group equity totalled EUR 655.4 million or 47.5 % of the Group's total assets (31 December 2017: EUR 389.6 million or 34.0 %). As a result, non-current liabilities amounted to EUR 742.7 million at the end of 2018 (31 December 2017: EUR 774.3 million) and current liabilities to EUR 53.7 million (31 December 2017: EUR 47.4 million). Total liabilities in the DEMIRE Group fell to EUR 796.6 million as at 31 December 2018 (31 December 2017: EUR 821.6 million).

The market value for the real estate portfolio (investment properties and non-current assets held for sale) determined by the external real estate appraiser Savills Immobilien Beratungs-GmbH as of the reporting date was EUR 1,130.4 million (31 December 2017: EUR 1,034.1 million).

Selected information from the consolidated balance sheet

CONSOLIDATED BALANCE S HEET – ASSETS (Selected information in EUR thousands)	31 / 12 / 2018	31 / 12 / 2018	VER-ÄNDERUNG	IN %
Assets				
Total non-current assets	1,150,944	1,032,897	118,046	11.4
Total current assets	215,487	101,957	113,530	>100
Assets held for sale	12,262	12,262	0	0
Total assets	**1,378,692**	**1,147,116**	**231,576**	**20.2**

As at 31 December 2018, non-current assets increased by EUR 118.0 million to EUR 1,150.9 million (31 December 2017: EUR 1,032.9 million). The largest contribution to this increase was attributable to investment properties of EUR 118.0 million, which resulted mainly from fair value adjustments.

As at 31 December 2018, DEMIRE Group's current assets increased by EUR 113.5 million to EUR 215.5 million (31 December 2017: EUR 102.0 million). This increase resulted in particular from a higher level of cash and cash equivalents from a cash capital increase in the amount of around EUR 150 million in November 2018. This increase was partially offset by the repayment of around EUR 33.4 million to the bondholders of the 2017/2022 corporate bond who, in accordance with the bond conditions, accepted the repurchase offer indicated by DEMIRE. Due to the takeover bid by the new major shareholder, Apollo Global Management LLC, and the associated change of control on 16 April 2018, DEMIRE was obliged to offer the bondholders a repurchase offer at a repurchase price of 101 % of the nominal amount plus interest accrued and unpaid until the date of the repurchase offer.

The assets held for sale as at 31 December 2018 include the properties in Apolda, Limbach-Oberfrohna and a sub-property in Darmstadt in the amount of EUR 12.3 million (31 December 2017: EUR 12.3 million).

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (Selected information in EUR thousands)	31/12/2018	31/12/2017	CHANGE	IN %
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to parent company shareholders	537,913	285,417	252,497	88.5
Non-controlling interests	44,425	40,053	4,372	10.9
TOTAL EQUITY	**582,338**	**325,469**	**256,869**	**78.9**
LIABILITIES				
Total non-current liabilities	742,696	774,262	–31,565	–4.1
Total current liabilities	53,658	47,385	6,273	13.2
TOTAL LIABILITIES	796,354	821,647	–25,293	–3.1
TOTAL EQUITY AND LIABILITIES	**1,378,692**	**1,147,116**	**231,576**	**20.2**

Total financial liabilities of EUR 636.6 million (31 December 2017: EUR 694.9 million) include bonds of around EUR 359.7 million and liabilities to banks and third parties of approximately EUR 265.9 million (31 December 2017: combined EUR 675.7 million). The proportion of unencumbered assets as at 31 December 2018 is 46.6 %, up 160 basis points year-on-year (31 December 2017: 45.0 %). As at the reporting date, there were variable interest rate agreements in the amount of EUR 38.7 million. The average nominal interest rate for financial liabilities as at the reporting date was unchanged at 3.0 % p.a.

As at 31 December 2018, trade payables and other liabilities increased to EUR 19.7 million (31 December 2017: EUR 14.7 million). Of these, trade payable accounted for EUR 12.2 million (31 December 2017: EUR 8.6 million) and other liabilities for EUR 7.5 million (31 December 2017: EUR 6.1 million).

At EUR 796.4 million, DEMIRE Group's total liabilities as at 31 December 2018 were slightly below the previous year's level (31 December 2017: EUR 821.6 million).

FINANCIAL POSITION

Financial management

The financial management of the DEMIRE Group is carried out in accordance with the guidelines approved by the Executive Board. This applies to both liquidity management and financing. The central liquidity analysis helps to optimise cash flows with the primary objective being to secure liquidity for the entire Group and retain financial independence. Here, the focus is on long-term and stable financing, which positively supports the business development on an ongoing basis.

Providing periodic information on the financial position to the Supervisory Board is an integral part of the risk management system of DEMIRE. 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)	01/01/2018 –31/12/2018	01/01/2017 –31/12/2017	CHANGE	%
Cash flow from operating activities	38,862	35,814	3,048	8.5
Cash flow from investing activities	– 24,039	20,554	– 44,593	>100.0
Cash flow from financing activities	101,745	– 13,783	115,528	>100.0
Net change in cash and cash equivalents	**116,568**	**42,585**	**73,983**	**>100.0**
Cash and cash equivalents at the end of the period	**190,442**	**73,874**	**116,568**	**>100.0**

The cash flow development in the 2018 financial year reflects the impact of the capital increases in April and November of 2018, as well as the repayment of bonds to the bondholders who accepted DEMIRE's repurchase offer in accordance with the terms of the bond in June 2018 following a change of control. The detailed consolidated cash flow statement precedes the Notes to the consolidated financial statements.

Cash flow from operating activities amounted to EUR 38.9 million at the end of the 2018 financial year (2017: EUR 35.8 million), which is slightly higher than in the previous year. Cash flow from operating activities includes in lower distributions and dividends to minority shareholders totalling a combined EUR 3.0 million and changes in financial receivables and other financial assets as described in the section on net assets.

Cash flow from investing activities reached EUR 24.0 million in 2018, compared with EUR 20.6 million in the same period of 2017. This includes advance payments in connection with a portfolio acquisition and investments in the real estate portfolio.

Cash flow from financing activities amounted to EUR 101.7 million (2017: EUR – 13.8 million) and compared to the same period of the previous year was influenced by the cash inflows from the two capital increases in April and November 2018. The proceeds from the assumption of financial liabilities amounted to EUR 41.1 million and essentially include the bridge financing to repay the cancelled 2017 / 2022 bond in the amount of EUR 33.4 million as part of the change of control. The interest paid on financial liabilities amounts to EUR 22.8 million, and the repayment of financial liabilities amounts to EUR 85.0 million. The net change in cash and cash equivalents amounted to EUR 116.6 million at the end of the 2018 financial year (2017: EUR 42.6 million). Cash and cash equivalents at the end of the reporting period increased to EUR 190.4 million.

The DEMIRE Group was in a position to fully meet its payment obligations throughout the entire period under review.

FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

FINANCIAL KEY PERFORMANCE INDICATORS

Funds from Operations (FFO)

The operating result of the DEMIRE Group is measured by Funds from Operations (FFO). This key earnings figure is adjusted for measurement effects, other disposal and one-off effects and non-periodic income and expenses. FFO I (after taxes and before minority interests) amounted to EUR 23.4 million as at the 31 December 2018 reporting date (financial year 2017: EUR 11.7 million). After minorities and taxes, FFO I amounted to EUR 19.4 million (2017 financial year: EUR 5.4 million). Taking into account the profit / loss from the sale of real estate, funds from operations (FFO II) after taxes and before minority interests amounted to EUR 23.4 million (2017 financial year: EUR 12.6 million), and EUR 19.5 million after taxes and after minorities (2017 financial year: EUR 6.6 million).

FFO CALCULATION (Selected information in EUR thousands)	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	IN %
Profit/loss before taxes	88,757	27,629	61,128	>100
Minority interests	12,373	8,279	4,094	49.4
Earnings before taxes (EBT) *	**101,130**	**35,908**	**65,222**	**> 100**
+/– Profit/loss from the sale of real estate companies	0	0	0	0.0
+/– Profit/loss from the sale of real estate	–50	–944	894	–94.7
+/– Profit/loss from fair value adjustments in investment properties	–93,059	–48,560	–44,499	91.6
+/– Profit/loss from the valuation of derivative financial instruments	0	2,697	–2,697	–100.0
+/– Other adjustments*	15,881	22,886	–7,005	–30.6
FFO I before taxes	**23,902**	**11,986**	**11,916**	**99.4**
+/– (Current) income taxes	–543	–248	–295	> 100
FFO I after taxes	**23,359**	**11,738**	**11,621**	**99.0**
Thereof attributable to parent company shareholders	19,419	5,413	14,006	> 100
Thereof attributable to non-controlling interests	3,939	6,325	–2,386	–37.7
+/– Profit/loss from the sale of real estate companies/real estate (after taxes)	53	862	–809	–93.8
FFO II after taxes	**23,412**	**12,600**	**10,812**	**85.8**
Thereof attributable to parent company shareholders	19,479	6,569	12,910	>100
Thereof attributable to non-controlling interests	3,933	6,031	–2,098	–34.8
FFO I after taxes per share				
Basic FFO I per share (EUR)	0.32	0.22	0.10	49.6
Weighted average number of shares outstanding (in thousands)	72,178	54,261	17,917	33.0
Diluted FFO I per share (EUR)	0.32	0.17	0.14	85.8
Weighted diluted average number of shares outstanding (in thousands)	72.698	67,875	4,822	7.1
FFO II after taxes per share				
Basic FFO II per share (EUR)	0.32	0.23	0.09	39.7
Weighted average number of shares outstanding (in thousands)	72,178	54,261	17,917	33.0
Diluted FFO II per share (EUR)	0.32	0.19	0.14	73.5
Weighted diluted average number of shares outstanding (in thousands)	**72,698**	**67,875**	**4,822**	**7.1**

* Other adjustments include:
- One-time refinancing costs (EUR 8.5 million, previous year: EUR 14.6 million, including one-time impairment of receivables related to sales, as well as other effects from refinancing)
- One-time transaction, legal and consulting fees (EUR 5.0 million, previous year: EUR 4.1 million)
- One-time administrative costs (EUR 2.4 million, previous year EUR 1.9 million)
- Non-period expenses (EUR 0.1 million, previous year: EUR 2.5 million).

Net asset value (EPRA NAV / EPRA NNNAV)

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

EPRA NET ASSET VALUE (NAV / EPRA NNNAV) in EUR thousands	31/12/2018	31/12/2017	CHANGE	IN %
Net asset value (NAV)	537,913	285,417	252,497	88.5
Fair value of derivative financial instruments	0	0	0	0
Deferred taxes	62,050	42,893	19,157	44.7
Goodwill resulting from deferred taxes	– 4,738	– 4,738	**0**	**0**
EPRA NAV (basic)	**595,225**	**323,572**	**271,654**	**84.0**
Number of shares outstanding (in thousands) (basic)	107,777	54,271	53,506	98.6
EPRA NAV per share (EUR) (basic)	5.52	5.96	– 0.44	– 7.4
Effect of the conversion of convertible bonds and other equity instruments	520	12,048	– 11,528	– 95.7
EPRA NAV (diluted)	595,745	335,620	260,126	77.5
Number of shares outstanding (in thousands) (diluted)	108,297	67,885	**40,413**	**59.5**
EPRA NAV PER SHARE (EUR) (DILUTED)	**5.50**	**4.94**	**0.56**	**11.3**
Fair value of derivative financial instruments	0	0	0	0
Adjustments in fair value of liabilities	**3,052**	**– 67,021**	**70,073**	**> 100**
Latente Steuern	**– 62,928**	**– 62,182**	**– 747**	**1.2**
EPRA NNNAV (diluted)	**535,869**	**206,417**	**329,452**	**> 100**
EPRA NNNAV per share (EUR) (diluted)	**4.95**	**3.04**	**1.91**	**62.7**

Net loan-to-value ratio

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 at the reporting date was as follows:

NET LOAN-TO-VALUE (NET LTV) in EUR millions	31/12/2018	31/12/2017
Financial liabilities	636.6	694.9
Cash and cash equivalents	190.4	73.9
Net financial debt	**446.2**	**621.0**
Fair value of investment properties and non-current assets held for sale	**1,152.1**	**1,034.1**
Net LTV in %	**38.7 %**	**60.1 %**

The year-on-year improvement in the net loan-to-value ratio mainly originated from increases in the value of existing real estate and higher cash and cash equivalents compared to the previous year, mainly resulting from the cash capital increase of around EUR 150 million in November 2018.

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 three years. In 2022, a higher level of refinancing in the amount of EUR 551 million will be required. The liquidity requirements for follow-on financing and repayments (excluding convertible bonds) over the next few years are as follows:

MATURITIES in EUR millions	2019	2020	2021	2022	2023	AS OF 2024
	39.1	34.0	24.3	551.1	4.6	53.8

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 2018 financial year as planned, we brought further strategic and organisational functions in-house that were 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.

In November 2018, there was a significant change in the organisational structure of the DEMIRE Group. By outsourcing services for property and facility management which had been previously performed in-house, DEMIRE has chosen to apply a much more flexible and scalable real estate management model in the German commercial real estate market than before for its planned growth, which is also more in line with its listed competitors. In November 2018, the renowned service provider STRABAG assumed the property management from DEMIRE Deutsche Mittelstand Real Estate AG for around 80 % of the real estate portfolio, which currently has a total market value of more than EUR 1.1 billion. The remaining 20 % of the real estate portfolio represents the indirect ownership of the DEMIRE Group through its investment in Fair Value REIT and is managed externally by IC Property Management GmbH. In addition, Facility Management was also fully outsourced through the complete sale of shares in Praedia GmbH. After outsourcing the property and facility management in the fourth quarter of 2018, DEMIRE anticipates annual savings of up to EUR 1 million from 2019 onwards.

Our corporate structure is based on flat hierarchies. We offer motivated and dedicated employees a variety of responsibilities 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 compensation system helps keep managers and employees focused on achieving corporate and divisional objectives. 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.

The Group employed a total of 74 people, excluding the Executive Board, at its consolidated and non-consolidated entities as at 31 December 2018 (31 December 2017: 96). The proportion of female employees in relation to male employees is 53 %. We welcome and encourage diversity within our Company. The age structure of our employees is widely distributed. Around 11 % of our employees are younger than 30 years of age, around 63 % are between 31 and 50 years old, and another 26 % 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.

	2018	2017
Average age of employees in years (as at 31 December)	42	45
Share of female employees in % (as at 31 December)	53	48
Share of employees aged 50 years or older in % (as at 31 December)	26	31
Share of employees with recognised severe disabilities or similar in % (as at 31 December)	5	4
Number of nationalities employed (as at 31 December)	7	5

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.
- 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 the 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 target for the proportion of women on the Supervisory Board and the Executive Board remained at zero for the period from 1 July 2017 to 30 June 2022 and the target for the proportion of women in the first management level below the Executive Board for the same period was set to 25 %, which corresponded to the proportion of women in executive positions 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 at 31 December 2018. 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 EPRA European Public Real Estate Association 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 ZIA Central Real Estate Committee e. V., which is the voice of the German real estate industry, DEMIRE supports the Committee's work by representing its members both publically and politically.

DEMIRE is also a member of DIRK e. V., the German Investor Relations Association, 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.

As one of more than 300 members of the German Institute for Compliance (DICO), DEMIRE promotes the development of good corporate governance and thereby consistently applies compliance standards internally. The Company's own Compliance Officers ensure 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, Düsseldorf, Frankfurt, Hamburg, Cologne, 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 annually together with the independent analysis company bulwiengesa that provides an analysis of a large number of mid-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 on our *Website.*

www.demire.ag

Changes in the Composition of Governing Bodies

At the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG on 27 June 2018, Prof Dr Alexander Goepfert was elected as new Supervisory Board member. At the constituent meeting, he also assumed the chair of the Supervisory Board from Prof Dr Hermann Wagner, who left the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG at the end of the Annual General Meeting.

On 20 December 2018, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG appointed Mr Ingo Hartlief as a new member of the Executive Board and Chief Executive Officer of the Company with immediate effect until the end of 2021. The purpose of expanding the Executive Board was to prepare for the growing demands of the Company's planned portfolio growth.

On 3 January 2019, the Supervisory Board dismissed Mr Ralf Kind as a member of the Executive Board with immediate effect, terminated the contract of employment with him for good cause and ,on 17 January 2019, appointed Mr Tim Brückner as a new member of the Executive Board with responsibility for the finance area. Mr Brückner assumed his duties at DEMIRE with effect from 1 February 2019.

Remuneration Report

The following report summarises the basic principles of the Executive Board and Supervisory Board 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 at 1 January.

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 financial year, Ralf Kind and Markus Drews were granted special bonuses in the amount of EUR 300,000 thousand and EUR 200,000 thousand, respectively, for their extraordinary service in connection with the issue of the 2017/2022 corporate bond in July 2017. Mr. Ralf Kind was granted a further special bonus in the amount of EUR 150 thousand for his services 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. Mr Kind has a fixed-term employment contract.

The Executive Board contract of Mr Ralf Kind was adjusted in mid-April so that from 1 January 2018, his annual base salary would increase to EUR 360,000.00 and the performance and success-based bonus to EUR 180,000.00. In addition, the previously existing virtual stock option plan was modified.

Mr Ralf Kind was dismissed as a member of the Executive Board on 3 January 2019 by the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG and the contract of employment with him was terminated for good cause. The final amount payable to Mr Ralf Kind is still to be determined.

Mr Ingo Hartlief

On 20 December 2018, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG entered into an agreement with Mr Ingo Hartlief as Chief Executive Officer with immediate effect for a period of three years (a fixed-term Executive Board employment contract). In addition to the basic annual salary of

EUR 320,000.00, he will receive a performance and success-based bonus of up to EUR 190,000.00 per year starting in 2019. He will also receive a limited amount of remuneration based on the long-term performance of DEMIRE's share price according to a virtual stock option plan. The fixed component is paid on a monthly basis as a base salary and is granted on a pro rata basis in the event his executive service contract begins during the year.

The target bonus is also the maximum limit for the achievable bonus. The amount is calculated on the basis of the achievement of certain targets set by the Supervisory Board in its reasonable discretion. If the Executive Board contract ends during the year, the bonus is reduced on a pro rata basis. The bonus is payable at the end of the month of the following year in which the Company's annual financial statements are adopted.

For performance-based variable compensation on a multi-year basis in the form of virtual shares, in 2019, for the first time, virtual shares in the gross amount of EUR 190,000 (at the time of allocation) will be granted each financial year. The actual amount paid out depends on the long-term development of the Company's share price and amounts to a maximum gross amount of EUR 220,000. The details are based on the long-term incentive programme determined at the reasonable discretion of the Supervisory Board, as amended. The Comany and Mr Hartlief already agreed on additional boni in case of reaching certain targets. A special bonus of EUR 500,000 depends on the achievement of certain portfolio-related targets. An additional special bonus of EUR 500,000 and virtual shares worth EUR 500,000 will be granted upon reaching certain capital market-related targets.

Mr Hartlief is entitled to the customary contractual benefits in kind and fringe benefits. These benefits include the provision of a company car; the reimbursement of expenses and travel costs; contributions to premiums for public or suitable private health 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' and 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.

Herr Tim Brückner

On 17 January 2019, the Supervisory Board concluded a contract with Mr Tim Brückner as a further member of the Executive Board with effect from 1 February 2019 for a period of three years, e.g. a limited service contract was concluded. In addition to the basic annual salary of EUR 200,000.00, he will receive a performance and success-based bonus of up to EUR 50,000.00 per year based on 100 % performance. He will also receive a limited amount of remuneration based on the long-term performance of DEMIRE's share price according to a virtual stock option plan. The fixed component is paid on a monthly basis as a base salary and is granted on a pro rata basis in the event his executive service contract begins during the year.

With under-cutting or exceeding the targets, the bonus will decrease or increase up to a maximum amount of EUR 75,000. The bonus is granted on a pro rata basis in the event his executive service contract begins during the year. The bonus is payable at the end of the month of the following year in which the Company's annual financial statements are adopted.

For performance-based variable compensation on a multi-year basis in the form of virtual shares, in 2019, for the first time, virtual shares in the gross amount of EUR 50,000.00 (at the time of allocation) will be granted each financial year, in the case of a departure during the year on a pro rata basis. The actual amount paid out depends on the long-term development of the Company's share price and amounts to a maximum gross amount of EUR 75,000.00. The details are based on the long-term incentive programme determined at the reasonable discretion of the Supervisory Board, as amended.

A one-time special bonus in the form of virtual shares in the amount of a further EUR 250,000.00 will be granted upon reaching certain capital market-related goals.

EMPLOYMENT CONTRACTS TERMINATED IN 2017

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 per annum 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 financial 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 of 400,000 share options under the 2015 Stock Option Programme, resolved at the Extraordinary Annual Meeting on 6 March 2015, will remain unchanged after the termination of his employment.

Mr Markus Drews

On 2 December 2015, the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG revised Markus 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 Markus Drews for another three years until the end of 2020. His annual basic salary was raised to EUR 250,000.00 as at 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 financial 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 as per the resolution of the Extraordinary Annual General Meeting of 6 March 2015, 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 that resolves to revise it. The fixed remuneration payable annually as at the 2017 financial 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 financial 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.

Benefits according to DRS 17 during the reporting year (in EUR)

	INGO HARTLIEF, SPEAKER OF THE EXECUTIVE BOARD SINCE 20 DECEMBER 2018			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	2017 FINANCIAL YEAR
Fixed remuneration	–	–	–	–
Fringe benefits	–	–	–	–
Total	**–**	**–**	**–**	**–**
Variable remuneration (one-year)	–	–	–	–
Variable remuneration (multi-year)	–	–	–	–
Stock options	–	–	–	–
Total	**–**	**–**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**–**	**–**	**–**	**–**

	HON. PROF ANDREAS STEYER, FROM 5 MARCH 2013 TO 30 JUNE 2017			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	2017 FINANCIAL YEAR
Fixed remuneration	–	–	–	125
Fringe benefits	–	–	–	8
Total	**–**	**–**	**–**	**133**
Variable remuneration (one-year)	–	–	–	0
Variable remuneration (multi-year)	–	–	–	0
Stock options	–	–	–	119
Total	**–**	**–**	**–**	**252**
Pension expenses	–	–	–	2
Severance payment	–	–	–	550
Total remuneration	**–**	**–**	**–**	**804**

	RALF KIND, SPEAKER OF THE EXECUTIVE BOARD FROM 1 MARCH 2017 TO 3 JANUARY 2019			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	2017 FINANCIAL YEAR
Fixed remuneration	360	360	360	202
Fringe benefits	20	20	20	10
Total	**380**	**380**	**380**	**212**
Variable remuneration (one-year)	180	–	180	554
Variable remuneration (multi-year)	–	–	–	–
Stock options	302	–	302	73
Total	**862**	**560**	**862**	**839**
Pension expenses	16	16	16	12
Total remuneration	**878**	**396**	**878**	**851**

	MARKUS DREWS, FROM 1 DECEMBER 2014 UNTIL 31 DECEMBER 2017			
in EUR thousands	FY 2018	FY 2018 (MIN)	FY 2018 (MAX)	2017 FINANCIAL YEAR
Fixed remuneration	–	–	–	247
Fringe benefits	–	–	–	27
Total	**–**	**–**	**–**	**274**
Variable remuneration (one-year)	–	–	–	325
Variable remuneration (multi-year)	–	–	–	0
Stock options	–	–	–	158
Total	**–**	**–**	**–**	**757**
Pension expenses	–	–	–	5
Severance payment	–	–	–	375
Total remuneration	**–**	**–**	**–**	**1,137**

Benefits received during the reporting year (in EUR)

	INGO HARTLIEF, SPEAKER OF THE EXECUTIVE BOARD SINCE 20 DECEMBER 2018	
in EUR thousands	FY 2018	2017 FINANCIAL YEAR
Fixed remuneration	–	–
Fringe benefits	–	–
Total	**–**	**–**
Variable remuneration (one-year)	–	–
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**–**	**–**
Pension expenses	–	–
Total remuneration	**–**	**–**

	HON. PROF ANDREAS STEYER, FROM 5 MARCH 2013 TO 30 JUNE 2017	
in EUR thousands	FY 2018	2017 FINANCIAL YEAR
Fixed remuneration	–	125
Fringe benefits	–	8
Total	**–**	**133**
Variable remuneration (one-year)	–	125
Variable remuneration (multi-year)	–	0
Stock options	–	0
Total	**–**	**258**
Pension expenses	–	2
Severance payment	–	550
Total remuneration	**–**	**810**

	RALF KIND, FROM 1 MARCH 2017 TO 3 JANUARY 2019	
in EUR thousands	FY 2018	2017 FINANCIAL YEAR
Fixed remuneration	360	202
Fringe benefits	20	10
Total	**380**	**212**
Variable remuneration (one-year)	275	300
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**655**	**512**
Pension expenses	16	12
Total remuneration	**671**	**524**

	MARKUS DREWS, FROM 1 DECEMBER 2014 UNTIL 31 DECEMBER 2017	
in EUR thousands	FY 2018	2017 FINANCIAL YEAR
Fixed remuneration	–	247
Fringe benefits	–	27
Total	**–**	**274**
Variable remuneration (one-year)	–	325
Variable remuneration (multi-year)	–	0
Stock options	–	590
Total	**–**	**1,189**
Pension expenses	–	5
Severance payment	–	375
Total remuneration	**–**	**1,569**

Report on Risks, Opportunities and Outlook

RISK REPORT

RISK MANAGEMENT SYSTEM

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

Early risk warning system

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

Risk identification and evaluation

Risk identification forms the basis for the appropriate and effective handling of risks. Our employees are called upon to consciously and responsibly deal with risks and opportunities within their scope of responsibility. Responsibilities are defined according to the hierarchy for all relevant risks. An identified risk is assessed for its probability of occurrence and the potential extent of the loss is determined.

Risk management

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

Risk reporting

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

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

IT systems

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

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

Financial reporting process

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

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

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

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 aggregation and preparation of required data for the Notes to the consolidated financial statements and the combined management report are also carried out at the Group level. These processes are preceded by the bookkeeping, the preparation of the annual financial statements and the gathering of additional information from the Group companies included in the consolidated financial statements in accordance with uniform requirements, partly by external property management and partly by agency agreements by the employees of DEMIRE AG.

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

Other essential tools include
- uniform accounting policies for the Group companies;
- a clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process; as well as
- 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 2018 financial 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 of the operational business processes essential for accounting
- Measures to ensure the orderly, complete and timely computerised processing of accounting-related issues and data
- Measures for monitoring of accounting-related internal control and risk management system and the steps necessary to eliminate any control weaknesses

Disclosure

Proven and established systems cannot fully exclude individual errors or infringements so that the correct, complete and timely recording of facts in Group accounting cannot always be completely guaranteed. In addition, the discretion that employees have in recognising and measuring assets and liabilities may give rise to risks. One-off business transactions, especially those with a high degree of complexity and / or processing under extreme time pressure, harbour a certain risk potential. Control risk from the use of external service providers has been mitigated to the greatest extent possible by bringing functions in-house.

GENERAL RISK SITUATION

The decision in 2013 to turn the Company's focus to German commercial real estate has been successfully implemented via a number of strategic investments. In 2016, the portfolio was thoroughly analysed, and the non-core properties that were identified were disposed of. This has had a significantly positive effect on the DEMIRE Group's risk profile. In the context of the annual real estate and budget planning, the real estate is divided into the real estate investment categories Core Plus, Value-Added and Redevelopment. Under the strategic plan DEMIRE 2.0, certain properties were identified for the real estate category "Redevelopment", which in the future will be repositioned on the rental market through comprehensive modernisation and reconstruction measures for further letting. This is one example of how DEMIRE reacts proactively and 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 in terms of fair value was 4.8 % as at the 31 December 2018 reporting date. By simplifying the Group's structure and transferring project companies to Germany from abroad, legal as well as tax risks have also declined.

In the 2017 financial year, the early prolongation of a promissory note loan in the amount of EUR 148 million at considerably better terms took place in February and the placement and tapping of the rated, unsecured 2017 / 2022 corporate bond totalling EUR 400 million were executed in July and September. Using the funds from the corporate bond to refinance higher-interest liabilities brought about a significant reduction in the financial risks, particularly since 2018 as a result of the lower average interest costs, the elimination of certain amortisation costs and covenants from former bank loans, while at the same time improving the liquidity and average terms of debt financing. With the 10 % capital increase of EUR 23.6 million in April 2018, the conversion during the financial year of the 2013 / 2018 convertible bonds still outstanding at the beginning of 2018 and the capital increase of EUR 150.1 million, the equity base could be strengthened substantially and liquidity was generated for future growth under DEMIRE 2.0.

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".

The individual risks are assessed on the basis of the amount of loss and the probability of occurrence.

PROBABILITY OF OCCURRENCE	INFLUENCE ON FFO OR EQUITY				
Very probable	Low	Moderate	High	High	Very high
Probable	Low	Moderate	Moderate	High	High
Possible	Low	Low	Moderate	Moderate	High
Improbable	Low	Low	Low	Moderate	Moderate
Very improbable	Very low	Low	Low	Low	Moderate
AMOUNT OF LOSS	Very low	Low	Moderate	High	Very high

Macroeconomic, market-related and sector risks

The DEMIRE Group's real estate portfolio in Germany is exposed to a variety of macroeconomic, market-related and sector risks.

Macroeconomic risk

Macroeconomic changes can have both positive and negative effects on our net assets, financial position and results of operations. The economic forecasts for 2019, project a slowdown in economic growth, although moderate growth is still expected in Germany. The economic outlook still leaves room for the expected hiring of additional employees, which will drive demand for new office space, especially in secondary locations. The rising wages and salaries mean that private consumption should remain a growth driver of the German economy. This development could also benefit the rental of our retail space.

In contrast to the positive domestic climate, globally, there are a number of uncertainties; particularly with respect to the United States' tendency towards protectionism and the outcome of the Brexit negotiations, which may affect the economy in the EU and around the world. Uncertainty about the future development of the global economy could lead to economic instability, restrictions on access to debt and equity capital. These factors could also lead to a reduction or loss of rental income for the Company due to a deterioration in the economic situation of our tenants, which could adversely affect the Company's net assets, financial position and results of operations.

We believe that a sharp economic deterioration within the next twelve months is unlikely and, therefore, consider the risk of any negative impact to be low.

Real estate market risk in Germany

DEMIRE Deutsche Mittelstand Real Estate AG holds commercial properties consisting mainly of office and retail buildings in medium-sized cities and up-and-coming peripheral areas near metropolitan areas throughout Germany. It follows that our business success is significantly dependent on the development of the German real estate market.

The real estate industry is one of the most diverse economic sectors in modern economies. In addition to real estate management, we also have activities in the areas of redevelopment, real estate asset management and real estate financing. Each and every phase – from buying and selling to financing to the management and administration of real estate – is fraught with risks and opportunities.

On the back of the strong increase in rents in Germany and especially in the so-called "secondary locations", there is a risk that rents will no longer increase and that a downward trend may occur 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 a 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, 2016 and 2018 financial 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, the persistently low level of interest rates and generally positive corporate expectations continue to support the favourable environment for the German real estate market.

In the rental market, oversupply or outdated amenities can lead to price pressure, margin loss and vacancies, or the need to undertake costly maintenance or refurbishments. A shortage of suitable space, however, can lead to high demand from tenants and rising prices for the qualities most looked for.

Due to the stable environment and solid economic fundamentals, the German commercial real estate market has evolved into an attractive investment market also for foreign investors. In our view, the Brexit decision and the associated changes in Europe present short and medium term opportunities rather than risks for our business. International companies considering relocating to continental Europe or expanding their existing locations could be a positive stimulus for the German real estate market.

In our intense examination of real estate prior to their purchase, we strive to avoid any of the risks that may arise from difficulty in re-letting or lack of flexibility in the use of the properties. At the same time, we are interested in identifying opportunities arising from existing vacancies that we can exploit through our highly effective internal asset and portfolio management activities and through our external property management service provider, who is also skilled in implementing challenging tasks.

We currently believe that there is a medium probability of negative developments in the real estate market in 2019 and, therefore, estimate the risk of a negative impact to the net assets, financial situation and results of operations to be moderate.

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 at the level of the respective project companies is affected by revenue from real estate less management, administrative and financing costs and at the level of the Company by proceeds in the form of dividends, profit distributions, profit transfers and withdrawals from Group companies.

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 liabilities 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 at the reporting date and the level of cash flow targeted for 2019 are sufficient for the current needs of 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 negative effect on DEMIRE's liquidity.

As at the reporting date, the LTVs of all of the Group's financial liabilities were clearly below the levels stipulated in the respective financing agreements. In the case of the promissory note loan and the financing of Sihlegg Investments Holding GmbH, the DSCR complies with the capital coverage required by the respective agreements as at 31 December 2018.

In the event of the assumption of or the purchase of debt and the issuance of (preferred) shares by DEMIRE AG or its 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") and "net secured LTV" ratio and the fixed charge coverage ratio ("FCCR") in order to ensure a minimum cash flow to cover interest and principal payments on existing liabilities.

The internationally renowned rating agencies Standard & Poor's and Moody's confirmed their BB+ and Ba2 rating for the 2017/2022 corporate bond in July 2018. DEMIRE is required to comply with the conditions necessary to maintain the credit rating of the rating agencies.

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

Interest rate risk

The DEMIRE Group uses debt capital to finance German commercial real estate. Debt capital includes predominantly fixed-rate loans and to a lesser extent variable rate loans, as well as tradable instruments, including corporate bonds and financial instruments with conversion options in company shares until the end of 2018. 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 level leads to a burden on the Group. As at the reporting date, financial liabilities in the amount of EUR 597.6 million had fixed interest rates and EUR 38.7 million had variable interest rates.

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 very low foreign currency risks for the existing portfolio of commercial real estate in Germany, as all material 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

The rental and management of real estate entail 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). In general, we strive for long-term lettings and take early action to secure follow-on and new lettings. When DEMIRE is unable to lease its properties at attractive terms or lease contracts have formal defects and therefore agreements cannot be enforced or are void, this could have a negative impact on the Company's net assets, financial position and results of operations.

There is the risk of unexpected costs for maintenance and repair measures or for adjustments of properties to modern requirements, also due to delays in the implementation, for example, as a result of late granting of the building permit, so that there may be delays in the start of rental agreements and thus in the inflow of rental income and returns.

Due to the tenant structure, there were no significant rental risks at the time this report was prepared, which had a direct impact on the Group's earnings situation. Default risks from rent receivables are taken into account by impairments. Generally, we try to avoid dependence on large tenants. In the 2018 financial year, 47.6 % (31 December 2017: 48.2 %) of the contractual rents were attributable to the ten largest tenants. These are all well-known and largely creditworthy tenants, especially from the public, telecommunications and retail sectors. However, there is a dependency on a few tenants who have a significant share of the rental income. Deutsche Telekom (GMG Generalmietgesellschaft GmbH) is the largest tenant with a cumulative share of the total contractual rents of the real estate portfolio of 30.4 % (31 December 2017: 30.6 %) across multiple leases and real estate locations. If it were not possible to find new tenants for the corresponding space for this tenant or other significant tenants from the ten largest tenants after the end of the rental agreements or extraordinary termination, this would lead to a significant decline in rental income and thus to a significant negative effect on the Company's net assets, financial position and results of operations. As a result of our own highly effective asset and portfolio management, we are close to tenants and foster long-term tenant loyalty. The Executive Board therefore considers the risk from rental and management risks and the resulting effects on net assets, financial position and results of operations to be low.

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 funds from operations (FFO) and 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. We are constantly reviewing and developing options to expand our real estate portfolio. If we succeed in exploiting growth opportunities, this could lead to an increase in rental income and the profit / loss from the rental of real estate. The lack of investment opportunities in real estate could drive up the price of such properties. In addition, availability also depends on numerous 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 medium-term target to grow its real estate portfolio to EUR 2 billion.

In the case of acquisitions, a false assessment of the real estate location, as well as the change in the infrastructure of the micro-location or the regional structures of the macro-location, may result in site risks. In line with our strategy, we therefore examine the location situation and site intensively in the run-up to investment and acquisition decisions. In operational terms, our professional internal asset and portfolio management team and our property management service provider help to identify changes in the environment in good time and to react appropriately, for example by repositioning or selling.

There is the risk of unexpected costs for maintenance and repair measures or for adjustments to purchased properties to meet modern requirements. These risks can also arise if the buyer is only able to carry out 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 and real estate portfolios in particular, may lead to a misjudgement or overestimation of earnings or potential synergies, which may negatively impact the Company's net assets, financial position and results of operations versus the Company's planning. We reduce risks before buying the real estate through a detailed due diligence process involving the necessary external experts. The Executive Board estimates the risk from acquisitions and the resulting effects on net assets, financial position and results of operations to be low.

Sales risk

We use real estate sales from our portfolio to reduce the cluster risk related to the sector and regional mix in the portfolio, realise profits and accelerate debt reduction, thereby reducing financial risks. After the sale of real estate, buyer's claims under warranty can arise if the real estate does not feature the promised characteristics due to, for example, its state of modernisation and promise of no contamination, as well as with respect to letting. These factors may have a negative effect on the Company's net assets, financial position and results of operations.

Due to the small volume of divestments made by DEMIRE in recent years, the Executive Board estimates that the level of risk related to sales risks and the resulting effects on net assets, financial position and results of operations are low.

OTHER RISKS

Legal risk

Risks may arise with respect to DEMIRE's business model, particularly from changes in regulations and in the legal framework. Compared to other countries in Europe, the German economy has historically proven to have highly stable regulation, with little potential for sudden action or regulatory intervention unless there is a broad consensus on social and economic policies. DEMIRE may still however be required to pay for unrecognised contaminated sites, environmental pollution and harmful building structures, or for non-compliance with building law requirements in accordance with the applicable legal situation.

Legal risk can also result from portfolio investments in countries with somewhat less stable legal systems. Given the advanced stage of the Company's withdrawal from investments in Eastern Europe and the Black Sea Region, these risks are considered to be low compared to prior financial years.

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.

Compliance risks

Responsible and sustainable corporate governance is part of the corporate culture and day-to-day business of DEMIRE. Therefore, we continue to develop our compliance programme with the goal of helping employees comply with relevant legislation and standards of conduct. At the beginning of 2017, DEMIRE introduced a Group-wide Code of Conduct as the central element of the compliance programme, which is mandatory for all employees to sign. Regular compliance training is provided to deepen and clarify the guidelines and principles of the Code covering the following topics:

- Anti-corruption and avoidance of conflicts of interest
  - Prohibition of the taking or granting personal benefits to influence business decisions
  - A reasonable ratio of consultant remuneration to the service rendered
  - Binding arrangements for the acceptance and granting of gifts, invitations and other benefits and the handling of donations
  - Avoiding a conflict of interest from secondary employment and company participations
- Discrimination protection and respect
  - No discrimination or unwanted conduct based on race, ethnic origin, gender, religion, disability, age and / or sexual identity
  - A respect-filled working environment and fair working conditions
- Trade secrets and data protection
  - Commitment to data privacy
  - Collection, storage and processing of personal data in accordance with the Privacy Policy
  - Ban on the exploitation of inside information
- Reporting and information
  - Complete, proper and timely reporting
  - Comprehensive, timely and transparent information

The Compliance Officer is the contact person for compliance issues and information on non-compliant behaviour. 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.

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

Tax risks

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 financial year; and
- 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 payments of taxes and significant outflows of liquidity, and in the event of loss of the REIT status, potentially to the compensation claims of shareholders in Fair Value REIT-AG. 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 moderate.

Personnel risk

Competent, committed and motivated employees are an essential prerequisite for DEMIRE's successful development. The DEMIRE Group could lose or be unable to replace members of the Executive Board or other key personnel with sufficiently qualified staff on a timely basis. The Executive Board estimates personnel risks and the resulting effects on the Company's net assets, financial position and results of operations as moderate.

IT risks

The IT systems belonging to DEMIRE and its subsidiaries, as well as their service providers, could irretrievably lose important data or face unauthorised data access from external sources. Both could cause business disruptions and costs and may ultimately lead to financial loss. DEMIRE has protected itself against IT risks through its own network, modern hardware and software solutions as well as measures against external attacks. The Company also additionally secures and all of its data. Employees only have access to the systems and documents required for their work via a system of detailed access rights. The Executive Board estimates the IT risks and the resulting effects on the Company's net assets, financial position and results of operations to be low.

OVERALL ASSESSMENT OF THE RISK SITUATION

The risk situation of the DEMIRE Group and the Company continued to improve during the reporting period. In addition to the prolongation of the promissory note and the placement and tapping of the unsecured 2017 / 2022 corporate bond at significantly better interest rates in 2017, this was a result of an improved liquidity position in the financial year. These financing measures sharply reduced interest expenses and repayment obligations, as well as the associated cash outflow. At the same time, the early repayment of the secured loans of Logistikpark Leipzig GmbH, Sihlegg Investments Holding GmbH and DEMIRE Objektgesellschaft Germavest GmbH (formerly Germavest Real Estate S. à. r. l.) resulted in the release of significant real estate assets held as collateral that are now available to be used again as collateral. By further diversifying its funding sources, DEMIRE has increased its flexibility for future growth. Within the scope of placing its corporate bond, DEMIRE received its first rating from the recognised rating agencies Standard & Poor's and Moody's in 2017. As a result, DEMIRE has further increased its visibility on the capital markets. The rating confirmed in July 2018 remains at BB / Ba2 with a stable outlook. DEMIRE is striving for an investment grade rating in the medium term to be able to procure future capital to finance business growth at favourable terms. With the entry of AEPF III 15 S.à r. l., a holding company owned by Apollo European Principal Finance Fund III, as a major shareholder via the 10 % capital increase in April 2018 and the subsequent increase of the stake through the exercise of convertible bonds in May and June 2018 and the capital increase in November 2018, the Company received equity and considerably reduced its liquidity risks.

According to the current assessment, 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

DEMIRE expects the macroeconomic and sector environment to be favourable in the 2019 financial year and therefore continues to see good opportunities for the targeted expansion of the DEMIRE Group real estate portfolio. Germany continues to demonstrate robust and healthy economic development, which lends long-term stability to commercial space. In this environment, the DEMIRE Group intends to further increase its enterprise value through the careful and professional selection of new properties and through the active real estate management of its existing portfolio.

The real estate experts at Jones Lang LaSalle (JLL) see continued demand for real estate in 2019 and anticipate commercial real estate transaction volumes of up to EUR 55 billion, or below the record high of 2018 primarily due to lower supply. The development of the major German office letting markets has also been impacted by rising rents the past twelve months due to an ever-decreasing supply of space and high demand.

Although the economic outlook has deteriorated somewhat due to the global political situation and discussions, the market is still expected to see stable to slightly lower demand for office space in 2019.

BUSINESS OPPORTUNITIES

The strong growth experienced in recent years, particularly from the acquisition of the majority interest in Fair Value REIT-AG at the end of 2015, has given DEMIRE the necessary size to enter into framework agreements with national utility suppliers for basic utilities and lower its costs through volume purchases and better service conditions.

The gradual insourcing of corporate functions and the associated harmonisation of IT structures and processes and a further expansion in internal asset and portfolio management activities may result in greater efficiency and economic benefits. With the outsourcing of property and facility management to a renowned service provider in November 2018, DEMIRE has chosen to apply a much more flexible and scalable real estate management model in the German commercial real estate market for its planned portfolio growth to more than EUR 2 billion. After outsourcing its property and facility management, DEMIRE anticipates significant, sustainable cost savings as of 2019. Through professional and dedicated support, the chance to prolong tenancy periods and conclude follow-on lettings increases which, in turn, will continue to bring down tenant fluctuation and vacancies.

The regions in which DEMIRE holds real estate offer not only higher demand for commercial space but also opportunities to re-let vacant properties.

At the same time, the purchase of previously under-managed properties with higher vacancies and shorter residual rent periods is highly attractive for DEMIRE's business model, which through its active real estate management approach can increase the cash flows of the properties and thus achieve high added value in their future real estate investments.

FINANCIAL OPPORTUNITIES

DEMIRE plans to take advantage of current interest rates to further reduce its average interest rate on borrowings. Following the extensive refinancing of existing liabilities in 2017, which resulted in significantly lower interest expenses in the past 2018 financial year, DEMIRE intends to further optimise the financial structure of the Group in the context of its planned growth and by using a mix of both secured and unsecured financing.

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

Over the past several years, 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 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 sees good opportunities for DEMIRE to further grow its portfolio and improve profitability in the coming years through planned internal and external growth, continued increases in efficiency as well as through optimising its real estate management platform.

REPORT ON OUTLOOK

ECONOMIC ENVIRONMENT – GROWTH MOMENTUM IS SLOWING

Towards the end of 2018, the global economy lost momentum and the economic sentiment dampened in several regions. These factors are having an influence on the current year, which is reflected in the expected decline in the global economic growth rate to 3.4 % in 2019. The Kiel Institute for the World Economy (IfW) sees risks, for example, in rising trade conflicts and, in most emerging economies, production is expected to expand at a slower pace.

In the euro area, Italy's public debt and the delay in reforms in France are dampening economic sentiment. Uncertainties regarding Britain's exit from the European Union (Brexit) could weaken the European economy in 2019. Although the IfW anticipates a gradual slowdown in the pace of the eurozone's expansion, favourable financing fuelled by expansionary monetary policy will continue to ensure an upward economic trend going forward. The eurozone economy is currently anticipated to grow by 1.7 % in 2019.

Modest economic growth will slow down the decline in unemployment. The IfW estimates that the unemployment rate will drop to 8.2 % in 2019. The institute forecasts an inflation rate at a level of 1.5 % for the eurozone.

The upswing in Germany also came to a halt at the turn of the year. According to the IfW, companies are finding it increasingly difficult to expand their production and capacity limitations make it even more difficult, especially for the construction industry. In 2019, the IfW is projecting German economic growth of 1.8 %. Job creation is anticipated to continue to be somewhat slower in 2019, with the unemployment rate likely to fall to 4.8 %. Economic experts forecast an inflation rate of just over 2 % as a result of the over-utilisation of production capacity.

SECTOR ENVIRONMENT – DEMAND TO REMAIN BRISK

Capacity constraints will stand in the way of potentially stronger construction activity in 2019, predicts the IfW. Based on continued favourable financing conditions and a high order backlog, the IfW forecast assumes an increase in construction investment of around 3 %. For construction prices, the estimate is based on an annual increase of approximately 5 %, as production capacity is anticipated to not keep up with the brisk demand.

Transaction market for commercial real estate

After a record year in 2018, a slight decline in momentum is expected in the commercial investment market. Market researchers from Catella expect a transaction volume in the area of EUR 55 billion.

Despite the moderate rise in interest rates, investing in real estate is still attractive and will continue to be so in 2019, according to the consulting company Jones Lang LaSalle (JLL). JLL bases its prediction on the fact that there are no high-return alternatives available, causing more and more investors, such as pension funds and insurance companies, to increase their share of real estate investment. These companies have a high capital pressure, which leads to a correspondingly large quantitative effect on the real estate market.

The biggest threats in 2019 are global trade restrictions and a no-deal Brexit. The resulting negative impact on the German economy would also have consequences for the domestic real estate market.

Office property market

The investment market for office real estate is again projected to register better-than-average performance in 2019. The real estate consultant Colliers International expects transaction volumes to settle at about the same level as in 2018. The office property market should benefit from the general investment pressure on real estate. As for the prime yields, the minimum should be reached; whereas yields for secondary locations are likely to decline.

Given the relatively stable economic situation, office space should continue to be in high demand in 2019. In view of this, Colliers International expects strong floor space turnover of up to 3.5 million square metres for the year. JLL has a more pessimistic view and is not ruling out a decline in office space turnover in 2019. The consulting firm cites lack of space availability and a possible decline in demand in case the economic situation deteriorates as the reasons. Only 1.68 million square metres of new space is expected in 2019 due to a significant delay in scheduled projects. The vacancy rate should continue to decline and rental prices are projected to continue to increase.

Retail property market

For 2019, JLL expects demand for inner-city retail properties to decline slightly. The reasons for this are stagnating or declining retail rents as well as the continued growth in online commerce.

The real estate consultant Colliers International offers a similar assessment. Structural breaks in the retail landscape are expected to lead to investors becoming more selective in 2019. Many investors are likely to wait for modernisation and repositioning of shopping centres and inner-city retail properties.

Colliers International expects a rise in yields at shopping centres in the course of 2019. The specialist retail segment, which is dominated by the food retail sector, will continue to be the driver of transaction activity for the foreseeable future, resulting in stable to slightly higher purchase prices. It is not expected that turnover in 2019 will break the EUR 10 billion mark, despite the high number of expected transactions. In the end, the property volumes are just too low.

Logistics property market

For forecasts on the logistics rental market, JLL uses the "Supply Chain Activity Index" to make short-term predictions. The index is based on the indicators that correlate with the demand for warehouse and logistics space (for example, gross domestic product).

The "Supply Chain Activity Index" for Germany continues to expect a strong interest in warehouse space in 2019, despite the decline in the index at the end of 2018 due to a stagnating economy and drop in the confidence indicator in the retail sector. The forecasts for the first half of 2019 indicate a growth rate between 0.2 % and 0.3 %, and a recovery in the trend is expected.

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

Overall, DEMIRE Deutsche Mittelstand Real Estate AG expects a stable to good environment in the 2019 financial year, along with the continued positive performance of its business.

DEMIRE's priority is to continue implementing its growth strategy. In the past financial year, the key financial and operating figures improved significantly once again versus the previous year. Rental income was stable thanks to a very good operational deveopment despite the sale of non-strategic real estate. Successful letting performance resulting in a further decrease in vacancy contributed to this. The EPRA vacancy rate of the existing portfolio was reduced again by a further 190 basis points to 7.5 % within a one-year period (31 December 2017: 9.4 %). Funds from operations (FFO I, before minority interests, after taxes) almost doubled compared to the previous year and reached EUR 23.4 million for the 2018 financial year (31 December 2017: EUR 11.4 million).

After initial purchases in November 2018 of EUR 167 million, DEMIRE plans to continue to significantly expand its real estate portfolio in the 2019 financial year as it pursues its medium-term target to grow its portfolio to more than EUR 2 billion. DEMIRE also plans to achieve a lasting improvement in its current real estate portfolio through active real estate management, a reduction in vacancies, exploiting the potential for value creation and the further sale of selected non-strategic real estate. In 2019, DEMIRE expects a gradual increase in its earnings as a result of further purchases, an increase in profitability through the ongoing optimisation of its real estate management and cost structures, as well as from the utilisation of synergies and economies of scale wherever possible.

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

The forecasts for the economy, and particularly for real estate, indicate that the overall economy and the commercial real estate market in Germany are expected to continue to enjoy favourable overall conditions. DEMIRE's business model and focus on Germany's secondary locations as investments are also expected to do well in this environment.

In the 2019 financial year, DEMIRE plans to generate rental income of around EUR 77 to 79 million from the letting of the real estate portfolio as at 31 December 2018, following the disposal of already sold properties and planned sales while taking into account already notarised purchases. This forecast does not take into account the effects of potential acquisitions using equity and debt financing in 2019. Active real estate management is also expected to contribute to an increase in rental income, with the aim of raising occupancy rates through the efficient use of investment, among others. On the basis of the anticipated rental income and the positive effects from the further implementation of the strategy already taken into account in the 2019 financial year, DEMIRE expects to see a further increase in the FFO result for 2019 (FFO I, before minority interests, after tax) to a bracket of EUR 27 million to EUR 29 million. Real estate transactions and other unforeseeable factors in the current 2019 financial year may, however, lead to a change in the FFO forecast during the course of the year.

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 stable
- Brexit (Britain's exit from the EU) 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 and the ECB in particular will not significantly increase key interest rates in the eurozone
- 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
- 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 due to bankruptcies, among others, will remain low

Acquisition-related Information

COMPOSITION OF SUBSCRIBED CAPITAL

a) per 31 December 2018

As at 31 December 2018, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest in share capital of EUR 1.00; the Group held 5,000 of these shares. A total of 178,893 no-par value bearer shares were not recorded in the commercial register until the beginning of February 2019. 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 10,568,103 shares resulted from the exercise of the 2013 / 2018 convertible bond, 3,000,000 shares from the mandatory 2015 / 2018 convertible bond and 39,938,477 shares from two capital increases. The subscribed capital of the Company has been conditionally increased following the exercise of conversion rights from the convertible bonds and the issue of 10,568,103 new shares from Conditional Capital I / 2013, I / 2017 and I / 2018. The original number of convertible bonds was 11,300,000. No conversion rights remain after repayment of the remaining 45,288 convertible bonds in December 2018. The conditional capital increase served to grant subscription and / or conversion rights to the holders of option and / or convertible bonds which were issued in accordance with the authorisation granted by the Company's Annual General Meeting on 23 October 2013.

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 at 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 into 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") had exceeded the 30 % threshold on 26 February 2018 and on this day amounted to a total of 32.19 % (17,471,893 voting rights).

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) sentence 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.

On 25 October 2018, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, with the approval of the Supervisory Board, resolved to increase the share capital of the Company against a cash contribution by EUR 34,512,703.00 from EUR 73,085,728.00 to EUR 107,598,431.00 by issuing of 34,512,703 no-par value ordinary shares each with a notional interest of EUR 1.00 and a profit entitlement as per 1 January 2018 (the "new shares") from authorised capital with subscription rights for existing shareholders of the Company (the "capital increase").

The new shares were offered to existing shareholders of the Company at a price of EUR 4.35 per new share and a subscription ratio of 36:17. Accordingly, existing shareholders were able to acquire 17 new shares for 36 existing shares in the Company. AEPF III 15 S.à r.l. ("AEPF"), the largest single shareholder in the Company, currently holding approximately 49.58% of the Company's share capital had undertaken to exercise its subscription rights and subscribe directly to the number of new shares attributable to its interest according to the subscription ratio. AEPF had also undertaken to acquire any new shares for which subscription rights of the Company's existing shareholders were not exercised. The capital increase was entered in the commercial register on 12 November 2018.

b) Development after 31 December 2018

Until the date of this Annual Report's publication, no 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 3 % OF THE VOTING RIGHTS

a) per 31 December 2018

As at 31 December 2018, the following shareholders of DEMIRE Deutsche Mittelstand Real Estate AG held interests in the Company representing more than 3 %, 5 % and 10 % of the voting rights:

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

As at 31 December 2018, 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 2018

At the time of this Annual Report's publication, the Company was not aware of any further notifications of direct or indirect interests that exceeded 3 %, 5 % or 10 % of the voting rights.

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 Articles of Association

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

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised Capital

a) per 31 December 2018

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 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 at 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 into the commercial register on 5 April 2018. The resolution of the Annual General Meeting of 27 June 2018 cancelled the remaining Authorised Capital I / 2017 in the amount of EUR 21,703,098.00 and its provisions in Section 6 of the Articles of Association (Authorised Capital) and authorised the Executive Board, with the approval of the Supervisory Board – by countermotion – to increase the Company's share capital by up to a total of EUR 36,532,419.00 (Authorised Capital I / 2018) by issuing a total of 36,532,419 new no-par value bearer shares against contribution in cash and / or in kind once or several times in partial amounts until 26 June 2023. 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 an issue prices not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, and to issue shares to employees and execute capital increases against contribution in kind.

On 25 October 2018, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved, with the approval of the Supervisory Board, to increase the share capital of the Company by EUR 34,512,703.00 from EUR 73,085,728.00 to EUR 107,598,431.00 from authorised capital by issuing 34,512,703 new no-par-value bearer shares with a notional interest of EUR 1.00 each and full dividend entitlement as at 1 January 2018 (the "new shares") against cash contribution with subscription rights for existing shareholders of the Company (the "capital increase"). The capital increase was entered in the commercial register on 12 November 2018, reducing Authorised Capital I / 2018 to EUR 2,019,716.00.

b) Development after 31 December 2018

The resolution of the Extraordinary General Meeting on 11 February 2019 cancelled Authorised Capital 2018 / I and its provisions under Section 6 of the Articles of Association (Authorised Capital) subject to the condition precedent to the entry of the amendment of the Articles of Association in the commercial register proposed in paragraph (c) below, insofar as it had not yet been utilised by resolution of the Executive Board with the approval of the Supervisory Board until the Extraordinary General Meeting.

At the same time, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by a total of EUR 53,888,662.00 by issuing up to a total of 53,888,662 new no-par value ordinary shares on one or more occasions against cash contribution and / or contribution in kind until 10 February 2024 (Authorised Capital 2019 / I). Shareholders are generally entitled to subscription rights. The new shares can also be subscribed to by one or several banks or similar institutions pursuant to Section 186 (5) sentence 1 AktG 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 one or several times for fractional amounts, in the case of cash capital increases of up to 10 % of the share capital at an issue prices not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, and to issue shares to employees and execute capital increases against contribution in kind.

There were no further changes from 31 December 2018 to the time the Annual Report was published.

Conditional capital

a) per 31 December 2018

Conditional Capital I / 2013 was fully consumed in the 2018 financial year. The conditional capital increase served to grant subscription and / or conversion rights to holders of warrant and / or convertible bonds issued in accordance with the authorisation of the Company's Annual General Meeting on 23 October 2013.

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. Due to the conversion of the 2015 / 2018 mandatory bond into 3,000,000 new no-par value bearer shares as at 22 May 2018, Conditional Capital I / 2016 was consumed in full.

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 financial 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 27 June 2018, Conditional Capital II / 2015 in the amount of EUR 1,000,000.00 and divided into a maximum of 1,000,000 no-par value bearer shares and the related provisions of Section 5 (6) of the Articles of Association were cancelled. At the same meeting, Conditional Capital I / 2018 of up to EUR 560,000.00 and divided into a maximum of 560,000 new, no-par-value shares was created with the related amendment to the Articles of Association due to the partial use of the options as remuneration for former employees and a member of the Executive Board.

Following the utilisation of EUR 4,107,098.00 divided into 4,107,098 no-par-value bearer shares for the exercise of the 2013 / 2018 convertible bonds, Conditional Capital I / 2017 of EUR 12,747,552.00 divided into 12,747,552 no-par-value bearer shares and its regulations under Section 5 (7) of the Articles of Association were cancelled by resolution of the Annual General Meeting on 27 June 2018. At the same general meeting, Conditional Capital II / 2018 was created in the amount of EUR 35,972,419.00 divided into up to 35,972,419 new no-par-value bearer shares with a corresponding amendment to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and / or bonds with warrants, profit participation rights 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 23 October 2013 under Agenda Item 8 to grant convertible bonds and / or bonds with warrants and / or (ii) the authorisation resolved by the Annual General Meeting of 29 June 2017 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) and / or (iii) based on the authorisation resolved by the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect affiliates and that grant a conversion or option right or establish a conversion obligation to new no-par-value bearer shares of the Company. The issue of new shares is carried out at the exercise or conversion price to be determined in accordance with the respective authorisation resolved by the Annual General Meeting. Until 31 December 2018, the Conditional Capital II / 2018 was utilised in the amount of EUR 199,783 due to conversions.

The conditional capital increase 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 at the start of the previous financial year provided they are created as a result of exercise before the start of the Company's Annual General Meeting, or otherwise as at the start of the financial 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 2018

In accordance with the terms and conditions of the 2013 / 2018 convertible bonds, no further conversions were possible after 24 December 2018.

The resolution of the Extraordinary General Meeting on 11 February 2019 cancelled Authorised Capital 2018 / II and its provisions under Section 5 (5) of the Articles of Association subject to the condition precedent to the entry of the amendment of the Articles of Association in the commercial register proposed in paragraph (c) below, insofar as it had not yet been utilised by issuing new shares until the Extraordinary General Meeting.

At the same time, the Company's share capital was conditionally increased by up to EUR 53,328,662.00 through the issue of up to 53,328,662 no-par value bearer shares (Conditional Capital 2019 / I). The conditional capital increase serves to grant no-par-value bearer shares 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 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or a combination of these instruments) and / or (ii) the authorisation resolved by the Annual General Meeting of 11 February 2019 under Agenda Item 2 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or a combination of these instruments) by the Company or its direct or indirect affiliates and that grant a conversion or option right or establish a conversion or option obligation to new no-par-value bearer shares of the Company. The new shares will be issued at the option or conversion price to be determined in accordance with the respective resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights, or the holders obliged to convert or exercise their obligations meet their exercise or conversion obligations, unless a cash settlement or own shares are granted, or shares are created from authorised capital. The shares participate in the profit from the beginning of the previous financial year, if they arise through exercise until the beginning of the ordinary general meeting of the company, otherwise from the beginning of the financial year in which they arise through the exercise of subscription rights. The Executive Board is authorised, with the approval of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase.

Authorisation to issue convertible bonds or bonds with warrants

a) per 31 December 2018

The authorisation to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds in the aggregate nominal amount of up to EUR 125,000,000.00 granted by the resolution of the Annual General Meeting on 29 June 2017 under Agenda Item 8 was cancelled by the resolution of the Annual General Meeting of 27 June 2018. By resolution of the same Annual General Meeting, the Executive Board was authorised with the approval of the Supervisory Board, to issue on one or several occasions bearer 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") with a limited or unlimited maturity period in the aggregate principal amount of up to EUR 125,000,000.00 until 26 June 2023 and grant the holders or creditors of these bonds conversion or option rights for no-par value bearer shares of the Company with a notional interest In the share capital of up to a total of EUR 25,000,000.00 in accordance with the terms and conditions of the 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.

b) Development after 31 December 2018

The Executive Board's authorisation by resolution of the Annual General Meeting of 27 June 2018 under Agenda Item 8 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 nominal value of up to EUR 125,000,000.00 was cancelled with the resolution of the Annual General Meeting on 11 February 2019. The Executive Board was authorised Board to issue subordinated or non-subordinated 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") with a limited or unlimited maturity period for a total nominal amount of up to EUR 325,000,000.00 on one or several occasions, also simultaneously in different tranches, until 10 February 2024, and grant the holders or creditors of these bonds conversion or option rights or conversion or option obligations for a total of up to 53,328,662 par value bearer shares of the Company with a notional interest in the share capital of up to a total of EUR 53,328,662.00 in accordance with the terms and conditions of the bonds

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 the shareholder 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. A preferential acceptance of lesser quantities of up to 100 shares tendered per shareholder may be provided for.

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 of the direct or indirect acquisition of control of the Company's voting rights of at least 50 % or a comparable situation that restricts the Executive Board's management of the Company, Mr Ralf Kind (Executive Board member until 3 January 2019) had and Mr Ingo Hartlief has an extraordinary special right of termination. If the special right of termination is exercised, the contract ends with immediate effect and Mr Kind would have received a severance payment in the amount of an annual salary and Mr Hartlief will receive a severance payment in the amount of an annual salary, which is determined by the sum of the basic salary and the target bonus amount. The severance payment increases by the value of the stock options already granted to the member of the Executive Board, valued at the relevant time depending on the situation.

Corporate Governance Report / Corporate Governance Statement

On 6 March 2019, 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 Company section under the heading Corporate Governance on its website at www.demire.ag.

Management report of DEMIRE Deutsche Mittelstand Real Estate AG

In addition to reporting on the DEMIRE Group's situation, the following presents the Company's development in the past financial 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 2018 financial 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 27 (previous year: 20).

The Company's financial statements as at 31 December 2018 were prepared in accordance with the provision of the German Commercial Code (HGB) and the supplementary provision of the German Stock Corporation Act (AktG). Supplementary provisions from the Articles of Association did not arise.

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

Results of operations

In the 2018 financial year, DEMIRE Deutsche Mittelstand Real Estate AG incurred a net profit of EUR 93.3 million.

STATEMENT OF INCOME (EXCERPT) in EUR thousands	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	%
Revenue	2,618	7,104	–4,486	–63.1
Other operating income	97,969	2,366	95,603	>100
Staff costs	–3,495	–5,159	1,664	–32.25
Other operating expenses, depreciation & amortisation	–13,078	–11,356	–2,344	15.16
Income from investments	10,747	56	10,691	>100
Income from loans	12,452	14,742	–2,290	–15.53
Impairment of financial assets	–260	–10,522	10,262	–97.53
Financial result	1,325	–38,582	39,907	←100
Result before taxes	96,087	–45,627	141,714	>100
Net profit	93,326	–45,769	139,095	>100

The Company's revenue results mainly from management fees related to the provision of internal Group services to the subsidiaries and sub-subsidiaries of DEMIRE Deutsche Mittelstand Real Estate AG. A change in the calculation basis for the newly concluded agency agreements from 2018 onwards led to a decrease of EUR 4.5 million.

The significant increase in other operating income resulted from the contribution of shares in two affiliated companies as part of a cash capital increase with a premium provided in kind. This resulted in DEMIRE's release of hidden reserves totalling EUR 93.6 million. Other operating income also included income from the write-up of shares in affiliated companies of EUR 3.5 million and income from the forbearance commission on a loan of EUR 0.4 million.

Staff costs fell to EUR 3.5 million (2017 financial year: EUR 5.2 million). The decrease in staff costs compared to the previous year was primarily a result of higher expenses for the Executive Board of up to three persons, severance payments of EUR 0.9 million for former members of the Executive Board in the 2017 financial year and the compensation of EUR 0.6 million for stock options.

Other operating expenses and depreciation / amortisation increased by EUR 2.3 million to EUR 13.1 million. The high expenses in 2018 resulted from consultancy and service fees in connection with the partial termination and refinancing of the 2017 / 2022 corporate bond in the course of the takeover offer by Apollo and the capital measures in April and November 2018.

Income from loans of financial fixed assets totalling EUR 12.5 million consisted solely of 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 amounted to EUR 1.3 million in the 2018 financial year (2017 financial year: EUR – 38.6 million). This includes income from investments of EUR 10.7 million (2017 financial year: EUR 56 thousands). These result from profit allocations from affiliated companies. In addition, the refinancing measures implemented in the previous year at more favourable terms by issuing the 2017 / 2022 corporate bond had a very positive effect on the financial result.

Impairment on financial assets amounted to EUR 0.3 million in the 2018 financial year (2017 financial year: EUR 10.5 million).

Based on the control and profit and loss transfer agreements concluded in the 2017 financial year, a profit of EUR 3.3 million (2017 financial year: EUR 0.9 million) and a loss of EUR 0.1 million (2017 financial year: EUR 19.6 million) were transferred to the Company.

The result before taxes totalled a net profit of EUR 93.3 million after a net loss of EUR 45.8 million in the 2017 financial year due to a significant improvement in the financial result, the contribution of subsidiaries with a premium provided in kind and a low level of impairment losses on financial assets.

Financial position

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

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

Liquidity position

STATEMENT OF CASH FLOWS in EUR thousands	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017	CHANGE	%
Cash flow from operating activities	– 16,117	– 61,198	45,081	73.7
Cash flow from investing activities	– 5,084	– 181,891	176,807	97.2
Cash flow from financing activities	133,354	272,917	– 133,563	– 51.1
Net change in cash and cash equivalents	**112,152**	**29,828**	**82,324**	**>100**
Cash and cash equivalents at the end of the period	**142,269**	**30,116**	**112,153**	**>100**

Operating activities resulted in a cash outflow of EUR 16.1 million in 2018 following a cash outflow in the previous financial year of EUR 61.2 million. The main drivers of this development were the lower interest payments for borrowings due to refinancing concluded in 2017. The cash flow from operating activities in 2017 was characterised by high interest payments for the originally high-yielding liabilities and prepayment penalties in connection with refinancing measures.

Lower volumes of lending to affiliates have led to a sharp decline in cash outflows from investing activities.

In the 2018 financial year, two capital increases were carried out to finance planned purchases of real estate and real estate companies with proceeds of EUR 23.6 million and EUR 150.1 million, respectively.

In the 2018 financial 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)	31/12/2018	31/12/2017	CHANGE	%
Assets				
Fixed assets	579,135	472,257	106,878	22.63
Current assets / prepaid expenses	188,261	61,424	126,838	>100
Total assets	**767,396**	**533,681**	**233,715**	**43.79**

BALANCE SHEET – EQUITY AND LIABILITIES (Selected information in EUR thousands)	31/12/2018	31/12/2017	CHANGE	%
Equity and liabilities				
Equity	366,199	73,573	292,626	>100
Provisions	3,685	1,804	1881	>100
Liabilities	397,512	458,304	– 60,792	– 13.26
Total equity and liabilities	**767,396**	**533,681**	**233,715**	**43.79**

The Company's total assets as at the 31 December 2018 reporting date amounted to EUR 767.4 million. This represents an increase of EUR 233.7 million, or almost 45 %, over the previous year's total of EUR 533.7 million.

Fixed assets increased by EUR 106.9 million in the financial year. The increase is mainly attributable to the contribution of shares in two affiliated companies as part of a cash capital increase with a premium provided in kind and additional loans granted to affiliated companies.

Current assets, including prepaid expenses, increased by EUR 126.8 million from EUR 61.4 million as at 31 December 2017 to EUR 188.3 million. The largest item was cash and cash equivalents in the amount of EUR 142.2 million, which increased mainly as a result of the two capital increases in the 2018 financial year with proceeds totalling EUR 170.7 million. This was partially offset by payments for the operating business and the repayment of 2017 / 2022 convertible bonds in the amount of EUR 33.4 million in the wake of the takeover offer by Apollo.

On the liabilities side of the balance sheet, the Company's equity increased from EUR 73.6 million as at 31 December 2017 to EUR 366.2 million as at 31 December 2018. The increase resulted from conversions of the 2013 / 2018 convertible bonds and the 2015 / 2018 mandatory convertible bond, as well as two capital increases in the 2018 financial year and the income from the cash capital increase with a premium provided in kind.

The equity ratio increased accordingly from 48.4 % at the end of 2017 to 47.7 % as at 31 December 2018.

Provisions of EUR 3.7 million as at 31 December 2018 (31 December 2017: EUR 1.8 million) mainly relate to other personnel costs; outstanding invoices, mainly for legal and consulting costs; as well as costs for the audit of the annual financial statements and consolidated financial statements.

The Company's liabilities decreased from EUR 458.3 million as at 31 December 2017 to EUR 397.5 million as at 31 December 2018. A key reason for this, aside from the conversions, was the early redemption of a portion of the 2017/2022 corporate bond totalling EUR 33.4 million.

Comparison of prior year forecasts with actual business development

For the 2018 financial year, a slight improvement in EBIT and the net result had been forecast. However, as a result of the substantially lower interest expenses for the 2017/2022 corporate bond compared with the previous financing, as well as the higher profit transfers due to transfer agreements concluded in previous years, a significant improvement was achieved. The cash capital increase with a premium provided in kind led to a significant increase in the net profit/loss for the period. As a result of the capital measures in place to generate financial resources for the future growth of the Group, higher expenses for legal and advisory services were incurred. At the same time, lower personnel costs were incurred due to the reduction in the number of Executive Board members despite the increase in staff. Expenses such as prepayment penalties and impairment losses, which had a significant impact on earnings in the previous year, were not incurred in the reporting year.

Report on outlook

Based on an unchanged structure, the net profit/loss for the 2019 financial year is expected to be slightly positive. Further income from capital increases with a premium provided in kind in the same amount as in 2018 is not planned. Due to the positive developments in the real estate management of our real estate companies, a further moderate increase in profit transfers is expected. In order to optimise the Group structure, expenses in the financial year 2019 are expected to be at the same level as in the previous year. Due to the good conditions and residual term of the 2017/2022 corporate bond, the company expects no major non-recurring expenses from refinancing in the 2019 financial year as in the previous year.

Concluding statement to the Dependency Report pursuant to Section 312 AktG

Pursuant to Section 312 AktG, the Executive Board has made the following concluding statement: "In accordance with the circumstances known to us at the time when the legal transactions were entered into, our company received appropriate consideration for each legal transaction listed in the report on relationships with affiliated companies. In the year under review, no reportable measures were taken or omitted by our company within the meaning of § [Article] 312 of the German Stock Corporation Act (AktG)."

Frankfurt am Main, 18 March 2019
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
Executive Board (CEO)

Tim Brückner
Executive Board (CFO)

BALANCE SHEET

As at 31 December 2018

ASSETS in EUR	31/12/2018	31/12/2017
A. FIXED ASSETS		
I. Intangible assets		
Paid concessions, commercial property rights and similar rights and assets, as well as licences to such rights and assets	3,792.00	14,448.00
	3,792.00	**14,448.00**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings third-party property	41,513.00	56,075.00
2. Other equipment, operating and office equipment on third-party property	188,058.00	142,941.00
3. Prepayments and assets under construction	89,032.55	0.00
	318,603.55	**199,016.00**
III. Financial assets		
1. Investments in affiliated companies	239,317,583.09	140,588,899.64
2. Loans to affiliated companies	339,494,588.17	331,454,615.48
	578,812,171.26	**472,043,515.12**
	579,134,566.81	**472,242,531.12**
B. CURRENT ASSETS		
I. Receivables and other assets		
1. Trade accounts receivables	2,691,323.67	2,768,657.00
2. Receivables from affiliated companies	10,559,319.21	2,022,809.83
3. Other assets	28,107,555.06	20,388,443.85
	41,358,197.94	**25,179,910.68**
II. Cash on hand, bank balances	**142,268,702.88**	**30,116,218.43**
	183,626,900.82	**55,286,129.11**
C. PREPAID EXPENSES	**4,634,794.17**	**6,128,007.11**
	767,396,261.80	**533,681,115.34**

EQUITY AND LIABILITIES in EUR	31/12/2018	31/12/2017
A. EQUITY		
I. Subscribed capital	**107,777,324.00**	**54,270,744.00**
II. Capital reserves	**203,542,539.24**	**57,748,641.29**
III. Accumulated profit (privious year: Accumulated loss)	**54,879,238.62**	**– 38,446,631.13**
	366,199,101.86	**73,572,754.16**
B. PROVISIONS		
1. Tax provisions	202,825.86	0.00
2. Other provisions	3,482,219.02	1,803,748.44
	3,685,044.88	**1,803,748.44**
C. LIABILITIES		
1. Bonds	366,625,000.00	425,613,963.00
thereof convertible EUR 0.00 (previous year: EUR 25,613,963.00)		
2. Bank liabilities	0.00	16,270.94
3. Trade payables	917,760.59	445,083.49
4. Liabilities due to affiliated companies	21,456,726.19	26,157,646.27
5. Other liabilities	6,165,324.96	6,071,649.04
thereof from taxes EUR 49,970.87 (previous year: EUR 544,386.37)		
thereof from social security EUR 16,497.21 (previous year: EUR 8,800.36)		
	395,164,811.74	**458,304,612.74**
D. DEFERRED TAX LIABILITIES	2,347,303.32	0.00
	767,396,261.80	**533,681,115.34**

STATEMENT OF INCOME

For the financial year from 1 January to 31 December 2018

in EUR	2018	2017
1. Revenue	2,617,966.67	7,104,311.64
2. Other operating income	97,969,194.33	2,365,630.61
thereof income from currency translation EUR 355.75 (previous year: EUR 21.64)		
	100,587,161.00	**9,469,942.25**
3. Staff costs		
a) Wages and salaries	3,190,497.92	4,858,489.86
b) Social security contributions and expenses for pension schemes and related benefits thereof pensions expenses EUR 392.05 (previous year: EUR 14,311.51)	304,013.63	300,498.43
	3,494,511.55	**5,158,988.29**
4. Depreciation and amortisation		
a) of intangible fixed assets and Property, plant and equipment	88,140.63	67,094.29
b) of current assets, to the extent they exceed the usual depreciation in the corporation	0.00	835,208.59
	88,140.63	**902,302.88**
5. Other operating expenses	12,989,445.75	10,453,738.38
thereof expenses from currency translation EUR 180.89 (previous year: EUR 0.00)		
	16,572,097.93	**16,515,029.55**
6. Income from investments	10,746,927.90	55,765.61
7. Profits transferred due to profit transfer agreements	3,321,261.27	938,566.25
8. Income from loans of financial fixed assets	12,452,009.30	14,741,720.05
9. Other interest and similar income	287,432.12	410,925.26
10. Write-downs of financial assets	260,000.00	10,522,334.31
11. Expenses from the assumption of losses	69,474.53	19,560,330.31
12. Interest and similar expenses	14,406,260.19	24,646,416.93
13. Income taxes	2,619,121.19	0.00
thereof expenses from the recognition of deferred taxes EUR 2,347,303.32 (previous year: EUR 0.00)		
14. Expenses from compensation payments to minority shareholders	141,968.00	141,968.00
15. Net profit (previous year: net loss)	**93,325,869.75**	**–45,769,159.68**
16. Loss carried forward from the previous year	38,446,631.13	142,677,471.45
17. Withdrawals from capital reserves	0.00	150,000,000.00
18. Accumulated profit (previous year: accumulated loss)	**54,879,238.62**	**–38,446,631.13**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2018

GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE AG" or "the Company") as at 31 December 2018 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 EUR, and all amounts are generally specified in thousands of euros, i.e. EUR thousands.

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

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

As the Group's parent company, DEMIRE AG has prepared the consolidated financial statements as at 31 December 2018 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 they are prepared for 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 (Langen), Logistikpark Leipzig GmbH (Berlin), DEMIRE Condor Properties Management GmbH (Langen), DEMIRE Commercial Real Estate ZWEI GmbH (Langen), DEMIRE Commercial Real Estate DREI GmbH (Langen) and DEMIRE Commercial Real Estate VIER GmbH (Langen). 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.

Property, plant and equipment

Tangible assets are carried at acquisition cost pursuant to Section 255 (1) HGB, including incidental costs, less scheduled straight-line depreciation over their expected useful lives pursuant to Section 253 (1) HGB. The deprecation of the individual groups of tangible assets is based on their useful lives ranging from 3 to 13 years. Additions to tangible assets during the year are depreciated on a pro rata 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 800 are fully depreciated in the year of acquisition. Fixed assets with an acquisition cost of more than EUR 800 are depreciated over their expected useful lives.

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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 companiesand 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 at the reporting date.

Prepaid expenses

Payments prior to the reporting date that relate to expenses that will occur at a certain point after the reporting 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 previous year.

Deferred taxes are calculated based on the Company's combined income tax rate of 28.78 % (31 December 2017: 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 and the measurement of investments in affiliated companies resulted in the recognition of deferred tax liabilities while the different valuation of investments in and loans to affiliated companies resulted in the recognition of deferred tax assets. Overall, there is a surplus of deferred tax liabilities recognised on the balance sheet.

Shareholders' equity

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

Capital reserves result from various capital increases recognised at their nominal amount.

Subscription rights resulting from the 2015 Stock Option Programme 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.

Provisions

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 by applying the net method. Their measurement is based on the average market interest rate of the previous seven financial 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 reporting 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 at the reporting 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 2018 financial year is contained in the statement of changes in fixed assets (Appendix 1 of the Notes to the annual financial statements).

FINANCIAL ASSETS

Investments in affiliated companies amounted to EUR 239,318 thousand (31 December 2017: EUR 140,589 thousand). The increase compared to the previous year resulted from an affiliated company's cash capital increase with a premium provided in kind. Reference is made to the explanations under "Accumulated profit".

Impairments in the amount of EUR 260 thousand (2017: EUR 10,522 thousand) were recognised on financial assets in order to reflect an adjustment to the fair value. Reversals of impairment in the amount of EUR 3,524 thousand (2017: EUR 0 thousand) were recognised because the reason for the impairment no longer existed.

Loans to affiliated companies of EUR 339,495 thousand (31 December 2017: EUR 331,455 thousand) 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 in the amount of EUR 8,040 thousand is mainly due to the granting of loans to DEMIRE Ankauf 1 GmbH, DEMIRE Ankauf 2 GmbH; DEMIRE Ankauf 3 GmbH and DEMIRE Ankauf 4 GmbH (all Langen) in the amount of EUR 18,744 thousand. These were offset by the repayment of the loan to DEMIRE Objektgesellschaft Germavest GmbH (Berlin) in the amount of EUR 14,008 thousand.

With regard to disclosures about shareholdings, we refer to the schedule of shareholdings as at 31 December 2018 attached to the notes as Appendix 2 in accordance with Section 285 nos. 11, 11a and 11b HGB.

CURRENT ASSETS

Current assets consisting of receivables and other assets, as well as cash on hand and bank deposits, totalled EUR 183,627 thousand as at the reporting date (31 December 2017: EUR 55,296 thousand).

Impairment of receivables from affiliated companies was recognised in the amount of EUR 198 thousand (31 December 2017: EUR 835 thousand), to align the carrying amounts to their fair values.

RECEIVABLES AND OTHER ASSETS

Trade accounts receivable of EUR 2,691 thousand (31 December 2017: EUR 2,769 thousand) concern claims from service agreements with affiliated companies.

Receivables due from affiliated companies of EUR 10,559 thousand (31 December 2017: EUR 2,023 thousand) relate to receivables from settlement transactions, passed on expenses and current loans.

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

Other assets include interest receivables from affiliated companies in the amount of EUR 11,237 thousand.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents of EUR 142,269 thousand (31 December 2017: EUR 30,116 thousand) include cash on hand and current bank deposits.

PREPAID EXPENSES

Prepaid expenses in the amount of EUR 4,635 thousand primarily include a discount of EUR 4,548 thousand from the issue of the 2017/2022 corporate bond (31 December 2017: EUR 5,832 thousand from the 2014/2018 bond), which is to be amortised over the remaining term of the bond.

SHAREHOLDERS' EQUITY

Subscribed capital

On 31 December 2018, the Company had fully paid in subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest of EUR 1.00. A total of 178,893 no-par value bearer shares were entered into the commercial register only at the beginning of February 2019. The shares of DEMIRE AG have been admitted for trading in the Prime Standard segment of the Frankfurt Stock Exchange.

Conversions of the 2013/2018 convertible bond

An increase of 53,506,580 shares resulted from conversions of the 2013/2018 convertible bond, the 2015/2018 mandatory convertible bond and two capital increases. The subscribed capital of the Company has been conditionally increased following the exercise of conversion rights from the convertible bonds and the issuance of 10,568,103 new shares from Conditional Capital I/2013, I/2017 and I/2018. The original number of convertible bonds was 11,300,000. No conversion rights remain after the repayment of the remaining convertible bonds in December 2018. The conditional capital increase served to grant subscription or conversion rights to the holders of bonds with warrants or convertible bonds issued in accordance with the authorisation of the Company's Annual General Meeting on 23 October 2013.

Capital increases

On 26 February 2018, with the approval of the Supervisory Board, the Executive Board of DEMIRE 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 at 1 January 2018 in exchange for a cash contribution and excluding the subscription rights of the Company's shareholders. The capital increase was entered into the commercial register on 5 April 2018.

On 25 October 2018, the Executive Board of DEMIRE AG, with the approval of the Supervisory Board, resolved to increase the share capital of the Company against a cash contribution by EUR 34,512,703.00 from EUR 73,085,728.00 to EUR 107,598,431.00 by issuing of 34,512,703 no-par value ordinary shares each with a notional interest of EUR 1.00 and a profit entitlement as per 1 January 2018 (the "new shares") from authorised capital with subscription rights for existing shareholders of the Company (the "capital increase").

The new shares were offered to existing shareholders of the Company at a price of EUR 4.35 per new share and a subscription ratio of 36:17. Accordingly, existing shareholders were able to acquire 17 new shares for 36 existing shares in the Company. AEPF III 15 S.à r.l. ("AEPF"), the largest single shareholder in the Company, currently holding approximately 49.58 % of the Company's share capital had undertaken to exercise its subscription rights and subscribe directly to the number of new shares attributable to its interest according to the subscription ratio. AEPF had also undertaken to acquire any new shares for which subscription rights of the Company's existing shareholders were not exercised. The capital increase was entered in the commercial register on 12 November 2018.

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE NEW SHARES

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

The resolution of the Annual General Meeting of 27 June 2018 cancelled the remaining Authorised Capital I / 2017 in the amount of EUR 21,703,098.00 and its provisions in Section 6 of the Articles of Association (Authorised Capital) and authorised the Executive Board, with the approval of the Supervisory Board – by countermotion – to increase the Company's share capital by up to a total of EUR 36,532,419.00 (Authorised Capital I / 2018) by issuing a total of 36,532,419 new no-par value bearer shares against contribution in cash and / or in kind once or several times until 26 June 2023. 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 an issue prices not substantially below the stock market price, as well as to meet the obligations of option or conversion rights, and to issue shares to employees and execute capital increases against contribution in kind.

For any changes after 31 December 2018, please refer to the events after the reporting date.

Conditional Capital I / 2013

By resolution of the Annual General Meeting on 23 October 2013 and with the approval of the Supervisory Board, the Executive Board is authorised to increase the Company's share capital by issuing up to 6,947,325 new no-par-value ordinary bearer shares with a notional interest of EUR 1.00 each against cash and / or contribution in kind on one or more occasions in partial amounts by up to EUR 6,947,325.00 (Conditional Capital I / 2013) until 22 October 2018. The shareholders are generally entitled to subscription rights. The conditional capital increase serves to grant subscription or conversion rights to the holders of the 2013 / 2018 convertible bond that are to be issued in accordance with the authorisation granted by the Company's Annual General Meeting on 23 October 2013. Conditional Capital I / 2013 was completely consumed in the 2018 financial year.

Conditional Capital I / 2016

The Annual General Meeting on 30 June 2016 resolved to create new conditional capital in the amount of EUR 3,000,000.00. The conditional capital increase serves to grant subscription or conversion rights to the holders of bonds with warrants or convertible bonds. Due to the conversion of the 2015 / 2018 mandatory bond into 3,000,000 new no-par value bearer shares as at 22 May 2018, Conditional Capital I / 2016 was consumed in full.

Conditional Capital I / 2017

At the Annual General Meeting on 29 June 2017, Conditional Capital I / 2017 was created in the amount of up to EUR 16,854,584.00 divided into up to 16,854,584 new no-par-value bearer shares with the corresponding amendments to the Articles of Association.

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 financial 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 financial 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. Following the utilisation of EUR 4,107,098 divided into 4,107,098 no-par-value bearer shares for conversion of the 2013 / 2018 convertible bonds, Conditional Capital I / 2017 amounting to EUR 12,747,552.00 divided into 12,747,552 no-par-value bearer shares and its regulations in Section 5 (7) of the Articles of Association was cancelled by the resolution of the Annual General Meeting on 27 June 2018.

Conditional Capital I / 2018

At the same general meeting, Conditional Capital II / 2018 was created in the amount of up to EUR 35,972,419.00 divided into up to 35,972,419 new no-par-value bearer shares with a corresponding amendment to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds or bonds with warrants, profit participation rights or profit participation bonds (or a combination of these instruments) that were issued or will be issued (i) based on the authorisation resolved by the Annual General Meeting of 23 October 2013 under Agenda Item 8 to grant convertible bonds and / or bonds with warrants and / or (ii) the authorisation resolved by the Annual General Meeting of 29 June 2017 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) and / or (iii) based on the authorisation resolved by the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect affiliates and that grant a conversion or option right or establish a conversion obligation to new no-par-value bearer shares of the Company. The issue of new shares is carried out at the exercise or conversion price to be determined in accordance with the respective authorisation resolved by the Annual General Meeting. Until 31 December 2018, the Conditional Capital II / 2018 was utilised in the amount of EUR 199,783 due to conversions.

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 plan 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.

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

A total of up to 800,000 stock options (80 %) could be granted to Executive Board members, and a total of up to 200,000 stock options (20 %) could be granted to selected employees of DEMIRE AG or directors or employees of group companies.

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

The exercise price to be set for one share of DEMIRE AG upon the exercise of the stock options corresponds to at least 100 % of the basic price. The basic price is the DEMIRE AG 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 DEMIRE AG 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 trading day preceding the exercise of the subscription rights.

The accounting of share-based payments is governed by IFRS 2. 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 stock options at the grant date pursuant to IFRS 2.10. In the case of DEMIRE AG, the grant date is the day the stock options were issued (7 April 2015 and 9 December 2015).

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

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

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 DEMIRE AG and Group employees. The fair value of each stock 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. As at the reporting date, the first tranche still entitles one former member of the Executive Board to receive 400,000 stock options, as well as 60,000 stock options for selected employees. The second tranche still entitles beneficiaries to 40,000 stock options.

In the reporting period, changes in the accounting of the stock option programme occurred due to the departure of employees. All entitlements to 80,000 stock options from the first tranche were settled by a one-time payment.

In the previous year's reporting period, the departure of two members of the Executive Board had also led to a change in the accounting of the stock option programme. One of the departing Executive Board members retained his entitlements under the stock option programme. 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 the stock options' fair value as at the date of the 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] Historische 180-Tage-Volatilität.

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. Based on the resolution of the Annual General Meeting of 27 June 2018, Conditional Capital II/2015 in the amount of EUR 1,000,000.00 and divided into a maximum of 1,000,000 no-par value bearer shares and the related provisions of Section 5 (6) of the Articles of Association were cancelled. At the same meeting, Conditional Capital I/2018 of up to EUR 560,000.00 and divided into a maximum of 560,000 new, no-par-value shares was created with the related amendment to the Articles of Association due to the partial use of the options as remuneration for former employees and a member of the Executive Board.

In addition to fixed and variable remuneration, the remuneration of Executive Board member Ralf Kind includes a payment based on the share price performance of the Company under a virtual stock option plan.

This stock option programme was replaced by another virtual stock option programme with effect from 1 January 2018. In this case, a member of the Executive Board is granted "Performance Share Units" (PSUs) with an allocation amount of EUR 420 thousand each year. The number of PSUs granted is determined based on the allocation amount divided by the average share price of DEMIRE AG 60 trading days prior to the grant date. Granting takes place on 1 January of each year, and for the first time on 1 January 2018. The PSUs will vest after a performance period of

4 years from the grant date, depending on the achievement of performance targets. The performance targets consist of 50 % annual stock price increases and 50 % relative total shareholder return (TSR). The relative TSR compares the development of the DEMIRE TSR with the return of the EPRA / NAREIT Developed Europe Index UK over the four-year performance period.

As at 31 December 2018, the provision for the virtual stock option programme, which will apply from 2018, amounts to EUR 246 thousand (31 December 2017: EUR 0 thousand). In addition to the 2018 tranche, the 2019 and 2020 tranches were also included. The 60-day average price before granting the 2018 tranche is EUR 3.78. With regard to the 2019 tranches, a 60-day average before granting of EUR 4.155 was used, and for the 2020 tranche EUR 4.35, which corresponds to the price on the last cut-off date.

Capital reserves

As at 31 December 2018, capital reserves amounted to EUR 203,543 thousand (31 December 2017: EUR 57,749 thousand).

As at the reporting date, capital reserves include amounts pursuant to Section 272 (2) no. 1 HGB of EUR 159,902 thousand (31 December 2017: EUR 14,108 thousand), as well as amounts pursuant to Section 272 (2) no. 4 HGB of EUR 43,640 thousand (31 December 2017: EUR 43,640 thousand). A total of EUR 150,000 thousand of the capital reserves according to Section 272 (2) no. 1 HGB was utilised in the prior financial year. As a result, the accumulated loss as at 31 December 2017 declined by EUR 150,000 thousand.

Accumulated profit

By resolution dated 4 June 2018, the shares of Logistikpark Leipzig GmbH (Logpark) and DEMIRE Commercial Real Estate DREI GmbH (COM3) were contributed into DEMIRE Commercial Real Estate GmbH (COM1) by means of a cash capital increase with a premium provided in kind through the issuance of two new company shares with a nominal value of EUR 1.00 each. The contribution took place with entry into the commercial register on 10 July 2018.

The carrying amounts of the shares in Logpark and COM3 were transferred to the carrying amount of COM1 not affecting profit and loss. COM1 has acquired the shares at their carrying amount and allocated them to capital reserves pursuant to Section 272 (2) no. 1 HGB as ancillary payment as defined by Section 3 (2) GmbHG (Law on Limited Liability Companies). At DEMIRE, the shares were contributed at theirprudent market value, which resulted in the release of hidden reserves in the amount of EUR 93,568 thousand.

Hidden reserves are calculated as the prudent market value of the shares at the time of contribution less the former book value. This amount increases DEMIRE's interests in COM1 affecting profit and loss.

The Company's accumulated profit as at the reporting date is derived as follows:

EUR thousands	2018	2017
Loss carried forward from the previous year	– 38,446	– 142,677
Net profit / loss for the period	93,325	– 45,769
Withdrawal from capital reserves	–	150,000
Accumulated profit (2017: loss) as at 31 December	**54,879**	**– 38,446**

Overview of changes in equity

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

in EUR thousands	SUBSCRIBED CAPITAL	CAPITAL RESERVES	ACCU-MULATED PROFIT
As at 1 January 2018	**54,271**	**57,749**	**– 38,446**
Conversion of 2013 / 2018 CB	10,569		
10 % Capital increase	5,425	18,176	
Conversion of 2015 / 2018 mandatory convertible bond	3,000	12,000	
50 % Capital increase	34,512	115,618	
2018 net profit			93,325
As at 31 December 2018	**107,777**	**203,543**	**54,879**

Provisions

Tax provisions include the tax burden determined for the taxable income of DEMIRE as at 31 December 2018. Tax provisions of EUR 203 thousand include corporate taxes of EUR 192 thousand and a solidarity surcharge of EUR 11 thousand.

Other provisions amounted to EUR 3,482 thousand (31 December 2017: EUR 1,804 thousand) and included mainly obligations for outstanding invoices, accounting and audit costs, legal and consulting fees and staff costs.

The increase in provisions mainly results from legal and consulting fees (increase of EUR 1,470 thousand) not yet invoiced as well as outstanding vacation and bonus entitlements of Company employees (increase of EUR 281 thousand).

Liabilities

2013 / 2018 convertible bonds (CB), 2015 / 2018 mandatory convertible bond (MCB)

In February 2018, DEMIRE was able to win over Apollo Global Management as a new strategic investor within the scope of a 10 % capital increase. With the conversion of the mandatory convertible bond in May and the early conversion of most of the outstanding convertible bonds in June by the two major shareholders, DEMIRE was able to significantly strengthen its equity base.

Apollo Global Management increased its shareholding during the second quarter in the course of a mandatory takeover offer to existing DEMIRE shareholders published on 16 April 2018 for the acquisition of further shares at an offer price of EUR 4.35. In June 2018, funds managed by Apollo and the Wecken Group also converted convertible bonds with a total volume of EUR 10.27 million into DEMIRE shares.

Corporate bond (2017 / 2022)

As at the reporting date of 31 December 2018, the 2017 / 2022 unsecured corporate bond had a nominal amount of EUR 366,625 thousand outstanding.

In the 2017 financial year, DEMIRE AG placed an unsecured corporate bond (ISIN: XS1647824173) with an issue volume of EUR 400,000 thousand. The corporate bond has a term of five years and is due on 15 July 2022. The bond features a coupon of 2.875 % p. a., which is paid out semi-annually in arrears to the investors.

The corporate bond declined from its previous high of 103.26 % on 25 January 2018 to a level of 97.64 % at the end of December 2018. During the preparation of the annual financial statements, the price was able to recover to 101.71 % as at 26 February 2019. The reason for the price development was the higher volatility in the overall market. The announcement of a takeover offer by the new major shareholder, Apollo Global Management, triggered a change of control on 16 April 2018. Under the terms of its bond, DEMIRE was required to offer its bondholders early redemption of the bond at a repurchase price equal to 101% of the principal amount plus interest accrued and unpaid until the repurchase date ("repurchase offer") within 30 days of obtaining knowledge of the change of control.

DEMIRE AG published this repurchase offer, among others, on its website on 16 May 2018. The bondholders were able to request repayment until 11.00 a.m. on 14 June 2018. The repurchase offer was accepted for a total volume of EUR 33,375,000.00. The corporate bond received a "BB+" rating from the Standard & Poor's rating agency and a "Ba2" rating from the Moody's rating agency.

Liabilities due to affiliated companies

Liabilities due to affiliated companies amounted to EUR 21,457 thousand as at the reporting date (31 December 2017: EUR 26,158 thousand), of which EUR 21,457 thousand (31 December 2017: EUR 19,567 thousand) 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 based on control and profit-and-loss transfer agreements.

Other liabilities

Other liabilities amounting to EUR 6,165 thousand (31 December 2017: EUR 6,072 thousand) mainly include a liability from the 2017 / 2022 corporate bond in the amount of EUR 4,830 thousand (31 December 2017: EUR 4,926 thousand) as well as liabilities due to affiliated companies in the amount of EUR 983 thousand (31 December 2017: EUR 0 thousand).

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

in EUR	UP TO 1 YEAR	OVER 1 YEAR	OVER 5 YEARS	TOTAL
1. Bonds	0.00 (25,613,963.00)	366,625,000.00 (400,000,000.00)	0.00 (0.00)	366,625,000.00 (425,613,963.00)
2. Bank liabilities	0.00 (16,270.94)	0.00 (0.00)	0.00 (0.00)	0.00 (16,270.94)
3. Trade payables	917,760.59 (445,083.49)	0.00 (0.00)	0.00 (0.00)	917,760.59 (445,083.49)
4. Liabilities due to affiliated companies	21,456,726.19 (19,566,673.67)	0.00 (6,590,972.60)	0.00 (0.00)	21,456,726.19 (26,157,646.27)
5. Other liabilities	6,165,324.96 (6,071,649.04)	0.00 (0.00)	0.00 (0.00)	6,165,324.96 (6,071,649.04)
Total	28,539,811.15 (51,713,640.14)	366,625,000.00 (406,590,972.60)	0.00 (0.00)	395,164,811.74 (458,304,612.74)

Collaterals existed for other liabilities in the amount of EUR 68,883 thousand (31 December 2017: EUR 80,055 thousand). Collaterals consist 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 EUR 28,220 thousand (31 December 2017: EUR 28,220 thousand) 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 (Gräfelfing) held in custody accounts of the subsidiaries FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, FVR Beteiligungsgesellschaft Siebente mbH & Co. KG and FVR Beteiligungsgesellschaft Achte mbH & Co. KG (all Langen) are pledged as guarantees. If the market price of the pledged shares falls below a total value of EUR 15,000 thousand – corresponding to EUR 4.41 per share – DEMIRE AG undertakes to provide additional guarantees to the lender providing up to EUR 15,000 thousand of total coverage. DEMIRE AG does not expect the pledged guarantees to be utilised because Fair Value REIT-AG's share price has been trading significantly above EUR 6.31 per share since 2015 (31 December 2018: EUR 8.00 per share). The following contingent liabilities existed as a result of granting guarantees to third-party liabilities. As at the reporting date, contingent liabilities in the amount of EUR 940 thousand (31 December 2017: EUR 940 thousand) were in favour of affiliated companies.

Other financial obligations and off-balance-sheet transactions

As at the reporting date, other financial obligations according to Section 285 no. 3a HGB totalling EUR 376 thousand (31 December 2017: EUR 608 thousand) mainly consisted of rental and leasing contracts with the following terms:

in EUR thousands	TOTAL	UP TO 1 YEAR	OVER 1 YEAR	OVER 5 YEARS
Rental and leasing contracts	376	198	178	0
thereof due to affiliated companies	302	165	137	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.

Deferred taxes

As at the reporting date, there was a surplus of deferred tax liabilities. As at 31 December 2017, there was a surplus of deferred tax assets which were not capitalised due to the option in accordance with Section 274 (1) sentence 2 HGB.

Deferred taxes are measured at a tax rate of 28.78 %. This includes corporate tax, a solidarity surcharge and trade tax. For different valuations of financial assets, a tax rate of only 1.44 % (5 % of 28.78 %) is applied due to the prohibition to make deductions to reduce taxable income. Deferred tax liabilities arise from the following items:

BALANCE SHEET ITEMS in EUR thousand	DEFERRED TAXES
Investments in affiliated companies	– 1,138
Loans to affiliated companies	68
Receivables and other assets	15
Prepaid expenses	– 1,309
Provisions	17
Surplus of deferred tax liabilities	**2,347**

NOTES TO THE STATEMENT OF INCOME

REVENUE

Revenues amounting to EUR 2,618 thousand (previous year: EUR 7,104 thousand) comprise domestic revenues from services of EUR 2,319 thousand (previous year: EUR 6,856 thousand) and international revenues from services of EUR 299 thousand (previous year: EUR 248 thousand). Revenues mainly include income from service agreements with affiliated companies.

in EUR thousands	2018	2017
Domestic revenues	2,319	6,856
International revenues	299	248
Total	**2,618**	**7,104**

OTHER OPERATING INCOME

Other operating income of EUR 97,969 thousand (previous year: EUR 2,366 thousand) mainly comprises the income from the cash capital increase with a premium provided in kind in the amount of EUR 93,568 thousand (previous year: EUR 0 thousand), in addition to income from the reversal of impairment in the amount of EUR 3,524 thousand (previous year: EUR 0 thousand).

Other operating income includes non-periodic income of EUR 283 thousand (previous year: EUR 326 thousand).

OTHER OPERATING EXPENSES

Other operating expenses totalling EUR 12,989 thousand (previous year: EUR 10,454 thousand) comprise mainly legal and consulting fees of EUR 7,698 thousand (previous year: EUR 5,031 thousand); third-party services of EUR 1,091 thousand (previous year: EUR 914 thousand); expenses for the accounting, preparation and audit of the annual and consolidated financial statements of EUR 779 thousand (previous year: EUR 860 thousand); expenses for the preparation of real estate appraisals of EUR 356 thousand (previous year: EUR 667 thousand) and non-deductible input taxes of EUR 534 thousand (previous year: EUR 979 thousand).

INCOME FROM INVESTMENTS

Income from investments in the amount of EUR 10,747 thousand (previous year: EUR 56 thousand) consists of the dividends from PRAEDIA GmbH, Berlin (affiliated company until 22 November 2018) in the amount of EUR 262 thousand, with the remaining amount resulting from the earnings attribution of FVR Beteiligungsgesellschaft Erste bis Achte mbH & Co. KG in the amount of EUR 10,485 thousand.

INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS

Income from profit and loss transfer agreements in the amount of EUR 3,321 thousand (previous year: EUR 939 thousand) results from the profit and loss transfer agreements with Logistikpark Leipzig GmbH, Leipzig in the amount of EUR 2,044 thousand (previous year: EUR 939 thousand), DEMIRE Commercial Real Estate in the amount of EUR 983 thousand (previous year: EUR 0 thousand) and DEMIRE Condor Properties Management GmbH in the amount of EUR 294 thousand (previous year: EUR 0 thousand).

INCOME FROM LOANS OF FINANCIAL FIXED ASSETS

Income from loans of financial fixed assets of EUR 12,452 thousand (previous year: EUR 14,742 thousand) solely relates to income from loans granted to affiliated companies to finance the acquisition of real estate companies and properties by subsidiaries and sub-subsidiaries.

INTEREST RESULT

Interest income results from financing arrangements between DEMIRE AG and third parties in the amount of EUR 287 thousand (previous year: EUR 411 thousand) from Taurecon RE Consulting GmbH and Taurecon Beteiligungsgesellschaft mbH (all Berlin), and interest from refunded value-added tax.

Interest and similar expenses of EUR 14,406 thousand (previous year: EUR 24,646 thousand) concern mainly the interest to be paid over the term of existing financial liabilities from the 2017 / 2022 corporate bond.

Interest and similar expenses due to affiliated companies amounted to EUR 206 thousand (previous year: EUR 1,912 thousand).

IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets was related to impairment losses in the amount of EUR 260 thousand (previous year: EUR 10,522 thousand) on investments in affiliated companies, as well as on loans to affiliated companies.

EXPENSES FROM THE ASSUMPTION OF LOSSES

Expenses from the assumption of losses of EUR 69 thousand (previous year: EUR 19,560 thousand) relate to losses assumed under existing control and profit-and-loss transfer agreements with subsidiaries, of which EUR 56 thousand (previous year: EUR 75 thousand) are attributable to DEMIRE Commercial Real Estate ZWEI GmbH and EUR 13 thousand (previous year: EUR 4 thousand) are attributable to DEMIRE Commercial Real Estate VIER.

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.

OTHER DISCLOSURES

GOVERNING BODIES

Executive Board members and remuneration

The Executive Board has consisted of the following members since the 2017 financial year:

- Mr Tim Brückner (since 1 February 2019)
- Mr Ingo Hartlief (since 20 December 2018)
- Mr Ralf Kind (until 3 January 2019)
- Mr Markus Drews (until 15 November 2017)
- Mr Hon.-Prof. Andreas Steyer (until 30 June 2017)

The Executive Board members were 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 financial year is listed in the table below.

in EUR thousands	FIXED REMUNERATION	VARIABLE REMUNERATION	SHARE-BASED PAYMENTS	TOTAL 2018	TOTAL 2017
Ingo Hartlief	0	0	0	0	**0**
Ralf Kind	380	180	302	862	**839**
Total	**380**	**180**	**302**	**862**	**839**

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 company cars. Variable remuneration consists of a bonus based on the business performance in the reporting year. The final amount payable to Ralf Kind is still to be determined.

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 names and professions of the Company's Supervisory Board members are shown in the table below.

The Supervisory Board's total remuneration for the financial year amounted to EUR 180 thousand (previous year: EUR 180 thousand). In addition, Supervisory Board members were reimbursed by the Company for travel expenses incurred of EUR 8 thousand (previous year: EUR 7 thousand) 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	POSITION
Prof Dr Hermann Anton Wagner (Chairman of the Supervisory Board) (until 27 June 2018)	Aareal Bank AG, Wiesbaden, Germany	Ordinary Member of the Supervisory Board; Chairman of the Audit Committee
	btu consultingpartner Holding AG, Oberursel (Taunus), Germany	Vice Chairman of the Supervisory Board
	PEH Wertpapier AG, Frankfurt am Main, Germany	Ordinary Member of the Supervisory Board
	SQUADRA Immobilien GmbH & Co. KGaA. Frankfurt am Main, Germany	Vice Chairman of the Supervisory Board
Prof Dr Alexander Goepfert (Chairman of the Supervisory Board) (since 27 June 2018)	aamundo Holding AG. Frankfurt, Germany	Chairman of the Supervisory Board
	PROXIMUS Real Estate AG, Cologne, Germany	Ordinary Member of the Supervisory Board
	shareDnC GmbH, Cologne, Germany	Ordinary Member of the Advisory Board
	EBS Real Estate Management Institut, Wiesbaden, Germany	Chairman of the Board of Trustees
	iddiw Institut der Deutschen Immobilienwirtschaft e. V., Frankfurt am Main, Germany	Vice President

NAME	COMPANY	POSITION
Frank Hölzle (Vice Chairman of the Supervisory Board) (since 14 February 2017)	Westgrund AG, Berlin, Germany	Ordinary Member of the Supervisory Board (until 12 October 2018)
	clickworker GmbH, Essen, Germany	Chairman of the Advisory Board
	Mindlab Solutions GmbH, Stuttgart, Germany	Chairman of the Advisory Board
	mobileObjects AG, Bueren, Germany	Chairman of the Supervisory Board
	rankingCoach GmbH, Cologne, Germany	Chairman of the Advisory Board
	SIC Invent AG, Basel / Switzerland	Member of the Board of Directors
	reBuy reCommerce GmbH, Berlin, Germany	Member of the Advisory Board
	Fair Value REIT-AG, Munich, Germany	Chairman of the Supervisory Board
Dr Thomas Wetzel (since 14 February 2017)	Brandenberger + Ruosch AG, Dietlikon / Switzerland	President of the Board of Directors
	EBV Immobilien AG, Urdorf / Switzerland	President of the Board of Directors (until 19 June 2018)
	Energie 360° AG, Zurich / Switzerland	Vice President of the Board of Directors
	Immobilien ETHZF AG, Zurich / Switzerland	Member of the Board of Directors
	VERIT Investment Management AG, Zurich / Switzerland	President of the Board of Directors
	Swiss Foundation for Anesthesia Research, Zurich / Switzerland	Member of the Foundation Council
	Stiftung für Kunst. Kultur und Geschichte, Küstnacht / Switzerland	Vice President of the Foundation Council
	Fair Value REIT-AG, Munich, Germany	Vice Chairman of the Supervisory Board (since 4 December 2017)
	Wintower Immobilien AG, Winterthur / Switzerland	Member of the Board of Directors (since 12 September 2018)

The average number of employees in the 2018 financial year was 27 (previous year: 20). All employees were in administrative positions.

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 ON GERMAN CORPORATE GOVERNANCE CODE

DEMIRE AG Executive and Supervisory Boards are committed to corporate management focused on responsible, transparent and sustainable value creation. The statement required under Section 161 AktG with regard to the German Corporate Governance Code was most recently approved by the Company's Executive and Supervisory Boards on 6 March 2019 and made available to DEMIRE AG shareholders. The Declaration of Conformity with the German Corporate Governance Code was made permanently available to shareholders on DEMIRE Deutsche Mittelstand Real Estate AG's website under the section entitled "Company".

AUDITOR'S FEE

The disclosure of the total fee of auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, in accordance with Section 285 no. 17 HGB is provided in the Notes to the Consolidated Financial Statement, which is 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 disclosure existing shareholdings that were notified to the Company in accordance with Section 33 (1) or (2) of the WpHG during the reporting period, as well as those published under Section 40 (1) WpHG. In addition, further shareholdings that were notified to the Company from the time until the preparation of the annual financial statements and disclosed under Section 40 (1) WpHG were taken into account.

The Company received the following notifications:

2018 PERSON SUBJECT TO THE NOTIFICATION OBLIGATION	VOTING RIGHTS AS DEFINED BY SEC. 33 AND 34 WPHG	VOTING RIGHTS NEW (IN %)	THRESHOLD	SHARE OF INSTRUMENTS AS DEFINED BY SEC. 38 (1) WPHG (IN %)	DATE ON WHICH THRESHOLD WAS CROSSED OR REACHED	ATTRIBUTION OF VOTING RIGHTS AS DEFINED BY SEC. 34 WPHG	NAME(S) OF SHAREHOLDER(S) HOLDING 3% OR MORE VOTING RIGHTS
KLAUS WECKEN	17,471,893	42.42	>30%	10.23	26/02/2018	Yes	WECKEN & CIE.
FERRY WECKEN	17,471,893	32.19	>30%		26/02/2018	Yes	WECKEN & CIE.
INA WECKEN	17,471,893	32.19	>30%		26/02/2018	Yes	WECKEN & CIE.
BRH HOLDINGS GP, LTD.	17,471,893	32.19	>30%		26/02/2018	Yes	WECKEN & CIE.
ROLF ELGETI	100,000	0.18	<10%. 5%. 3%		27/02/2018	No	
KLAUS WECKEN	24,998,082	46.06	>30%	10.23	27/02/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
ODDO BHF ASSET MANAGEMENT SAS	2,085,509	3.84	>3%		27/02/2018	No	
KLAUS WECKEN	32,084,524	59.12	>50%		28/02/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
FERRY WECKEN	32,084,524	59.12	>50%		28/02/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
INA WECKEN	32,084,524	59.12	>50%		28/02/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
WILLEM ROZENDAAL	0	0	<5%. 3%		27/02/2018	No	
BRH HOLDINGS GP, LTD.	32,084,524	59.12	>50%		28/02/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
GÜNTHER WALCHER & DR. MARTIN ZUFFER	0	0	<5%. 3%		27/02/2018	No	
NORBERT KETTERER	0	0	<3%		28/02/2018	No	
SIGRID WECKEN	2,713,880	4.99	<5%		29/03/2018	No	
ODDO BHF ASSET MANAGEMENT SAS	1,650,000	2.76	<3%		09/04/2018	No	
BRH HOLDINGS GP, LTD.	45,705,711	76.52	>75%		18/05/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
KLAUS WECKEN	45,705,711	76.52	>75%		18/05/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
FERRY WECKEN	45,705,711	76.52	>75%		18/05/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
INA WECKEN	45,705,711	76.52	>75%		18/05/2018	Yes	WECKEN & CIE.; AEPF III 15 S.À R.L.
SIGRID WECKEN	913,880	1.25	<3%		20/08/2018	No	

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

The Executive Board proposes to carry forward the Company’s accumulated profit for the 2018 financial 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, 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 financial year, the events of particular importance below have occurred but have not yet been recognised in the statement of income or balance sheet:

On 3 January 2019, the Supervisory Board of DEMIRE AG has dismissed Mr Ralf Kind as a member of the Company's Executive Board with immediate effect and his contract of employment was terminated for good cause.

On 17 January 2019, the Supervisory Board of DEMIRE AG appointed Tim Brückner as a member of the Company's Executive Board with responsibility for the finance department. Tim Brückner (41) has taken over his duties at DEMIRE AG effective 1 February 2019.

On 11 February 2019, DEMIRE AG invited its shareholders to an Extraordinary General Meeting in Frankfurt am Main.

The Extraordinary General Meeting dealt with three agenda items, which were adopted by the shareholders with large majorities. The first item on the agenda included the cancellation of Authorised Capital 2018 / I and the creation of a new Authorised Capital 2019 / I with the option to exclude subscription rights. Under this authorisation, the Executive Board is authorised to increase the Company’s share capital by up to a total of EUR 53,888,662 on one or more occasions by issuing up to a total of 53,888,662 new no-par-value ordinary shares against cash or contributions in kind (Authorised Capital 2019 / I) until 10 February 2024. In addition, shareholders issued a new authorisation to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds. This authorisation gives the Executive Board the ability to issue bonds with a total nominal value of up to EUR 325,000,000 until 10 February 2024. As a third item on the agenda, shareholders approved the cancellation of Conditional Capital 2018 / II and the creation of new conditional capital (Conditional Capital 2019 / I). As a result, the Company’s share capital will be conditionally increased by up to EUR 53,328,662 by issuing up to 53,328,662 no-par-value shares (Conditional Capital 2019 / I). The conditional capital increase serves to grant no-par-value shares to the holders and creditors of convertible and / or bonds with warrants, profit participation rights and / or profit participation bonds.

There were no further notifications regarding direct or indirect shareholdings that exceed 3 %, 5 % or 10 % of the voting rights received by the Company at the time of publication of this report.

Frankfurt am Main, 18 March 2019
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO)

APPENDIX 1: STATEMENT OF FIXED ASSETS FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2018

	ACQUISITION COST				ACCULUMATED DEPRECIATION AND AMORTISATION				CARRYING AMOUNTS	
EUR	01/01/2018	ADDITIONS	DISPOSALS	31/12/2018	01/01/2018	DEPRE-CIATION/AMORTISA-TION	REVERSAL OF IMPAIR-MENT	31/12/2018	31/12/2018	31/12/2017
I. Intangible assets										
Paid concessions, commercial property rights and similar rights and assets, as well as licences to such rights and assets	31,973.20	0.00	0.00	31,973.20	17,525.20	10,656.00	0.00	28,181.20	3,792.00	14,448.00
	31,973.20	**0.00**	**0.00**	**31,973.20**	**17,525.20**	**10,656.00**	**0.00**	**28,181.20**	**3,792.00**	**14,448.00**
II. Property, plant and equipment										
1. Land, leasehold rights and buildings, including buildings third-party property	67,103.14	0.00	0.00	67,103.14	11,028.14	14,562.00	0.00	25,590.14	41,513.00	56,075.00
2. Other equipment, operating and office equipment on third-party property	240,124.29	108,039.63	0.00	348,163.92	97,183.29	62,922.63	0.00	160,105.92	188,058.00	142,941.00
3. Prepayments and assets under construction	0.00	89,032.55	0.00	89,032.55	0.00	0.00	0.00	0.00	89,032.55	0.00
	307,227.43	**197,072.18**	**0.00**	**504,299.61**	**108,211.43**	**77,484.63**	**0.00**	**185,696.06**	**318,603.55**	**199,016.00**
III. Financial assets										
1. Investments in affiliated companies	218,408,229.56	129,059,044.95	33,604,646.02	313,862,628.49	77,819,329.92	250,000.00	3,524,284.52	74,545,045.40	239,317,583.09	140,588,899.64
2. Loans to affiliated companies	338,528,650.15	23,699,677.50	15,649,704.81	346,578,622.84	7,074,034.67	10,000.00	0.00	7,084,034.67	339,494,588.17	331,454,615.48
	556,936,879.71	**152,758,722.45**	**49,254,350.83**	**660,441,251.33**	**84,893,364.59**	**260,000.00**	**3,524,284.52**	**81,629,080.07**	**578,812,171.26**	**472,043,515.12**
	557,276,080.34	**152,955,794.63**	**49,254,350.83**	**660,977,524.14**	**85,019,101.22**	**348,140.63**	**3,524,284.52**	**81,842,957.33**	**579,134,566.81**	**472,242,531.12**

APPENDIX 2: SCHEDULE OF SHAREHOLDINGS PURSUANT TO SECTION 285 NO. 11, 11A AND 11B HGB

COMPANY	INTEREST IN CAPITAL %
GERMANY	
DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt a. M.	
Glockenhofcenter Objektgesellschaft mbH, Berlin	94.90
Hanse-Center Objektgesellschaft mbH, Berlin	94.90
Logistikpark Leipzig GmbH, Berlin	94.00
DEMIRE Immobilien Management GmbH, Berlin[4]	100.00
Panacea Property GmbH, Berlin[1]	51.00
Praedia GmbH, Berlin[4]	51.00
Fair Value REIT-AG, München	79.39
IC Fonds & Co. Büropark Teltow KG, München[2]	62.05
IC Fonds & Co.Gewerbeportfolio Deutschland 13. KG, München[4]	44.58
IC Fonds & Co. SchmidtBank-Passage KG, München[2]	42.93
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, München[2]	40.61
BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, München[2]	49.41
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, München[2]	46.27
GP Value Management GmbH, München	79.39
BBV 3 Geschäftsführungs-GmbH & Co. KG, München	79.39
BBV 6 Geschäftsführungs-GmbH & Co. KG, München	79.39
BBV 9 Geschäftsführungs-GmbH & Co. KG, München	79.39
BBV 10 Geschäftsführungs-GmbH & Co. KG, München	79.39
BBV 14 Geschäftsführungs-GmbH & Co. KG, München	79.39
BBV Immobilien-Fonds Erlangen GbR, München[2]	33.36
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, München[2]	41.47
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, München[2]	38.38
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt a. M.	100.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt a. M.	100.00

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

COMPANY	INTEREST IN CAPITAL %
GERMANY	
CONDOR Objektgesellschaft Bad Oeynhausen GmbH, Frankfurt a. M.	94.00
CONDOR Objektgesellschaft Lichtenfels GmbH, Frankfurt a. M.	94.00
DEMIRE Einkauf GmbH, Frankfurt a. M.	51.00
DEMIRE Assekuranzmakler GmbH % Co. KG, Düsseldorf[3]	47.50
G+Q Effizienz GmbH, Berlin[3]	49.00
DEMIRE Parkhaus Betriebsgesellschaft mbH, Berlin	51.00
Kurfürster Immobilien GmbH, Leipzig	94.90
Ritterhaus Immobilienverwaltungs GmbH, Düsseldorf	100.00
CONDOR Objektgesellschaft YELLOW GmbH, Frankfurt a. M.	94.00
Condor Yellow BV GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate DREI GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate VIER GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate FÜNF GmbH, Frankfurt a. M.	100.00
DEMIRE Commercial Real Estate SECHS GmbH, Frankfurt a. M.	100.00
DEMIRE Objektgesellschaft Germavest GmbH, Frankfurt a. M.	94.90
DEMIRE Objektgesellschaft Armstripe GmbH, Frankfurt a. M.	94.00
DEMIRE Objektgesellschaft Briarius GmbH, Frankfurt a. M.	94.00
DEMIRE Ankauf 1 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 2 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 3 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 4 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 5 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 6 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 7 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 8 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 9 GmbH, Frankfurt a. M.	100.00
DEMIRE Ankauf 10 GmbH, Frankfurt a. M.	100.00

COMPANY	INTEREST IN CAPITAL %
LUXEMBOURG	
Blue Ringed S. à r. l., Luxembourg	94.00
Reubescens S. à r. l., Luxembourg	94.00
DENMARK	
GO Leonberg ApS, Copenhagen	94.00
GO Bremen ApS, Copenhagen	94.00
GO Ludwigsburg ApS, Copenhagen	94.00
SWITZERLAND	
Sihlegg Investments Holding GmbH, Wollerau	94.00
CYPRUS	
Denston Investments Ltd., Nicosia	94.00
THE NETHERLANDS	
MAGNAT Investment I B. V., Hardinxveld Giessendamm	100.00
BULGARIA	
R-Quadrat Bulgaria EOOD, Sofia	100.00
ROMANIA	
SC Victory International Consulting s. r. l., Bucharest	100.00
GEORGIA	
Irao Magnat Digomi LLC, Tbilisi	75.00
Irao Magnat 28 / 2 LLC, Tbilisi 3	50.00
AUSTRIA	
MAGNAT AM GmbH, Vienna	100.00

1 Not fully consolidated due to its immaterial importance for the Group.
2 Fully consolidated because factual control is exercised through quorum majority at the shareholder meeting.
3 Consolidated using the equity method.
4 Companies were deconsolidated in the financial year.

Independent auditor's report

To DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main

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

AUDIT OPINIONS

We have audited the annual financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January to 31 December 2018 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of DEMIRE Deutsche Mittelstand Real Estate AG, which is combined with the group management report, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

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 and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this 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 audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the 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 Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

1. MEASUREMENT OF INVESTMENTS IN AND LOANS TO AFFILIATED COMPANIES

Our presentation of this key audit matter has been structured as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matter:

1. MEASUREMENT OF INVESTMENTS IN AND LOANS TO AFFILIATED COMPANIES

1. In the annual financial statements of the Company investments in affiliated companies amounting to k€ 239,318 (31.2 % of total assets) and loans to affiliated companies amounting to k€ 339,495 (44.2 % of total assets) are reported under the "financial assets" balance sheet item.

   Investments in and loans to affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The fair values of investments in and loans to affiliated companies are materially based on the fair values of the investment properties, which are owned by the affiliated companies. These are calculated using discounted cash flow models as the present values of the expected future cash flows according to the planning projections prepared by the executive directors with support by an external advisory firm. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the relevant financial investment. The other assets and the liabilities due to affiliated companies are included by addition into the fair value calculation of the investments in and loans to affiliated companies. On the basis of the values determined and supplementary documentation, write-downs amounting in total to k€ 260 were required for the financial year. Write-ups amounting to k€ 3,524 were done.

   The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors of the future cash flows, and on the respective discount rates and rates of growth used. The valuation is therefore subject to material uncertainties. Against this background and due to the highly complex nature of the valuation and its material significance for the Company's assets, liabilities and financial performance, this matter was of particular significance in the context of our audit.

2. As part of our audit, we assessed the methodology used by the Company for the purposes of the valuation of investments in and loans to affiliated companies, among other things. In particular, we assessed whether the fair values of the investment properties had been appropriately determined using discounted cash flow models in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors' and the staff of the external advisory firm used' detailed explanations regarding the key value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate and the growth rate applied can have a material impact on the fair value calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate and the growth rate applied, and assessed the calculation model. Finally, we assessed whether the values calculated on this basis were appropriately assigned to the related carrying amounts, in order to determine a possible requirement of a write-down or write-up.

   In our view, taking into consideration the information available, the valuation parameters and underlying assumptions used by the executive directors are appropriate overall for the purpose of appropriately measuring the investments in and loans to affiliated companies.

3. The Company's disclosures relating to investments in and loans to affiliated companies are contained in section "Accounting and valuation principles" within "Financial assets" and in section "Notes to the balance sheet" within "Financial assets" of the notes to the financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB.

The other information comprises further the remaining parts of the publication "Separate financial statements" – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

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

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

- 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 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, 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 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 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 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 management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE 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 management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 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 management report.

We exercise professional judgment 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 management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- 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 management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems 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 management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 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 management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 27 June 2018. We were engaged by the supervisory board on 27 November 2018. We have been the auditor of the DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main without interruption since the financial year 2018.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Gregory Hartman.

Berlin, 18 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Gregory Hartman
Wirtschaftsprüfer
(German Public Auditor)

Dr. Frederik Mielke
Wirtschaftsprüfer
(German Public Auditor)

Imprint

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RESPONSIBLE PUBLISHER
The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG

CONCEPT AND LAYOUT
FIRST RABBIT GmbH

STATUS
March 2019

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

DEMIRE
DEUTSCHE MITTELSTAND
REAL ESTATE