Separate Financial Statements 2019

DEMIRE

CONTENTS

Foreword by the Executive Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Frankfurt am Main, 17 March 2020

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO)

The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG:

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

1.5

Real estate portfolio

in EUR billions
as at 31 December 2019

TO OUR SHAREHOLDERS

Report of the Supervisory Board

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

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

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

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

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

There were no consulting or other service relationships between members of the Supervisory Board and the Company in 2019. A grant agreement exists with EBS Universität für Wirtschaft und Recht gemeinnützige GmbH. Prof Dr Kerstin Hennig is Head of EBS Real Estate Management Institute. Conflicts of interest on the part of the members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information to the Annual General Meeting did not exist in the reporting year.

COMPOSITION OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD IN FINANCIAL YEAR 2019

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

CHANGES IN THE SUPERVISORY BOARD

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

SUPERVISORY BOARD COMMITTEES

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

WORK OF THE PLENUM IN THE REPORTING YEAR

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

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

1ST QUARTER 2019

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

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

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

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

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

2ND QUARTER 2019

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

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

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

3RD QUARTER 2019

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

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

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

4TH QUARTER 2019

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

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

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

EXECUTIVE BOARD MATTERS

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

DEPENDENCY REPORT PURSUANT TO SECTION 312 (1) AKTG

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

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

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

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

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

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

A WORD OF THANKS FROM THE SUPERVISORY BOARD

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

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

Frankfurt am Main, March 2020

Prof Dr Alexander Goepfert
Chairman of the Supervisory Board

90.0

annualised rental income

in EUR millions
as at 31 December 2019

COMBINED MANAGEMENT REPORT

Group principles

The following presents the combined management report for DEMIRE Deutsche Mittelstand Real Estate AG ("the Company"), Frankfurt am Main, and the Group ("DEMIRE" or the "DEMIRE Group") for the financial year from 1 January 2019 to 31 December 2019. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the special provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The cope of consolidated is presented in detail in the Notes under Item B.

BUSINESS MODEL AND SUMMARY

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

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

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

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

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

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

DEMIRE DIVIDES ITS SEGMENT REPORTING INTO THREE AREAS: CORE PORTFOLIO, FAIR VALUE REIT AND CENTRAL FUNCTIONS / OTHERS.
The strategically important “Core Portfolio” segment comprises the assets and activities DEMIRE’s subsidiaries and sub-subsidiaries that are not allocated to the Fair Value REIT-AG subsidiary. The “Fair Value REIT” segment comprises the investment activities in direct and indirect real estate holdings of this listed subsidiary with REIT status in a Group context. The “Corporate Functions / Others” segment comprises the Group’s administrative and cross-segment tasks such as risk management, finance, controlling, investor relations, legal, IT and compliance.

STRATEGY AND OBJECTIVES

REALIZE POTENTIAL

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

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

DEMIRE will also follow this strategy in 2020:

Acquisition

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

Management

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

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

Financials

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

Processes

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

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

MANAGEMENT SYSTEM

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

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

Economic Report

MACROECONOMIC AND SECTOR ENVIRONMENTS

MACROECONOMIC ENVIRONMENT

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

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

DEVELOPMENT OF THE CONSTRUCTION AND REAL ESTATE SECTORS

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

Office real estate market

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

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

Retail real estate market

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

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

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

Logistics real estate market

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

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

Hotel market

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

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

Implications for DEMIRE

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

BUSINESS DEVELOPMENT

GENERAL STATEMENT ON THE BUSINESS PERFORMANCE AND POSITION OF THE GROUP

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

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

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

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

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

2019 target achievement

KEY EARNINGS FIGURES

34.5
in EUR millions

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

KEY FINANCIAL INDICATORS

46.7
in percent

net LTV
provides room for further growth

1.84
in percent p. a.

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

6.32
in EUR

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

PORTFOLIO DEVELOPMENT

81.8
in EUR millions

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

9.4
in percent

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

DEVELOPMENT OF THE REAL ESTATE PORTFOLIO

As at 31 December 2019, the real estate portfolio consisted of 90 commercial properties with total lettable floor space of roughly 1,119,000 m² and a market value of around EUR 1.5 billion. At around 65 % (31 December 2018: 68 %) measured in terms of market value, office properties represented the lion's share of the total portfolio. Retail properties accounted for approximately 27 % (31 December 2018: 23 %) and logistics properties and other types of use accounted for approximately 8 % (31 December 2018: 9 %).

PORTFOLIO BY ASSET CATEGORY

	NO. OF PROPERTIES	MARKET VALUE IN EUR MILLIONS	SHARE IN %	LETTABLE SPACE (IN THOUSAND M²)	VALUE / M²	CONTRACTUAL RENT IN EUR MILLIONS P. A.	CONTRACTUAL RENT PER M²	RENTAL YIELD IN %	EPRA VACANCY RATE IN % [1]	WALT IN YEARS
Office	62	971.5	65.3	616.5	1,576	55.7	8.6	5.7	11.7	4.0
Retail	21	406.5	27.3	282.9	1,437	27.8	8.7	6.8	4.7	6.5
Logistics and Others	7	110.4	7.4	219.4	503	6.5	2.8	5.9	9.1	3.7
Total 31/12/2019	**90**	**1,488.4** [2]	**100**	**1,118.8**	**1,329**	**90.0**	**7.5**	**6.0**	**9.4**	**4.8**
Total 31/12/2018	**84**	**1,130.4**	**100**	**926.5**	**1,220**	**73.2**	**7.2**	**6.5**	**7.5**	**4.5**
Change in % / pp	+ 6	+ 31.7 %		20.8 %	+ 8.9 %	+ 23.0 %	+ 4.5 %	- 50 bps	+ 190 bps	+ 0.3 years

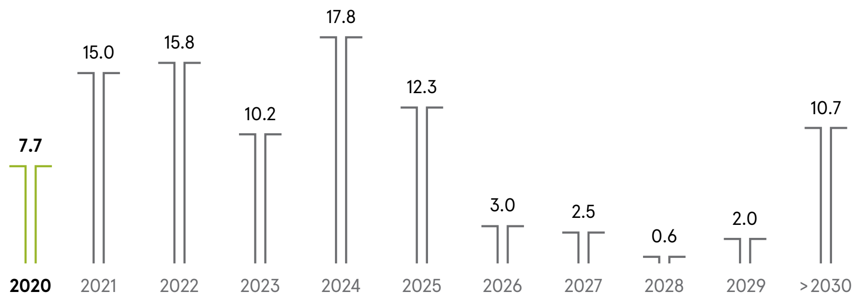
1 Excluding real estate held for sale.
2 Difference to balance sheet value of EUR 1,510.2 million due to prepayments made and leaseholds.

PORTFOLIO VALUATION & TRANSACTIONS

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

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

TERM OF RENTAL CONTRACTS
in %



Based on annualised rental income

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

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

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

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

Profit / loss from the rental of real estate

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

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

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

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

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

Other operating income and expenses

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

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

General and administrative expenses

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

Earnings before interest and taxes (EBIT)

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

Financial result

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

Net profit / loss for the period

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

SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

NET ASSETS

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

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

Selected information from the consolidated balance sheet

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

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

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

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

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

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

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

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

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

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

FINANCIAL POSITION

Financial management

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

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

Selected information from the consolidated statement of cash flows

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

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

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

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

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

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

FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

FINANCIAL KEY PERFORMANCE INDICATORS

Rental income

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

Funds from Operations (FFO)

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

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

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

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

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

Net asset value (EPRA NAV / EPRA NNNAV)

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

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

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

Net loan-to-value ratio

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

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

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

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

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

COVENANTS FOR THE 2019/2024 CORPORATE BOND

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

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

from 31/03/2021: 2.00

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

NON-FINANCIAL PERFORMANCE INDICATORS

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

PERSONNEL

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

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

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

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

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

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

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

Tenants and service providers

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

ESG – Environmental, Social & Governance

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

Transparency

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

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

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

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

Changes in composition of governing bodies

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

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

Remuneration report

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

REMUNERATION OF THE EXECUTIVE BOARD

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

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

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

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

EXISTING EMPLOYMENT CONTRACTS

Ingo Hartlief

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

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

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

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

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

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

Tim Brückner

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

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

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

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

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

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

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

EMPLOYMENT CONTRACTS ENDED IN 2019

Ralf Kind

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

REMUNERATION OF SUPERVISORY BOARD

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

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

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

Benefits according to DRS 17 during the reporting year

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

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

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

Benefits received during the reporting year

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

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

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

Report on Risks, Opportunities and Outlook

RISK REPORT

RISIKOMANAGEMENTSYSTEM

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

Early risk warning system

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

Risk identification and evaluation

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

Risk management

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

Risk reporting

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

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

IT systems

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

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

Financial reporting process

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

The financial reporting processes are structured to achieve the following objectives:
- Safeguard the efficiency of operations and the protection of assets
- Guarantee the accuracy and reliability of internal and external accounting
- Ensure compliance with applicable legal provisions, in particular, the compliance of the consolidated financial statements and the combined management report with current standards

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

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

Other essential tools include:
- The clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process
- The use of external specialists to the extent necessary to provide an expert opinion on the market value of real estate, among other things

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

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

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

GENERAL RISK SITUATION

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

INDIVIDUAL RISKS

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

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

Macroeconomic, market-related and sector risks

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

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

FINANCIAL RISK

Financing and liquidity risk

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

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

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

Risks from covenant obligations

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

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

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

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

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

Interest rate risk

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

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

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

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

Currency risk

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

OPERATING RISK

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

Rental and property management risks

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

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

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

Valuation risk

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

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

Acquisition risk

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

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

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

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

Selling risk

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

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

OTHER RISKS

Legal risk

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

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

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

Compliance risk

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

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

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

Tax risk

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

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

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

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

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

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

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

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

Personnel risk

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

IT risk

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

OVERALL ASSESSMENT OF THE RISK SITUATION

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

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

OPPORTUNITIES REPORT

MACROECONOMIC AND SECTOR OPPORTUNITIES

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

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

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

BUSINESS OPPORTUNITIES

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

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

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

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

FINANCIAL OPPORTUNITIES

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

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

OVERALL ASSESSMENT OF DEMIRE'S OPPORTUNITIES

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

REPORT ON OUTLOOK

ECONOMIC ENVIRONMENT AND SECTOR OUTLOOK

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

Macroeconomic environment

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

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

Transaction market for commercial real estate

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

Rental market

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

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

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

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

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

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

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

Acquisition-related information

COMPOSITION OF SUBSCRIBED CAPITAL

a) as at 31 December 2019

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

b) Development after 31 December 2019

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

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

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

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

a) as at 31 December 2019

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

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

b) Development after 31 December 2019

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

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

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

Such interests do not exist.

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

Appointment and replacement of Executive Board members

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

Amendments to Articles of Association

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

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

Authorised Capital

a) as at 31 December 2019

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

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

b) Development after 31 December 2019

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

Conditional capital

a) as at December 2019

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

b) Development after 31 December 2019

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

Authorisation to issue convertible bonds or bonds with warrants

a) as at 31 December 2019

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

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

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

Authorisation to purchase treasury shares

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Governance Report / Corporate Governance Statement

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

Combined management report for DEMIRE Deutsche Mittelstand Real Estate AG

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

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

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

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

Results of operations

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

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

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

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

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

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

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

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

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

Financial position

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

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

Liquidity position

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

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

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

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

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

Net assets

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

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

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

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

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

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

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

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

Comparison of prior year forecasts with actual business development

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

Report on outlook

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

Concluding statement to the Dependency Report pursuant to Section 312 AktG

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

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

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO)

34.5

FFO I

in EUR millions
Financial Year 2019

FINANCIAL STATEMENTS

BALANCE SHEET

as at 31 December 2019

ASSETS in EUR	31/12/2019	31/12/2018
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	532.00	3,792.00
	532.00	**3,792.00**
II. Property, plant and equipment		
1. Land, leasehold rights and buildings, including buildings on third-party property	91,201.00	41,513.00
2. Other equipment, operating and office equipment on third-party property	148,134.00	188,058.00
3. Prepayments and assets under construction	0.00	89,032.55
	239,335.00	**318,603.55**
III. Financial assets		
1. Investments in affiliated companies	239,417,583.09	239,317,583.09
2. Loans to affiliated companies	633,309,386.12	339,494,588.17
3. Other loans	5,964,994.09	0.00
	878,691,963.30	**578,812,171.26**
	878,931,830.30	**579,13 4,566.81**
B. CURRENT ASSETS		
I. Receivables and other assets		
1. Trade accounts receivable	3,594,226.85	2,691,323.67
2. Receivables from affiliated companies	27,504,448.65	10,559,319.21
3. Other assets	28,022,782.86	28,107,555.06
	59,121,458.36	**41,358,197.94**
II. Cash on hand, bank balances	**61,267,016.44**	**142,268,702.88**
	120,388,474.80	**183,626,900.82**
C. PREPAID EXPENSES	**3,422,940.00**	**4,634,794.17**
	1,002,743,245.10	**767,396,261.80**

EQUITY AND LIABILITIES in EUR	31/12/2019	31/12/2018
A. EQUITY		
I. Subscribed capital	**107,777,324.00**	**107,777,324.00**
II. Capital reserves	**203,542,539.24**	**203,542,539.24**
III. Accumulated profit	**57,576,002.99**	**54,879,238.62**
	368,895,866.23	**366,199,101.86**
B. PROVISIONS		
1. Tax provisions	1,802,825.86	202,825.86
2. Other provisions	3,069,427.76	3,482,219.02
	4,872,253.62	**3,685,044.88**
C. LIABILITIES		
1. Bonds	600,000,000.00	366,625,000.00
2. Trade payables	672,706.61	917,760.59
3. Liabilities due to affiliated companies	24,222,702.59	21,456,726.19
4. Other liabilities	3,013,606.76	6,165,324.96
thereof from taxes EUR 59,279.13 (previous year: EUR 49,970.87)		
thereof from social security EUR 2,226.10 (previous year: EUR 16,497.21)		
	627,909,015.96	**395,164,811.74**
D. DEFERRED TAX LIABILITIES	1,066,109.29	2,347,303.32
	1,002,743,245.10	**767,396,261.80**

STATEMENT OF INCOME

for the financial year 1 January to 31 December 2019

in EUR	2019	2018
1. Revenue	3,483,391.67	2,617,966.67
2. Other operating income	2,695,433.10	97,969,194.33
thereof income from currency translation EUR 0.00 (previous year: EUR 355.75)		
	6,178,824.77	**100,587,161.00**
3. Staff costs		
a) Wages and salaries	4,509,292.53	3,190,497.92
b) Social security contributions and expenses for pension schemes and related benefits thereof pensions expenses EUR 142.12 (previous year: EUR 392.05)	376,577.85	304,013.63
	4,885,870.38	**3,494,511.55**
4. Depreciation and amortisation of intangible fixed assets and property, plant and equipment	88,922.92	88,140.63
5. Other operating expenses	12,430,988.58	12,989,445.75
thereof expenses from currency translation EUR 10.00 (previous year: EUR 180.89)	**17,405,781.88**	**16,572,097.93**
6. Income from investments	1,179,230.55	10,746,927.90
7. Profits transferred due to profit transfer agreements	20,023,332.53	3,321,261.27
8. Income from loans of financial assets	15,859,436.94	12,452,009.30
9. Other interest and similar income	738,563,00	287.432.12
10. Impairment of financial assets	120,000.00	260,000.00
11. Expenses from the assumption of losses	2,530,549.61	69,474.53
12. Interest and similar expenses	20,785,530.07	14,406,260.19
13. Income taxes	298,793.86	2,619,121.19
thereof income from the reversal of deferred taxes EUR 1,281,194.03 (previous year: expenses from the recognition of deferred taxes EUR 2,347,303.32)		
14. Expenses from compensation payments to minority shareholders	141,968.00	141,968.00
15. Net profit	**2,696,764.37**	**93,325,869.75**
16. Profit carried forward from the previous year (previous year: loss carried forward)	54,879,238.62	–38,446,631.13
17. Accumulated profit	**57,576,002.99**	**54,879,238.62**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2019

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 2019 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 regarding accounting arising from the Company's Articles of Association. The balance sheet, as well as 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 am Main. The Company's business address and head management office is located in Langen (state of Hesse, Germany). The Company is recorded under HRB 89041 in the commercial register in Frankfurt am Main.

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

As the ultimate parent company, DEMIRE AG has prepared consolidated financial statements as at 31 December 2019 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.

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.

www.demire.ag/company

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 Leipzig Am alten Flughafen 2 GmbH (formerly Logistikpark Leipzig GmbH), Leipzig, DEMIRE Holding IV GmbH (formerly DEMIRE Condor Properties Management GmbH), Frankfurt am Main, DEMIRE Holding III GmbH (formerly DEMIRE Commercial Real Estate ZWEI GmbH), Frankfurt am Main, DEMIRE Holding X GmbH (formerly DEMIRE Commercial Real Estate DREI GmbH), Frankfurt am Main, and DEMIRE Holding XI GmbH (formerly DEMIRE Commercial Real Estate VIER GmbH), Frankfurt am Main. 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.

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 and other loans 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 "impairment of financial assets" in the statement of income. If the reasons for the expected permanent impairment no longer exist, the impairment loss is reversed and recorded under "other operating income" in the statement of income.

CURRENT ASSETS

Receivables and other assets

Trade accounts receivable, receivables due from affiliated companies, and other assets are carried at their nominal values. All identified risks are taken into account based on a corresponding impairment charge to the lower fair value. The amount of the impairment charge is based on the expected default risk.

Cash on hand and 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 liabilities 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 liabilities.

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 and liabilities, 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 benefits are not recognised under the respective capitalisation option. In the prior year, the Company had unrecognised deferred tax assets.

Deferred taxes are calculated based on the Company's combined income tax rate of 28.78 % (31 December 2018: 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 difference in the accounting for 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 and are 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 are exercised from conditional capital, 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. Transactions in foreign currencies are recognised at the historical exchange rate at the time of initial recognition

The annotations "thereof from currency translation" contained in the statement of income include both realised and unrealised exchange rate difference.

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 2019 financial year is contained in the statement of fixed assets (Appendix 1 of the Notes to the annual financial statements).

FINANCIAL ASSETS

Investments in affiliated companies amounted to EUR 239,418 thousand (31 December 2018: EUR 239,318 thousand). The slight increase compared to the previous year resulted from a further purchase of interests in affiliated companies already held.

Impairments in the amount of EUR 120 thousand (2018 financial year: EUR 260 thousand) were recognised on financial assets in order to reflect an adjustment to the fair value. In the prior year, reversals of impairment in the amount of EUR 3,524 thousand were recognised because the reason for the impairment no longer existed. No reversals were recognised in 2019.

Loans to affiliated companies of EUR 633,309 thousand (31 December 2018: EUR 339,495 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 loan agreements are concluded within the Group and include a management premium on the interest rate.

The increase in loans to affiliated companies in the amount of EUR 293,815 thousand is mainly due to the granting of loans to DEMIRE Holding XI GmbH (formerly DEMIRE Commercial Real Estate VIER GmbH), Frankfurt am Main, in the amount of EUR 70,920 thousand for the purchase of investments, as well as to several affiliated companies to redeem a promissory note, including interest and a prepayment penalty for a total of EUR 216,449 thousand.

For information on shareholdings, please refer to the schedule of shareholdings as at 31 December 2019 attached to the notes as Appendix 2 in accordance with Section 285 nos. 11, 11a and 11b HGB.

Other loans include loans to minority shareholders of affiliated companies.

CURRENT ASSETS

Current assets consisting of receivables and other assets, as well as cash on hand and bank deposits, totalled EUR 120,388 thousand as at the reporting date (31 December 2018: EUR 183,627 thousand).

Impairments on receivables due from affiliated companies were recognised in the amount of EUR 173 thousand (31 December 2018: EUR 198 thousand), to align the carrying amounts to their lower fair values.

RECEIVABLES AND OTHER ASSETS

Trade accounts receivable of EUR 3,594 thousand (31 December 2018: EUR 2,691 thousand) concern claims from service agreements with affiliated companies.

Receivables due from affiliated companies of EUR 27,505 thousand (31 December 2018: EUR 10,559 thousand) mainly relate to receivables from profit and loss transfer agreements, settlement transactions, passed on expenses as well as to current loans. The increase is largely due to a receivable of EUR 17,209 thousand from DEMIRE Holding X GmbH (formerly DEMIRE Commercial Real Estate DREI GmbH), Frankfurt am Main, under a profit and loss transfer agreement.

Other assets in the amount of EUR 28,023 thousand (31 December 2018: EUR 28,108 thousand) declined by EUR 85 thousand year-on-year. This slight decrease resulted from the reclassification of loans to fixed assets (EUR 4,594 thousand) and the netting of receivables and payables to affiliated companies (EUR 1,426 thousand), which reduced other assets. In contrast, interest receivables from affiliated companies increased by EUR 6,258 thousand.

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 17,502 thousand.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents of EUR 61,267 thousand (31 December 2018: EUR 142,269 thousand) include cash on hand and current bank deposits.

PREPAID EXPENSES

Prepaid expenses in the amount of EUR 3,423 thousand (31 December 2018: EUR 4,635 thousand) primarily include a discount of EUR 3,380 thousand from the issue of the 2019 / 2024 corporate bond (31 December 2018: EUR 4,635 thousand from the 2017 / 2022 corporate bond), which is amortised over the remaining term of the bond. As at 31 December 2019, prepaid expenses from the 2017 / 2022 corporate bond was reversed in full due to early repayment.

SHAREHOLDERS' EQUITY

Subscribed capital

On 31 December 2019, the Company had fully paid in subscribed capital in the amount of EUR 107,777,324 divided into 107,777,324 no-par value bearer shares with a notional interest of EUR 1.00. The shares of DEMIRE AG have been admitted for trading in the Prime Standard segment of the Frankfurt Stock Exchange.

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 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.

Authorised Capital I / 2019

By resolution of the Extraordinary General Meeting of 11 February 2019, Authorised Capital 2018 / I in the amount of EUR 36,532,419.00 and the corresponding provisions in Article 6 of the Articles of Association (Authorised Capital) were cancelled and the Executive Board was authorised, with the consent of the Supervisory Board, to increase the share capital of the Company on one or more occasions by up to EUR 53,888,662.00 until 10 February 2024 by issuing a total of 53,888,662 new no-par value ordinary bearer shares against cash contributions and / or contributions in kind (Authorised Capital 2019 / I). The shareholders are generally entitled to subscription rights. The new shares may also be subscribed to by one or more banks with the obligation to offer them to the shareholders for subscription. The Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for fractional amounts, for cash capital increases of up to 10 % of the share capital at issue prices not substantially below the stock market price, to meet the obligations of option or conversion rights, and to execute capital increases against contribution in kind. The Authorised Capital 2019 / I had not been utilised by the reporting date.

Conditional Capital 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 utilised in full 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 utilised 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 provisions 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 II / 2018

At the Annual General Meeting of 27 June 2018, 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 under Agenda Item 8 to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) and / or (iii) 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 199,783.00 due to conversions. The remaining Conditional Capital II / 2018 was cancelled at the Extraordinary General Meeting on 11 February 2019.

Conditional Capital I / 2019

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

AUTHORISATION TO REPURCHASE OWN SHARES

Based on the resolution of the Annual General Meeting of 29 May 2019, the Company is authorised to acquire up to 10 % of the share capital existing on the date of the resolution – or if lower – up to 10 % of the share capital existing on the date when exercising the authorisation until 28 May 2024. Together with other own shares acquired by the Company and still held by the Company or attributable to it, the own shares acquired on the basis of this authorisation may not at any time exceed 10 % of the Company's share capital at the time of the resolution or, if lower, exceed the share capital of the Company existing at the time of exercising the authorisation. Acquisition for the purpose of trading in own shares is excluded. The authorisation may be exercised in whole or in part, once or several times, in pursuit of one or several purposes by the Company, Group companies or third parties for its or their own account.

This authorisation has not yet been exercised. The Company does not hold its own shares.

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. Regarding 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 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 prerequisite of a closing price on the stock exchange on the trading day prior to exercise exceeding the exercise price by at least 10 % is to be classified as a performance condition (so-called non-vesting condition) because the fulfilment of the condition is linked to a performance target. In the case of DEMIRE AG, this prerequisite shall be classified as a market-dependent performance condition (non-vesting condition) because it is explicitly linked to the Company's stock price. This type of market-dependent performance condition is only included in the stock option's valuation at the grant date using a probability scale.

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 200,000 to selected DEMIRE AG and Group employees. 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 110,000 stock options for selected employees (adjusted by 90,000 stock options, which were returned by departing employees).

In the previous year's 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.

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 (in EUR)	4.258	3.76
Option price (in EUR)	2.74	1.99

1 180-day historical volatility

As in the previous year, the stock option programme had no impact on the statement of income as at the reporting date, because no subscription rights from the stock options had yet been exercised. By resolution of the Annual General Meeting of 27 June 2018, Conditional Capital II / 2015 in the amount of EUR 1,000,000.00, divided into up to 1,000,000 no-par value bearer shares, and its provisions in Article 5 (6) of the Articles of Association were cancelled. At the same Annual General Meeting, Conditional Capital I / 2018 in the amount of up to EUR 560,000.00, divided into up to 560,000 new no-par value bearer shares, was created with a corresponding amendment of the Articles of Association, conditional upon partial compensation of the options to former employees and one member of the Executive Board.

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

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 2019, the provision for the virtual stock option programme, which has applied since 2018, amounts to EUR 158 thousand (previous year: EUR 246 thousand). In addition to the 2019 tranche, the 2020 and 2021 tranches were also taken into consideration. The 60-day average price before granting the 2019 tranche was EUR 4.54. For the 2020 and 2021 tranches, a 60-day average of EUR 5.08 was assumed, which corresponds to the price on the last reporting date.

Capital reserves

As at 31 December 2019, capital reserves amounted to EUR 203,543 thousand (31 December 2018: EUR 203,543 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 2018: EUR 159,902 thousand), as well as amounts pursuant to Section 272 (2) no. 4 HGB of EUR 43,640 thousand (31 December 2018: EUR 43,640 thousand).

Accumulated profit

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

in EUR thousands	2019	2018
Profit carried forward from previous year (previous year: loss carried forward)	54,879	– 38,446
Net profit/loss for the period	2,697	93,325
Accumulated profit as at 31 December	**57,576**	**54,879**

Changes in equity

The individual components of equity developed as follows during the reporting year:

in EUR thousands	SUBSCRIBED CAPITAL	CAPITAL RESERVES	ACCUMULATED PROFIT
As at 1 January 2019	107,777	203,543	54,879
2019 net profit	0	0	2,697
As at 31 December 2019	**107,777**	**203,543**	**57,576**

Provisions

Tax provisions include the tax burden determined for the taxable income of DEMIRE as at 31 December 2019. Tax provisions of EUR 1,803 thousand (31 December 2018: EUR 203 thousand) include corporate taxes of EUR 1,709 thousand and a solidarity surcharge of EUR 94 thousand.

Other provisions amounted to EUR 3,069 thousand (31 December 2018: EUR 3,482 thousand) and mainly include obligations for outstanding invoices, accounting and audit, legal and consulting fees and staff costs.

Liabilities

Corporate bond (2017 / 2022)

The 2017 / 2022 bond was fully repaid ahead of schedule in the course of issuing the (2019 / 2024) bond on 11 October 2019.

Corporate bond (2019 / 2024)

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

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

Liabilities due to affiliated companies

Liabilities due to affiliated companies amounted to EUR 24,223 thousand as at the reporting date (31 December 2018: EUR 21,457 thousand), of which EUR 20,542 thousand (31 December 2018: EUR 21,457 thousand) had maturities of up to one year. Liabilities due to affiliated companies include mainly liabilities from loss transfers from DEMIRE Holding IV GmbH (formerly DEMIRE Condor Properties Management GmbH), Frankfurt am Main, and DEMIRE Holding X GmbH (formerly DEMIRE Commercial Real Estate DREI GmbH), Frankfurt am Main, based on control and profit and loss transfer agreements.

Other liabilities

Other liabilities amounting to EUR 3,014 thousand (31 December 2018: EUR 6,165 thousand) mainly include interest liabilities from the 2019 / 2024 bond in the amount of EUR 2,497 thousand (31 December 2018 from the 2017 / 2022 bond: EUR 4,830 thousand) as well as liabilities due to minority shareholders from affiliated companies in the amount of EUR 381 thousand (31 December 2018: EUR 284 thousand).

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

31/12/2019 (31/12/2018) in EUR	UP TO 1 YEAR	OVER 1 YEAR	OVER 5 YEARS	TOTAL
1. Bonds	0.00 (0.00)	600,000,000.00 (366,625,000.00)	0.00 (0.00)	600,000,000.00 **(366,625,000.00)**
2. Trade payables	672,706.61 (917,760.59)	0.00 (0.00)	0.00 (0.00)	672,706.61 **(917,760.59)**
3. Liabilities due to affiliated companies	22,500,826.92 (21,456,726.19)	1,721,875.67 (0.00)	0.00 (0.00)	24,222,702.59 **(21,456,726.19)**
4. Other liabilities	3,013,606.76 (6,165,324.96)	0.00 (0.00)	0.00 (0.00)	3,013,606.76 **(6,165,324.96)**
Total	26,187,140.29 (28,539,811.15)	601,721,875.67 (366,625,000.00)	0.00 (0.00)	627,909,015.96 **(395,164,811.74)**

Contingencies

Through the conclusion of credit and loan agreements, DEMIRE AG has pledged liens and other guarantees of EUR 9,400 thousand (31 December 2018: EUR 28,220 thousand) to affiliated companies:

In addition to the loan agreement concluded with SÜDWESTBANK AG, Stuttgart, on 8 April 2016, an obligation to make additional contributions was concluded on the same date that relates to the attachment agreement specified in the loan agreement. According to this agreement, a total of 3,400,000 shares of Fair Value REIT-AG (Gräfelfing), which are held in the securities accounts of the subsidiaries FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, FVR Beteiligungsgesellschaft Siebente mbH & Co. KG and FVR Beteiligungsgesellschaft Achte mbH & Co. KG ((all based in Frankfurt am Main) are pledged as collateral. Should the market value of the pledged shares fall below a total value of EUR 15,000 thousand – equivalent to around EUR 4.41 per share – DEMIRE AG undertakes to provide the lender with additional collateral until the cover amount of EUR 15,000 thousand is reached again. DEMIRE AG does not expect that collateral provided will be drawn, as Fair Value REIT-AG's share price has been significantly higher than the value of EUR 6.31 per share since 2015 (at 31 December 2019: EUR 8.15 per share). As at the reporting date, the following contingent liabilities existed from the provision of collateral for third-party liabilities with a value of EUR 940 thousand (31 December 2018: EUR 940 thousand) to 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 337 thousand (31 December 2018: EUR 376 thousand) consist of rental and lease contracts, each with the following maturities:

in EUR thousands	TOTAL	UP TO 1 YEAR	OVER 1 YEAR	OVER 5 YEARS
Rental and lease contracts	337	197	140	0
thereof from affiliated companies	266	153	113	0

Rental and lease 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 lease 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 lease contracts concluded are not material in assessing the Company's financial position.

Deferred taxes

As in the prior year, there was a surplus of deferred tax liabilities as at the reporting date.

Deferred taxes are measured at a tax rate of 28.78 %, as in the prior year. This tax rate includes corporate taxes, solidarity surcharge and trade taxes. 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 arose from the following balance sheet items (negative amounts represent deferred tax liabilities):

BALANCE SHEET ITEMS in EUR thousands	DEFERRED TAXES
Investments in affiliated companies	– 1,136
Loans to affiliated companies	68
Receivables and other assets	2
Surplus of deferred tax liabilities	**– 1,066**

The year-on-year change in deferred tax liabilities consists of the following:

BALANCE SHEET ITEMS in EUR thousands	DEFERRED TAXES
Deferred tax liabilities as at 1 January 2019	2,347
Investments in affiliated companies	– 2
Receivables and other assets	+ 13
Prepaid expenses	– 1,309
Provisions	+ 17
Total change in deferred tax liabilities	– 1,281
Deferred tax liabilities as at 31 December 2019	**1,066**

NOTES TO THE STATEMENT OF INCOME

REVENUE

Revenues of EUR 3,483 thousand (2018 financial year: EUR 2,618 thousand) relate to services in the amount of EUR 3,419 thousand (2018 financial year: EUR 2,319 thousand) to German companies and EUR 64 thousand (2018 financial year: EUR 299 thousand) to foreign companies, insofar as the place of management is located abroad. Revenues mainly include income from agency agreements with affiliated companies.

OTHER OPERATING INCOME

Other operating income of EUR 2,695 thousand (2018 financial year: EUR 97,969 thousand) mainly comprises income from the reversal of provisions of EUR 1,617 thousand (2018 financial year: EUR 134 thousand) and reversal of impairments on receivables from affiliated companies of EUR 1,000 thousand (2018 financial year: EUR 0 thousand).

Other operating income includes non-periodic income of EUR 2,617 thousand (previous year: EUR 283 thousand). These include income from the reversal of provisions (EUR 1,617 thousand) and income from impaired receivables (EUR 1,000 thousand).

OTHER OPERATING EXPENSES

Other operating expenses totalling EUR 12,431 thousand (2018 financial year: EUR 12,989 thousand) comprise mainly legal and consulting fees of EUR 8,350 thousand (2018 financial year: EUR 7,698 thousand), third-party services of EUR 793 thousand (2018 financial year: EUR 1,091 thousand), expenses for accounting, preparation and audit of the annual and consolidated financial statements of EUR 545 thousand (2018 financial year: EUR 779 thousand), expenses for the preparation of real estate appraisals of EUR 476 thousand (2018 financial year: EUR 356 thousand) and ancillary expenses from monetary transactions of EUR 473 thousand (2018 financial year: EUR 14 thousand).

INCOME FROM INVESTMENTS

Income from investments of EUR 1,179 thousand (2018: EUR 10,747 thousand) in the financial year relates in total to the distribution of the allocation of earnings of FVR Beteiligungsgesellschaft Erste through Achte mbH & Co. KG (all based on Frankfurt am Main) and related companies.

INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS

Income from profit and loss transfer agreements in the amount of EUR 20,023 thousand (2018 financial year: EUR 3,321 thousand) results from the profit and loss transfer agreements with DEMIRE Leipzig Am alten Flughafen 2 GmbH (formerly Logistikpark Leipzig GmbH, Leipzig) of EUR 2,815 thousand (2018 financial year: EUR 2,044 thousand) and DEMIRE Holding X GmbH (formerly DEMIRE Commercial Real Estate DREI GmbH), Frankfurt am Main, in the amount of EUR 17,209 thousand (2018 financial year: EUR 0 thousand).

INCOME FROM LOANS OF FINANCIAL FIXED ASSETS

Income from loans of financial fixed assets of EUR 15,859 thousand (2018 financial year: EUR 12,452 thousand) relates to income from loans granted to affiliated companies to finance the acquisition of real estate companies and properties by subsidiaries and sub-subsidiaries (EUR 15,678 thousand) and income from loans to minority shareholders of affiliated companies (EUR 181 thousand).

INTEREST RESULT

Interest income resulted from financing arrangements between DEMIRE AG and third parties in the amount of EUR 739 thousand (2018 financial year: EUR 287 thousand) from Taurecon RE Consulting GmbH and Taurecon Beteiligungs GmbH (both based in Berlin), and interest from refunded value-added tax.

Interest and similar expenses of EUR 20,786 thousand (2018 financial year: EUR 14,406 thousand) concern mainly the interest paid for the term of the redeemed financial liabilities from the 2017 / 2022 corporate bond and the existing 2019 / 2024 corporate bond.

Interest and similar expenses due to affiliated companies amounted to EUR 62 thousand (2018 financial year: EUR 206 thousand).

IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets relates to impairment losses in the amount of EUR 120 thousand (2018 financial year: EUR 260 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 amounting to EUR 2,531 thousand (2018 financial year: EUR 69 thousand) relate to assumption of losses from existing control and profit and loss transfer agreements with subsidiaries, of which EUR 63 thousand (2018 financial year: EUR 56 thousand) is attributable to DEMIRE Holding III GmbH (formerly DEMIRE Commercial Real Estate ZWEI GmbH), EUR 1,959 thousand (2018 financial year: EUR 0 thousand) to DEMIRE Holding IV GmbH (formerly DEMIRE Condor Properties Management GmbH), Frankfurt am Main, and EUR 509 thousand (2018 financial year: EUR 13 thousand) to DEMIRE Holding XI GmbH (formerly DEMIRE Commercial Real Estate VIER GmbH), Frankfurt am Main.

INCOME TAXES

As the parent company of the tax group, the Company is also subject to taxation for subsidiaries included in the income tax group of consolidated companies through control and profit and loss transfer agreements. Income taxes include income from the reversal of deferred tax liabilities in the amount of EUR 1,281 thousand.

OTHER DISCLOSURES

GOVERNING BODIES

Executive Board members and remuneration

The Company's Executive Board since the 2018 financial year consisted of the following members:

- Tim Brückner (since 1 February 2019), Chief Financial Officer (CFO)
- Ingo Hartlief (since 20 December 2018), Chief Executive Officer (CEO)
- Ralf Kind (until 3 January 2019), CEO / CFO

In the reporting year, the members of the Executive Board were not member of any statutory supervisory boards or comparable controlling bodies or of any comparable domestic or foreign controlling bodies of commercial enterprises

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 2019	TOTAL 2018
Ingo Hartlief	835*	190	126	1,151	**0**
Tim Brückner	245	50	33	328	**0**
Ralf Kind	3	0	0	3	**862**
Total	**1,083**	**240**	**159**	**1,482**	**862**

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

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

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

The amount of the remaining remuneration to which Ralf Kind is entitled is still undetermined as these issues are currently the subject of pending legal proceedings; however, a provision amounting to EUR 420 thousand has been recognised.

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 (2018 financial year: EUR 180 thousand). In addition, Supervisory Board members were reimbursed by the Company for travel expenses incurred of EUR 14 thousand (2018 financial year: EUR 8 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 Alexander Goepfert (Chairman of the Supervisory Board) Attorney at law (since 27 June 2018)	AGROB Immobilien AG	Chairman of the Supervisory Board
	PROXIMUS Real Estate AG, Cologne	Ordinary Member of the Supervisory Board
	shareDnC GmbH, Cologne	Ordinary Member of the Advisory Board
	EBS Real Estate Management Institut, Wiesbaden	Chairman of the Board of Trustees
	iddiw Institut der Deutschen Immobilienwirtschaft e. V., Frankfurt	Vice President
Frank Hölzle (Deputy Chairman of the Supervisory Board) Managing Director (since 14 February 2017)	Grey SkyAG	Member of the Administrative Council
	clickworker GmbH, Essen	Chairman of the Advisory Board
	Mindlab Solutions GmbH, Stuttgart	Chairman of the Advisory Board
	mobileObjects AG, Büren	Chairman of the Supervisory Board
	rankingCoach GmbH, Cologne	Chairman of the Advisory Board
	SIC Invent AG, Basel / Switzerland	Member of the Administrative Council
	reBuy reCommerce GmbH, Berlin	Member of the Advisory Board
	sevDesk GmbH	Member of the Advisory Board
	Fair Value REIT-AG, Munich	Chairman of the Supervisory Board

NAME	COMPANY	POSITION
Dr Thomas Wetzel, Attorney at law (until 29 May 2019)	Brandenberger + Ruosch AG, Dietlikon / Switzerland	President of the Administrative Council
	EBV Immobilien AG, Urdorf / Switzerland	President of the Administrative Council (until 19 June 2018)
	Energie 360° AG, Zu-rich / Switzerland	Vice President of the Administrative Council
	Immobilien ETHZF AG, Zu-rich / Switzerland	Member of the Administrative Council
	VERIT Investment Management AG, Zurich / Switzerland	President of the Administrative Council
	Swiss Foundation for Anesthesia Research, Zurich / Switzerland	Member of the Board of Trustees
	Stiftung für Kunst, Kultur und Geschichte, Küsnacht / Switzerland	Vice President of the Board of Trustees
	Fair Value REIT-AG, Munich	Deputy Chairman of the Supervisory Board (since 4 December 2017)
	Wintower Immobilien AG, Winterthur / Switzerland	Member of the Administrative Council (since 12 September 2018)
Prof Dr Kerstin Hennig, Honorary Professor (since 29 May 2019)	DWS Grundbesitz GmbH	Ordinary Member of the Supervisory Board
	Urban Land Institute (ULI)	Ordinary Member of the Executive Committee
	Real Estate Brand Club	Member of the Management Board
	Institutionelle Investoren Hotel	Member of the Advisory Board

The average number of employees in the 2019 financial year was 31 (previous year: 27), all of which were employed 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 with subsidiaries. All transactions with related parties conducted during the reporting year were based on market standard terms.

STATEMENT WITH REGARD TO THE GERMAN CORPORATE GOVERNANCE CODE

The Supervisory Board and the Executive Board of DEMIRE AG are committed to responsible, transparent management and control of the company, geared to long-term value creation. The statement with regard to the German Corporate Governance Code required by Section 161AktG was last adopted by the Company's Executive Board and Supervisory Board on 11 February 2020 and made available to the shareholders. The Declaration of Conformity with the German Corporate Governance Code is made permanently publicly available to shareholders at the homepage of DEMIRE Deutsche Mittelstand Real Estate AG under the heading "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 ABOUT THE PARENT COMPANY

As the parent company, the Company 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. DEMIRE´s consolidated financial statement is the largest and smallest group of consolidated companies in which DEMIRE AG is included.

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 considered. In the reporting period and up to the preparation of the annual financial statements, the Company received no such notifications. For the current status of notifications, please refer to the COMPANY'S HOMEPAGE.

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

The Executive Board proposes to carry forward the Company's net profit for the 2019 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 that the financial statements give a true and fair view of the Company's net assets, financial position and results of operations in accordance with the applicable reporting principles.

Subsequent events

No significant events have occurred after the end of the financial year.

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

Ingo Hartlief FRICS
(CEO)

Tim Brückner
(CFO)

www.demire.ag/en/investor-relations/share/voting-rights-announcements

APPENDIX 1: STATEMENT OF FIXED ASSETS FOR THE FINANCIAL YEAR 1 JANUARY TO 31 DECEMBER 2019

	ACQUISITION COSTS					ACCUMULATED DEPRECIATION AND AMORTISATION				CARRYING AMOUNTS	
EUR	01/01/2019	ADDITIONS	DISPOSALS	RECLASSIFICATIONS	31/12/2019	01/01/2019	DEPRECIATION/AMORTISATION	WRITE-UPS	31/12/2019	31/12/2019	31/12/2018
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	0.00	31,973.20	28,181.20	3,260.00	0.00	31,441.20	532.00	3,792.00
	31,973.20	**0.00**	**0.00**	**0.00**	**28,181.20**	**28,181.20**	**3,260.00**	**0.00**	**31,441.20**	**532.00**	**3,792.00**
II. Property, plant and equipment											
1. Land, leasehold rights and buildings, including buildings on third-party property	67,103.14	0.00	0.00	82,608.97	149,712.11	25,590.14	32,920.97	0.00	58,511.11	91,201.00	41,513.00
2. Other equipment, operating and office equipment on third-party property	348,163.92	12,845.38	27.43	0.00	360,981.87	160,105.92	52,741.95	0.00	212,847.87	148,134.0	188,058.00
3. Prepayments and assets under construction	89,032.55	87,625.15	94,048.73	−82,608.97	0.00	0.00	0.00	0.00	0.00	0.00	89,032.55
	504,299.61	**100,470.53**	**94,076.16**	**0.00**	**510,693.98**	**185,696.06**	**85,662.92**	**0.00**	**271,358.98**	**239,335.00**	**318,603.55**
III. Financial assets											
1. Investments in affiliated companies	313,862,628.49	220,000.00	0.00	0.00	314,082,628.49	74,545,045.40	120,000.00	0.00	74,665,045.40	239,417,583.09	239,317,583.09
2. Loans to affiliated companies	346,578,622.84	450,289,364.81	156,474,566.86	0.00	640,393,420.79	7,084,034.67	0.00	0.00	7,084,034.67	633,309,386.12	339,494,588.17
3. Other loans	0.00	5,964,994.09	0.00	0.00	5,964,994.09	0.00	0.00	0.00	0.00	5,964,994.09	0.00
	660,441,251.33	**456,474,358.90**	**156,474,566,86**	**0.00**	**960,441,043.37**	**81,629,080.07**	**120,000.00**	**0.00**	**81,749,080.07**	**878,691,963.30**	**578,812,171.26**
	660,977,524.14	**456,574,829.43**	**156,568,643.02**	**0.00**	**960,983,710.55**	**81,842,957.33**	**208,922.92**	**0.00**	**82,051,880.25**	**878,931,830.30**	**579,134,566.81**

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

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

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

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

Appendix 2: Schedule of shareholdings pursuant to section 285 No. 11, 11a and 11b HGB

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

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

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 OPINION

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 2019, and the statement of income for the financial year from 1 January to 31 December 2019 and notes to the financial statements, including the presentation of the accounting 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 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Section 289f HGB [Handelsgesetzbuch: German Commercial Code] and Section 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 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 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 Section 322 (3) 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 OPINION

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537 / 2014) referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the 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) letter (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the 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 2019. 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 matters: :

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 EUR 239,418 thousand (23.9 % of total assets) and loans to affiliated companies amounting to EUR 633,309 thousand (63.2 % 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, impairment losses amounting in total to EUR 120 thousand were required for the financial year. No reversal of impairment was recognised.

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 detailed explanations of the executive directors and the staff of the external advisory firm used 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 impairment or reversal of impairment.

   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 Sections 289f HGB and 315d HGB.

The other information also comprises 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 Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report

We exercise professional judgment and maintain professional skepticism throughout the audit, and

- 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 29 May 2019. We were engaged by the Supervisory Board on 8 January 2020. 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 auditor responsible for the engagement is Gregory Hartman.

Berlin, 17 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Gregory Hartman
Wirtschaftsprüfer
(German Public Auditor)

Dr. Frederik Mielke
Wirtschaftsprüfer
(German Public Auditor)

Imprint

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The Executive Board of
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CONCEPT AND LAYOUT
Kammann Rossi GmbH

STATUS
March 2020

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