



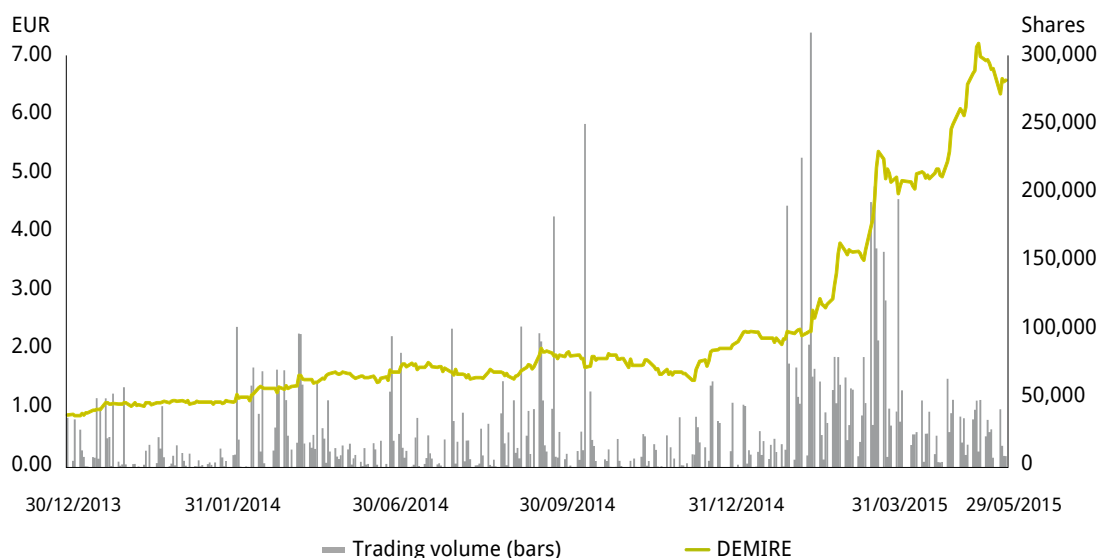
DEMIRE Deutsche Mittelstand Real Estate AG

# **ANNUAL REPORT 2014**

April 1, 2014 – December 31, 2014

## DEMIRE at a glance

### PERFORMANCE



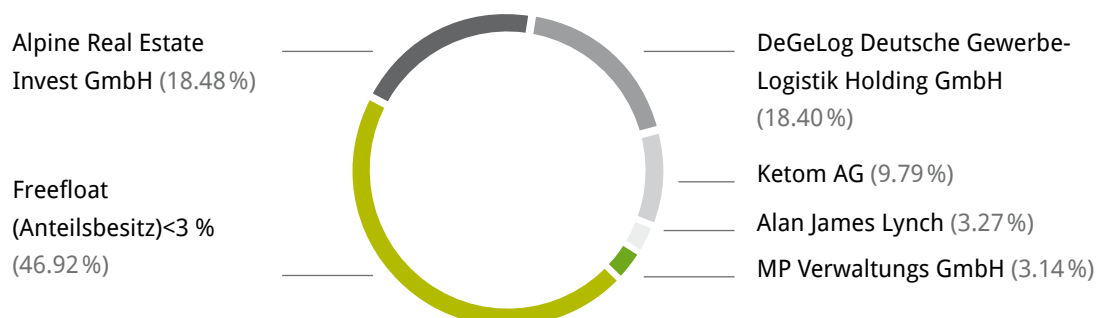
Source: Deutsche Börse

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### SHARE AS AT MAY 31, 2015

ISIN	DE000A0XFSF0
Ticker symbol	DMRE
Stock exchange	Deutsche Börse, Frankfurt
Market segment	General Standard
Shareholder's equity (EUR)	22,285,553.00
Number of shares	22,285,553
Net asset value (NAV) (as of December 31, 2014 EUR)	4.26
Market capitalisation	113.48 million
Free float	46.92 %

### SHAREHOLDER STRUCTURE AS OF MAY 31, 2015



Source: WpGH-Mitteilungen, eigene Analysen

## LEADING HOLDER OF COMMERCIAL REAL ESTATE

DEMIRE Deutsche Mittelstand Real Estate AG is transforming itself into a leading holder of German commercial real estate. The core business activities of the Frankfurt/Main-headquartered real estate group consist of the acquisition, the management and the rental of commercial real estate and their further development, for example, through modification, modernisation or expansion, and increasing their value through active portfolio management.

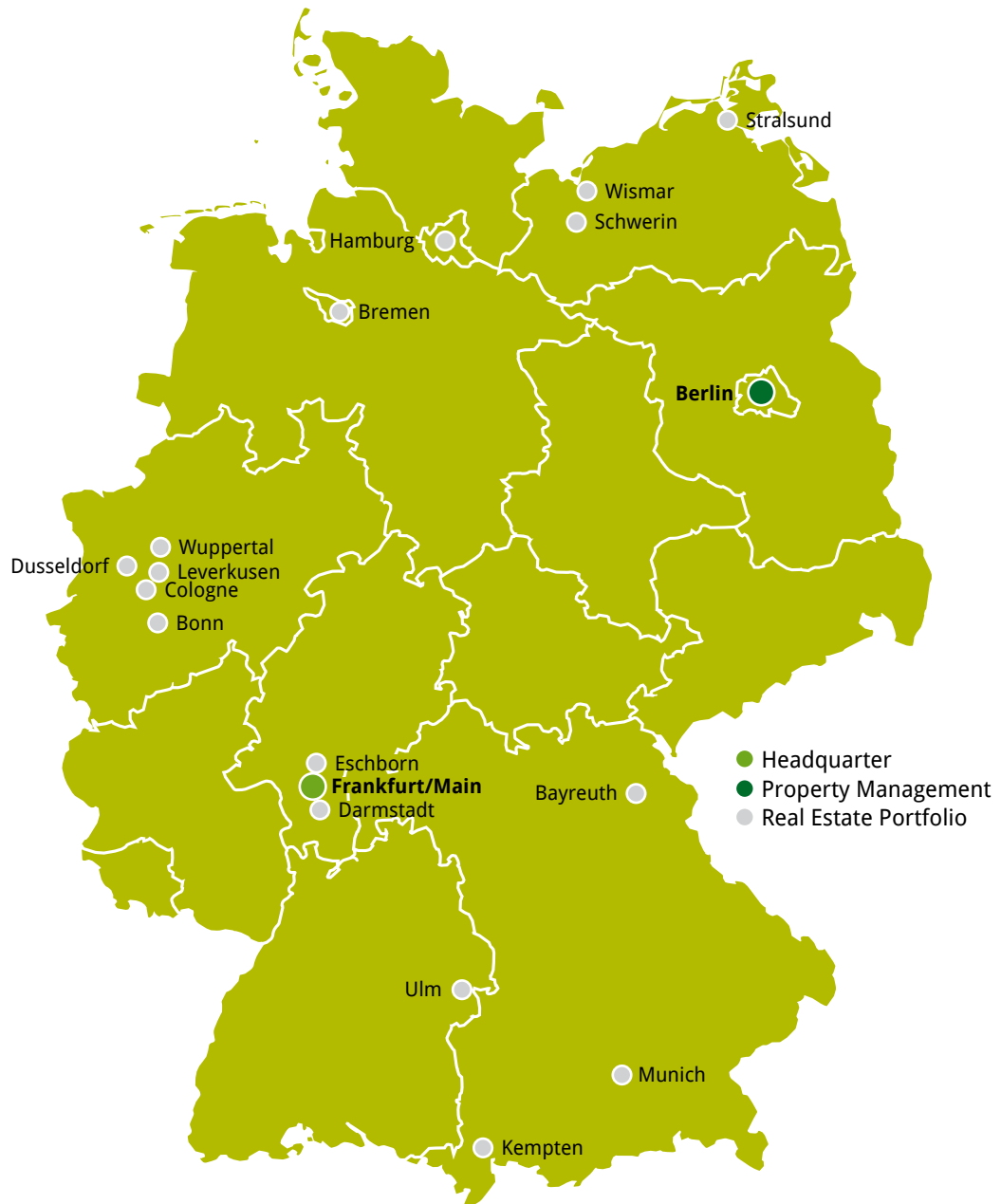


[WWW.DEMIRE.AG](http://WWW.DEMIRE.AG)

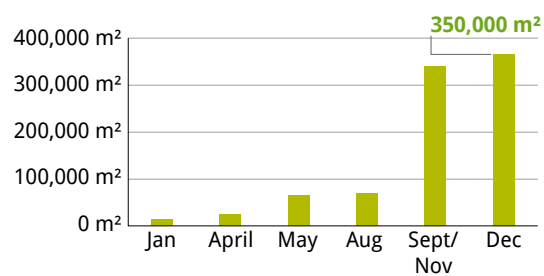
[IR@DEMIRE.AG](mailto:IR@DEMIRE.AG)

GROUP KEY FIGURES (EUR)	31/12/2014	31/03/2014
Net rental income from real estate	2,290	460
Earnings from the sale of real estate companies	69	386
Income from asset management	0	38
Income from equity method investments	-1,014	-1,688
Other operating income and other effects on earnings	63,651	2,071
<b>Earnings before interest and taxes (EBIT)</b>	<b>58,434</b>	<b>-5,552</b>
Financial results	-2,938	-182
Earnings before taxes (EBT)	55,496	-5,735
<b>Profit for the period</b>	<b>45,707</b>	<b>-5,986</b>
Earnings per share	3.03	-0.43
Equity	54,629	7,702
Liabilities	318,383	40,698
Total assets	373,012	48,400
Equity ratio	14.6 %	15.9 %
Cash flow from operating activities	-3,986	-1,900
Cash flow from investing activities	-255,206	-18,715
Cash flow from financing activities	259,634	22,239
Cash at end of period	4,397	3,955

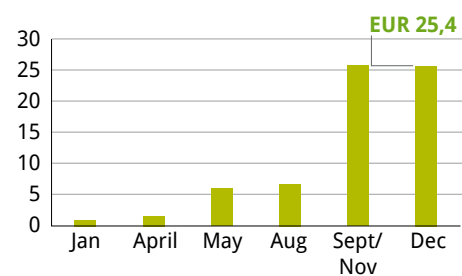
## PROPERTY PORTFOLIO AND COMPANY SITES



2014 development in m<sup>2</sup>



2014 development in net rental income (in EUR millions)



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## Disclaimer:

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

## Foreword of the Executive Board

Dear Shareholders,

Ladies and Gentlemen,

With the publication of this annual report for the abbreviated 2014 fiscal year (April 1, 2014 to December 31, 2014), DEMIRE Deutsche Mittelstand Real Estate AG aligned its fiscal year to the calendar year. The change to a calendar year will make it easier for our shareholders and those interested in the Company to understand and review our financial reporting, particularly with respect to the newly added companies.

The consolidated financial statements reflect the successful and eventful 2014 fiscal year. This past year, we set our compass for solid growth and are now on our way to becoming one of the leading holders of commercial real estate in Germany. The realignment that started in 2013 continued throughout the year 2014 and even exceeded our expectations. In addition to building an attractive commercial real estate portfolio, we also streamlined our legacy portfolio. We were able to dispose of the majority of the portfolio earlier than we had expected and now have only a few properties still up for sale.

The distinct focus of our operating activities is the creation of a large commercial property portfolio. Following several acquisitions — especially at the end of 2014 — DEMIRE currently holds a dedicated portfolio with roughly 610,000 m<sup>2</sup> of rentable space. The regional focus of the portfolio is on Bavaria, North Rhine-Westphalia, Baden-Württemberg and Saxony. Annual net rent, excluding utilities, of the current portfolio – comprising mainly office properties – amounts to around EUR 32.8 million. Through our purchase of logistics park Leipzig with a total area of roughly 184,000 m<sup>2</sup> and annual net rents of EUR 3.6 million, we have not only achieved our target share of approximately 30% of logistic properties but also a stable foothold in the growth region of Leipzig, which has proven itself by its significant economic growth and stable real estate performance over the past years.

The rapid development of the Company is reflected in our key financial figures. During the abbreviated 2014 fiscal year, we generated a consolidated net profit of EUR 45.7 million (fiscal year 2013/2014: loss of EUR -6.0 million). This significant increase mainly resulted from the value appreciation of investment properties acquired during the abbreviated fiscal year.

DEMIRE's share price also improved sharply alongside the ongoing positive news flow reported by the Company. The share price began 2014 at EUR 0.78 and grew in the course of the year by more than 130 % to EUR 1.80. During the current 2015 fiscal year, the shares climbed to record highs of nearly EUR 6. Since the beginning of 2014 DEMIRE's market capitalisation at the stock exchange has increased to above EUR 100 million for more than a sevenfold rise.

Next to expanding the portfolio, DEMIRE's structural development has also been a top priority in the reporting year. Developments included enlarging the Executive Board through the appointment of Markus Drews in December 2014, as well as expanding the group and management structures by acquiring new companies and the accompanying increase in the number of employees. We are currently expanding our second-tier management by hiring highly-qualified specialists with long-proven industry expertise. This process is a focal point for us in being able to continue to grow successfully in the market. With the appointment of Dr. Peter Maser to the Supervisory Board, we have added yet another experienced expert to our Company's supervisory body.



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



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

To optimise our portfolio's management, we made three targeted acquisitions in the areas of asset, property and facility management. The companies acquired allow us to represent the entire value chain of real estate management internally, ensuring more efficient portfolio management and an optimum return on equity.

By consistently expanding our real estate portfolio, streamlining our legacy portfolio and enhancing our group and management structures, we have laid a solid basis to support our future strategy.

We believe the current business environment is conducive to achieving these strategic targets. The favourable economic environment, a consistently high demand for office and logistics space, low interest rates and attractive real estate offers provide a solid base for the continued expansion of the portfolio.

From this point forward, our net rental income will represent our main and stable source of revenues. Today, rental income already amounts to approximately EUR 32.8 million per year and will continue to rise with the improvements made in our asset management and further additions to our holdings.

At the same time, we are aware that we will need additional funds for our portfolio expansion. Thanks to the capital measures resolved at the Annual General Meeting held in March 2015, we have ample funds for investment and sufficient equity or authorisations to issue shares from conditional capital. In addition to increasing our bond by EUR 50 million to a total of EUR 100 million in March 2015, we have also used our shares as currency for property purchases. Our most recent issue of a mandatory convertible bond at a favourable interest rate for the Company has also demonstrated the attractiveness of our shares. Moreover, we have access to property-specific financing offers from a variety of banks.

We would like to extend our appreciation especially to our shareholders for their continued trust. We would also like to explicitly thank our employees for their energy and dedication.

We firmly believe that we have put the DEMIRE real estate group on the right path. Let's go on with writing DEMIRE's success story together!

Frankfurt/Main, 3. June 2015



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



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





## Report of the Supervisory Board

Dear Shareholders,

In the abbreviated 2014 fiscal year, the Supervisory Board performed the tasks and exercised the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its rules of business procedure.

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

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

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

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

During the reporting year, there were no conflicts of interest on the part of the members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information to the Annual General Meeting.



*The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG with the Chairman  
Prof. Dr. Hermann Anton Wagner (middle), Günther Walcher (left) and the Deputy Chairman Dr. Peter Maser (right).*

A fundamental strategic realignment of the Company and the Group was resolved in the first quarter of the 2013/2014 fiscal year. The placement of the 2014/2019 corporate bond on September 12, 2014, secured the liquidity for further investments in the fiscal year.

#### **MEMBERS OF THE SUPERVISORY BOARD IN THE ABBREVIATED 2014 FISCAL YEAR**

- Prof. Dr. Hermann Anton Wagner (from April 17, 2013; chairman from October 23, 2013)
- Dr. Dirk Hoffmann (until December 31, 2014; deputy chairman until December 31, 2014)
- Günther Walcher (from October 23, 2013)

Dr. Dirk Hoffmann resigned from his office of deputy chairman and member of the Supervisory Board effective as of the close of the abbreviated fiscal year. The Supervisory Board would like to extend its appreciation for his constructive collaboration and wishes him well in his future endeavours.

#### **SUPERVISORY BOARD COMMITTEES**

The Supervisory Board consisted of three members in the 2014 fiscal year. The Supervisory Board did not form any committees since this is impractical with only three members.

### **WORK OF THE PLENUM DURING THE REPORTING YEAR**

The Supervisory Board met repeatedly during the abbreviated 2014 fiscal year in short succession on June 3, 2014, August 29, 2014, and November 27, 2014 in connection with a significant change in the shareholder structure, the fundamental strategic realignment of the Company and Group.

On August 29, 2014, the Supervisory Board together with the Executive Board discussed DEMIRE Deutsche Mittelstand Real Estate AG's Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act for the abbreviated 2014 fiscal year. This discussion related to the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette in the version of May 13, 2013 as well as any divergences from these recommendations. The Declaration of Conformity was subsequently published on the Company's website ([www.demire.de](http://www.demire.de)).

At the meeting on August 29, 2014, the Supervisory Board dealt extensively with and approved the financial statements and consolidated financial statements for the 2013/2014 fiscal year, including the management report for the Company and the Group. The financial statements and management report of DEMIRE Deutsche Mittelstand Real Estate AG were prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements and the group management report were prepared according to the principles of International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary provisions according to Section 315a (1) of the German Commercial Code (HGB).

With effect from December 1, 2014, the Supervisory Board appointed Dipl.-Kfm. (FH) Markus Drews to the Executive Board. As the second member of the Executive Board next to Hon.-Prof. Andreas Steyer, Mr. Markus Drews is responsible for the areas of Organisation, Administration and Asset Management and, together with Hon.-Prof. Steyer, for transactions.

### **WORK OF THE PLENUM AFTER THE FISCAL YEAR'S CLOSE**

The Supervisory Board met on January 12, 2015, February 24, 2015, April 22, 2015, and April 23, 2015 (each by conference call), as well as on April 28, 2015 and June 5, 2015, following the close of the abbreviated 2014 fiscal year with regard to the material change in shareholder structure and the fundamental strategic realignment of the Company and the Group.

On January 12, 2015, the District Court of Frankfurt/Main appointed Dr. Peter Maser as a new member of the Supervisory Board at the Executive Board's request.

On June 5, 2015, the Supervisory Board together with the Executive Board discussed DEMIRE Deutsche Mittelstand Real Estate AG's Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act for the abbreviated 2014 fiscal year. This discussion related to the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette in the version of June 24, 2014, as well as any divergences from these recommendations. The Declaration of Conformity was subsequently published on the Company's website ([www.demire.de](http://www.demire.de)). Further information on corporate governance is contained in the Corporate Governance Report, including the Declaration on Corporate Governance pursuant to Section 289a of the German Commercial Code, reproduced in the DEMIRE Deutsche Mittelstand Real Estate AG's 2014 Annual Report.

At the meeting on June 5, 2015, the Supervisory Board dealt extensively with the financial statements and consolidated financial statements for the abbreviated 2014 fiscal year, including the coherent presentation of the combined management report for the Company and the Group. The financial statements and management report of DEMIRE Deutsche Mittelstand Real Estate AG were prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements and the Group management report were prepared according to the principles of International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary provisions according to Section 315a (1) of the German Commercial Code (HGB).

The auditor took part in the previously mentioned meeting on June 5, 2015, and presented the key findings of his audit. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart was appointed as the auditor by the Annual General Meeting and was mandated by the Supervisory Board. The financial statements, including the combined management report for the Company and the Group, were reviewed by the auditor and furnished with unqualified audit opinions.

The Supervisory Board subjected the financial statements, the consolidated financial statements, and the combined management report for the Company and the Group to its own review and approved the results of the audit conducted by the auditor. No objections were raised following the issue of the final audit report on the annual financial statements, the consolidated financial statements, the combined management report for the Company and the Group, and the auditors audit reports. The Supervisory Board approved the financial statements, the consolidated financial statements, and the combined management report on June 5, 2015, thus adopting the Company's financial statements.

#### **CHANGES IN THE EXECUTIVE BOARD**

Effective December 1, 2014, Mr. Markus Drews was appointed as a member of the Company's Executive Board for a term of three years. We congratulate him and look forward to our future work together.

#### **CHANGES IN THE SUPERVISORY BOARD**

After the resignation of Dr. Dirk Hoffmann as a member of the Supervisory Board as of December 31, 2014, DEMIRE was fortunate to bring in Dr. Peter Maser, Attorney at Deloitte Legal Rechtsanwaltsgesellschaft mbH, Stuttgart, as a new member of the Supervisory Board. By resolution of the District Court of Frankfurt/Main, Dr. Maser was appointed as a member of the Supervisory Board on January 12, 2015. The Extraordinary General Meeting on March 6, 2015, had resolved to appoint Dr. Peter Maser as a member of the Supervisory Board until the Annual General Meeting that will resolve the discharge of the members of the Supervisory Board for the fiscal year ending on December 31, 2015. In the following constituent meeting of the Supervisory Board, Dr. Peter Maser has been elected Deputy Chairman of the Supervisory Board.

### CONTINUED IMPLEMENTATION OF THE STRATEGIC REALIGNMENT

The Executive Board and Supervisory Board believe that the Group's previous strategic objectives and its focus to date on the target markets surrounding the Black Sea and in Eastern Europe do not offer sufficient long-term opportunities. Therefore, the Executive and Supervisory Boards decided to completely realign the Group. This change was also reflected in the renaming of the Company to "DEMIRE Deutsche Mittelstand Real Estate AG", which was approved by the Extraordinary General Meeting in June 2013.

During the abbreviated 2014 fiscal year, DEMIRE Deutsche Mittelstand Real Estate AG continued to pursue a "buy and hold" strategy and practised active portfolio management through the acquisition of several real estate properties. As an investor and portfolio manager, the Group solely concentrates on the German real estate market and on real estate investments which generate positive cash flows from the start. Systematic planning, management and control should raise the real estate investments' potential for success and achieve a sustainable increase in value. The Executive Board and the Supervisory Board firmly believe that the German real estate market is currently attractive and will remain so in the future. Due to the domestic and international economic strength of the German Mittelstand as the backbone of the German economy, the focus of the Group's investment will be on commercial properties with Mittelstand clientele, as well as on logistic and office space.

This new strategy was rapidly implemented in the abbreviated 2014 fiscal year with the acquisition of two commercial property portfolios:

Deutsche Mittelstand Real Estate AG acquired seven commercial properties with a total space of 40,000 m<sup>2</sup> in the third quarter. The properties are located in the areas of Cologne/Bonn, Leverkusen, Wuppertal, Hamburg and Wismar and at almost full occupancy currently generate annual net rental income excluding utilities of EUR 4.4 million. The tenants have good to very good credit ratings. Around 70 % of the space is used for offices and roughly 30 % is used for warehousing, retailing and doctor's offices. The closing of this transaction marks DEMIRE's third purchase of properties within a period of just five months. The properties purchased have a combined total space of approximately 65,000 m<sup>2</sup>.

The portfolio acquired in December 2014 consists of 107 properties that also contain tenants with good to very good credit ratings. These properties have almost 290,000 m<sup>2</sup> of rentable space with key portions of the portfolio located in Dusseldorf, Eschborn, Bayreuth, Bremen, Kempten, Ulm and Darmstadt. This portfolio's broad diversification mitigates the risk of this investment and contributes to the DEMIRE Group's further growth. The majority of the properties are used as office space and are rented on a long-term basis. This acquisition reinforces the Group's new role as an investor and a leading holder of real estate. All properties generate positive cash flow from the start and enhance the Group's liquidity.

In December 2014, the Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved to raise the Company's share capital from authorised capital once by EUR 5,633,710 from EUR 14,306,151 to EUR 19,939,861 against contribution in kind excluding shareholders' subscription rights. Alpine Real Estate GmbH received authorisation to subscribe to the new shares and made a contribution in kind to DEMIRE consisting of 94.9 % of Alpine's interest in Hanse-Center Objektgesellschaft mbH, 94.9 % of the interest in Glockenhofcenter Objektgesellschaft mbH and a receivable against Hanse-Center Objektgesellschaft. Hanse-Center Objektgesellschaft mbH and Glockenhofcenter Objektgesellschaft mbH possess a commercial real estate portfolio comprising a total of nearly 42,000 m<sup>2</sup> in Bremen, Berlin, and Stralsund. The purchase of the commercial real estate portfolio in return for the issue of shares strengthens DEMIRE's equity base and cash flow.

With a contribution agreement dated April 13, 2015, Ketom AG, headquartered in Wollerau, Switzerland, contributed a 94 % interest in the property company Sihlegg Investments Holding GmbH, also headquartered in Wollerau, Switzerland, as well as a receivable resulting from a shareholder loan granted to Sihlegg Investments Holding GmbH valued at EUR 4,775,366.67 including accrued interest as of April 1, 2015 against a contribution in kind against the issue of 2,182,567 new shares of DEMIRE at EUR 4.028 each by utilising DEMIRE's authorised capital under the Articles of Association.

Sihlegg Investment Holding GmbH is the owner of the office and retail property Gutenberg-Galerie in Leipzig. The property, erected in 1994, is near the city's center and encompasses around 20,750 m<sup>2</sup> of rentable space of which approximately 11,900 m<sup>2</sup> is office space. The building complex also contains a 4-star hotel with 122 rooms. The occupancy rate at the time of acquisition was nearly 70 %. Annualised net rental income excluding utilities amounts to approximately EUR 1.3 million.

In addition, an increase in the Company's share capital from authorised capital once by EUR 2,541,149.00 against a mixed contribution in kind excluding shareholder subscription rights was resolved in May 2015. M1 Beteiligungs GmbH, Berlin, has been admitted to subscribe to the new shares in return for contributing a 94% interest in Logistikpark Leipzig GmbH. Logistikpark Leipzig GmbH is the sole shareholder of a logistics property in Leipzig called Logistikpark Leipzig. The former logistics complex of Quelle (constructed in 1994) has a total rentable space of around 184,000 m<sup>2</sup> and is located on property of roughly 330,000 m<sup>2</sup> situated approximately 10 km north of Leipzig's city centre. With a current occupancy rate of around 60% and annual net rent of approximately EUR 3.60 million, the logistics complex offers considerable potential near the trade fair centre and the BMW plant and due to the high demand for logistics properties in Leipzig.

These acquisitions bring us closer to the Group's long-term strategic goal of allowing shareholders to participate in the Company's success through an attractive dividend policy.

#### **A WORD OF THANKS FROM THE SUPERVISORY BOARD**

The Supervisory Board would like to thank the Group's employees and the Executive Board members Hon.-Prof. Andreas Steyer and Mr. Markus Drews for their commitment and constructive collaboration throughout the abbreviated 2014 fiscal year.

This report was discussed in detail and adopted by the Supervisory Board at its meeting on June 5, 2015.

Frankfurt/Main, June 2015



**Prof. Dr. Hermann Anton Wagner**  
Chairman of the Supervisory Board



## Leading holder of commercial real estate

DEMIRE Deutsche Mittelstand Real Estate AG is transforming itself into a leading holder of German commercial real estate. The core business activities of the Frankfurt/Main- headquartered real estate group consist of the acquisition, the management and the rental of commercial real estate and their further development, for example, through modification, modernisation or expansion, and increasing their value through active portfolio management.

The commercial property portfolio comprises more than 610,000 m<sup>2</sup> of rentable space. Annualised net rent excluding utilities amounts to approximately EUR 32.8 million. The portfolio's regional focus lies in Bavaria and North Rhine-Westphalia. The in-house asset, property, and facility management ensures the optimum management and development of the holdings.

The DEMIRE real estate group's growth strategy focuses on German office properties and employs a „buy and hold“ strategy in combination with active portfolio management. It is concentrated on both the value-added and core-plus investment approaches. The combination of these two approaches offers a balanced risk-return ratio and attractive opportunities.

The DEMIRE real estate group emerged from Magnat Real Estate AG, which had been established in 2006. The real estate group's lean structure allows it to take action quickly and flexibly. The shares of DEMIRE Deutsche Mittelstand Real Estate AG (ISIN DE000A0XFSF0) are listed in the regulated market (General Standard Segment) of the Frankfurt Stock Exchange. The share price performance gives impressive evidence of the real estate group's successful business development.

## Investor Relations

### DEVELOPMENT OF THE CAPITAL MARKETS

Triggered by weak economic data, equity markets were initially subdued in early 2014 and then recovered due to an abundance of good corporate figures. Since 2014, the conflict between the Ukraine and Russia affected the capital markets and the resulting mutual economic sanctions between the European Union, the USA and Russia led – albeit only temporarily – to uncertainty among market participants. The continuation of the low interest rate policy was a key reason that the DAX reached the 10,000-point mark in the middle of 2014. The slowdown in growth in Europe then led to a decline in the third quarter before the falling oil prices stimulated the stock markets in the fourth quarter of 2014.

After volatile performance, the German benchmark index DAX rose a moderate 4 % in 2014 and ended the year 2014 at 9,805 points. Since the beginning of 2015, a rally has driven the DAX to new highs buoyed by the ECB announcement of its intention to purchase bonds valued at around EUR 1.1 trillion. Other indices had similar performance. The General Standard Index, in which the DEMIRE Deutsche Mittelstand Real Estate shares are listed, outperformed the DAX slightly with an increase of around 6 % in 2014. The General Standard has performed in line with the DAX index and has risen significantly higher since early 2015.

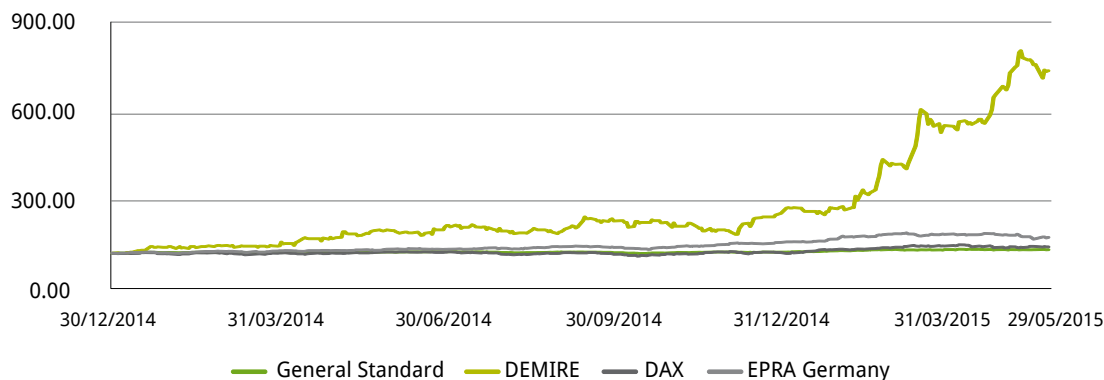
In 2014, the EPRA Germany – the benchmark index for listed real estate companies established by the European Public Real Estate Association in collaboration with FTSE – outperformed the DAX and the General Standard indices. Over the past year the EPRA index increased by 38 % reflecting the positive development in the real estate sector. Since the beginning of 2015, the rise in the index accelerated due to the general positive mood on the stock markets. By the end of May 2015, the EPRA Germany index had increased by more than 50 % compared to the beginning of 2014.

### OUTPERFORMANCE OF THE DEMIRE SHARE

During the year 2014, shares of DEMIRE Deutsche Mittelstand Real Estate AG significantly outperformed the EPRA Germany, the General Standard and the DAX indices. The shares began 2014 at EUR 0.78 and increased to EUR 1.80 by the last trading day of the year. The Company's market capitalisation rose from EUR 10.84 million to EUR 25.75 million. The DEMIRE share's outperformance has become even more evident since the beginning of 2015. In the first five months of the current year, the share price rose to more than EUR 5.50 per share. This represented a percentage increase of more than 700 % in the period from early 2014 until the end of May 2015.

This excellent performance resulted not only from DEMIRE's growth, but also due to the favourable conditions on the capital markets. The bond purchases of the European Central Bank had a particularly strong impact on real estate shares. The positive business development documented in these financial statements laid the groundwork for the DEMIRE share's outperformance. The market capitalisation of DEMIRE Deutsche Mittelstand Real Estate AG was EUR 113.48 million at the end of May 2015.

## SHARE PRICE DEVELOPMENT

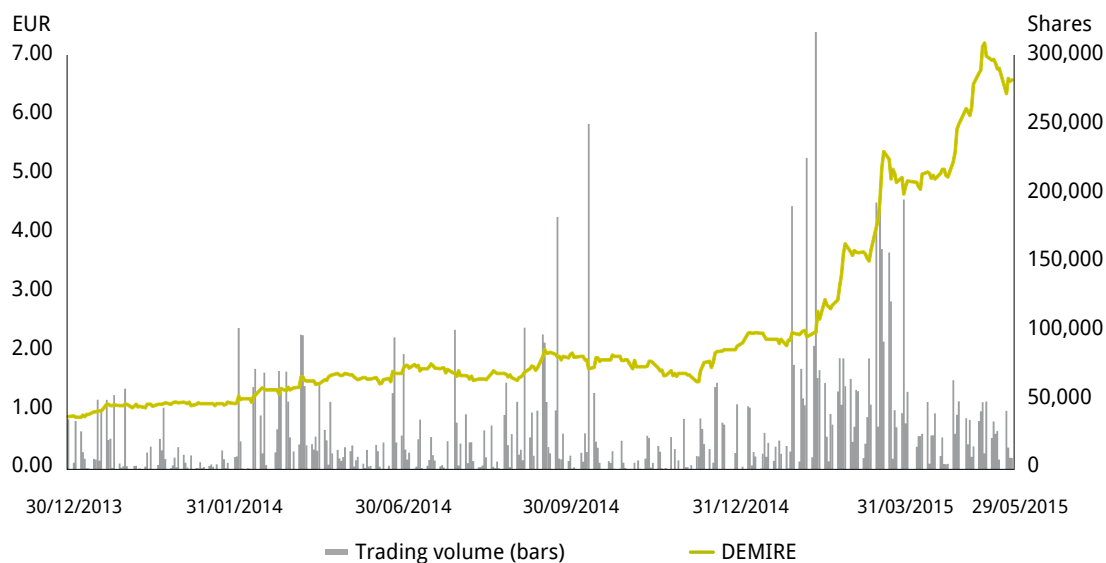


Source: Deutsche Börse

DEMIRE's share liquidity grew in the first three quarters of 2014 and exceeded 1.3 million shares traded in the third quarter of 2014. Liquidity decreased in the fourth quarter of 2014 to 0.9 million shares traded and then tripled to 3.2 million traded in the first quarter of 2015. The average number of shares traded per day during the first quarter 2015 amounted to more than 50,000 shares.

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## TRADING VOLUME OF DEMIRE SHARE



Source: Deutsche Börse

## RESEARCH ANALYSTS ISSUING BUY RECOMMENDATIONS

Analysts at Close Brothers Seydler Research AG, now ODDO SEYDLER, assumed coverage of DEMIRE Deutsche Mittelstand Real Estate AG shares in April 2014 and followed their initial coverage with

further updates. All of the analyst research reports recommended buying the shares. The target price increased from an initial EUR 2 to EUR 5.50 in March 2015. The analysts carefully analysed the Company's strategic realignment in 2014 and closely observed the streamlining of the legacy portfolio. Based on the Company's development and the favourable environment, ODDO SEYDLER expects the positive business development and favourable stock performance to continue.

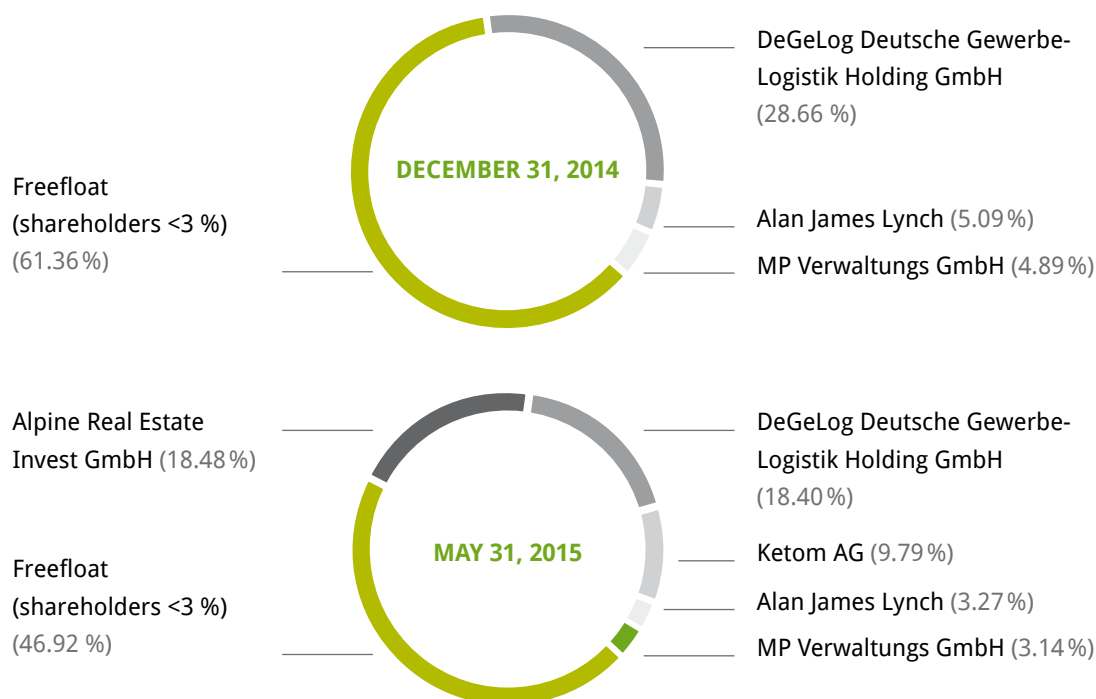
### SUSTAINABLE INVESTOR RELATIONS

DEMIRE Deutsche Mittelstand Real Estate AG places a high importance on transparent and sustainable investor relations. After the capital market activities were accompanied accordingly in 2014, the shares will be specifically positioned in the capital market as a growth stock during the current fiscal year. The share's outperformance has drawn the attention of capital market participants with institutional investors, in particular, showing greater interest in DEMIRE's shares.

### STABLE SHAREHOLDER STRUCTURE

DEMIRE Deutsche Mittelstand Real Estate AG has a stable shareholder structure. Slightly more than half of the Company's shares are held by institutional investors, especially from the real estate sector. The free float at the end of May 2015 reached 46.92 %. The largest individual shareholders were Alpine Real Estate Invest GmbH with 18.48%, DeGeLog Deutsche Gewerbe-Logistik Holding GmbH with 18.40 % and Ketom AG with 9.79 %.

### SHAREHOLDER STRUCTURE AS AT DECEMBER 31, 2014 AND AS AT MAY 31, 2015



## SUCCESSFUL REFINANCING

An important cornerstone in the repositioning of the DEMIRE real estate group was laid with the resolution at the end of 2013 to issue the 2013/2018 convertible bond. The 11,300,000 convertible bonds with a maturity of five years and a nominal value of EUR 1.00 were successfully placed at the beginning of 2014. The funds raised strengthened the Company's financial position and partially financed the acquisition of two commercial properties in Munich.

With the issuance of the convertible bond, the DEMIRE Deutsche Mittelstand Real Estate AG was able to successfully establish itself on the bond market. In early September 2014, that bond issue was followed by the issue of the 2014/2019 corporate bond with a maturity of five years and a coupon of 7.5 %. The issue volume of EUR 50 million was placed in a private placement. The proceeds were used to expand the German commercial real estate portfolio. In March 2015, the corporate bond was increased by EUR 50 million to EUR 100 million at the same bond conditions. The net proceeds are to be used to finance further portfolio acquisitions and strengthen the financial position.

## USE OF PROCEEDS FROM THE 2014/2019 CORPORATE BOND

According to § 1 of the Terms and Conditions for 2014/2019 corporate bond, the Company is obliged to report their use of the funds raised in the context of the 2014/2019 corporate bond in their annual and semi-annual reports. During the reporting period, the funds were essentially used to acquire a large commercial property portfolio in September 2014 consisting of 107 properties with approximately 290,000 m<sup>2</sup> rental space in the cities of Cologne, Leverkusen, Meckenheim, Wismar, Wuppertal and Schwerin (see also II. Economic Report, 2. Business Performance). Thus, the funds were used in accordance with their purpose defined in the bond conditions, that is, to finance new acquisitions.

### TERMS AND CONDITIONS OF CONVERTIBLE BOND 2013/2018

Name	DEMIRE DT.MTS.RE WDL13/18
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Type of security	Convertible bond
Volume	EUR 11,300,000
Interest rate (coupon)	6 %
Interest payments	quarterly in arrears
Repayment	December 30, 2018
Redemption rate	100 %
Denomination	EUR 1
Change course	EUR 1
Paying Agent	Bankhaus Gebr. Martin Aktiengesellschaft, Göppingen
ISIN	DE000A1YDDY4
Market segment	Frankfurt Stock Exchange

**CORPORATE BOND 2014/2019**

Name	DEMIRE BOND 2014/2019
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Type of security	Bearer bond
Volume	EUR 100.000.000
Interest rate (coupon)	7.5 %
Interest payments	half March 16 and September
Repayment	September 16, 2019
Redemption rate	100 %
Denomination	EUR 1,000
Paying Agent	Bankhaus Gebr. Martin Aktiengesellschaft, Göppingen
ISIN	DE000A12T135
Market segment	Frankfurt Stock Exchange

In December 2014, the share capital was increased by EUR 5,633,710 through a capital increase against contribution in kind from authorised capital to refinance a portfolio of eight commercial properties with a total of 42,000 m<sup>2</sup> of floor space, among others in the cities of Berlin, Bremen and Stralsund. Another capital increase against contribution in kind for the acquisition of the Gutenberg-Galerie in Leipzig took place in April 2015. The property has a total of just under 21,000 m<sup>2</sup> of rentable area of which about 11,900 m<sup>2</sup> is office space. The transaction increased the share capital by EUR 2,182,567.

Capital increases in kind from authorised capital will continue to provide the DEMIRE real estate Group an additional way to refinance acquisitions. The prerequisite for this was created at the Annual General Meeting on March 6, 2015 (see section VII. Disclosures required by takeover regulation).

DEMIRE Deutsche Mittelstand Real Estate AG is consistently developing into a leading holder of commercial real estate in the German market. The Company is well equipped to continue writing its success story.

<b>SHARE</b>	<b>31/05/2015</b>	<b>31/03/2014</b>
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol / Ticker	DMRE	DMRE
Stock exchange	Frankfurt Stock Exchange (FWB); XETRA	Frankfurt Stock Exchange (FWB); XETRA
Market segment	General Standard	General Standard
Registered capital	EUR 22,285,553.00	EUR 13,894,651
Number of shares	22,285,553	13,894,651
Daily trading volume of the last 3 months	> 50,000	< 9,000
Market Capitalisation	EUR 113.48 million	EUR 8.75 million
Free Float	46.92 %	60.21 %

FINANCIAL CALENDAR	
August 2015	Annual General Meeting
August 28, 2015	Publication of 2015 Half-Year Report
November 19, 2015	Publication of the Interim Report for the third quarter of 2015

NET ASSET VALUE <sup>1</sup>	31/12/2014	31/03/2014
NAV for the period	51,684	7,833
Effect of exercise of options, convertible bonds and other investments	0	0
Diluted NAV after the exercise of options, convertible bonds and other investments	51,684	7,833
Revaluations	0	0
Development of investment property	0	0
Measurement of other long-term assets	0	0
Change in fair value of finance lease	0	0
Change in fair value of commercial real estate	0	0
Change in fair value of financial instruments	-465	-407
Deferred Taxes	9,312	283
Goodwill after deferred taxes	0	0
Diluted EPRA NAV	60,531	7,709
Shares in millions	14.31	13.89
Diluted EPRA <sup>2</sup> NAV per share EUR	4.26	0.56

<sup>1</sup> method of valuation of real estate company's total from yield values and other assets less liabilities.

<sup>2</sup> EPRA: Real Estate Index of European Property Real Estate Association.

## Combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, for the abbreviated fiscal year of April 1, 2014 to December 31, 2014

The following presents the combined management report for DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, (hereinafter referred to as „the Company“) and the Group (hereinafter referred to as „DEMIRE“ or the „DEMIRE Group“) for the abbreviated fiscal year from April 1, 2014 to December 31, 2014. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the special provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared according to the principles of International Financial Reporting Standards (IFRS), as applicable in the European Union. The scope of consolidation is presented in detail in the notes under Item B (1.).

DEMIRE's strategic realignment continued throughout the reporting year. The Group focusses exclusively on the German commercial real estate market as both an investor and portfolio manager. Portions of the legacy portfolio with investments in Eastern Europe and the Black Sea region were disposed of during the reporting year. The remaining portfolio is also set to be liquidated. Therefore, the focus of this management report is not only the prescribed reporting requirements but also the progress of the realignment and the future opportunities for the Group and the Company arising from our repositioning.

### I. GROUP PRINCIPLES

#### 1. Business model

DEMIRE Deutsche Mittelstand Real Estate AG is a public stock corporation under German law, headquartered in Frankfurt/Main, with no other branch offices. The Company's shares are traded in the regulated market (General Standard) of the Frankfurt Stock Exchange and on the XETRA trading system.

The Company is the successor company of MAGNAT Real Estate Opportunities GmbH & Co. KGaA, which was established on April 6, 2006. Diverse investments are held which originated from the business activities of the former company. These investments are primarily in Eastern Europe and the Black Sea region (Bulgaria, Georgia, Poland, Romania, Turkey and the Ukraine) and are each held as individual project companies and, in some cases, held indirectly via an intermediate holding company. Of these investments, the holdings in Turkey and some investments in the Ukraine were disposed of during the reporting period. Based on a decision supported by the Supervisory Board, we were able to dispose of two further investments in the Ukraine after the balance sheet date. In April 2015, we decided to dispose of our remaining investment in the Ukraine. This disposal, however, is subject to the agreement of the Ukrainian anti-trust authority.

After completing much of what was necessary for our realignment in the previous fiscal year, we continued to implement the realignment during the reporting period. In the course of 2014, we acquired several commercial properties and real estate portfolios in Germany. The largest transaction consisted of 107 properties. By the end of 2014, DEMIRE's portfolio contained commercial properties with a total area of more than 350,000 m<sup>2</sup>. At the end of the reporting period, the annual net rental income excluding utilities from these properties amounted to approximately EUR 29 million.



In line with this progress and in view of the developments we have planned for our property holdings, we enlarged the Executive Board to two members at the end of the reporting period. The Company's medium-term objective is to become one of the leading commercial property holders in Germany.

Our core business activities include the acquisition, the management and the rental of properties and possibly their further development, for example, through modification and modernisation; increasing value through active asset, property and facility management; and, in some cases, through the sale of individual properties when these properties do not meet our strategic requirements. The Group has a straightforward and a distinct business model that encompasses low complexity.

Until now, DEMIRE's business activities were divided into four segments: Investments, Asset Management, Core Portfolio and Corporate Functions. Whereas the Investments and Asset Management areas are also focussed on the activities based on the previous strategy, the Core Portfolio segment contains the assets and activities of the subsidiaries and sub-subsidiaries that are focussed on German commercial real estate. In line with the implementation of our new business strategy and our progress during our expansion phase, we reorganised these activities and further developed the necessary management structures. The Investments segment is responsible for the management and disposal of the portfolio mainly in Eastern Europe and the Black Sea region. The management of the Core Portfolio is the responsibility of the in-house asset-property-facility management area. This area ensures that property holdings achieve their optimum returns. The Corporate Functions area assumes the administrative and general duties in the Group such as risk management, finance and controlling, financing, legal, IT and compliance.

The main external influences on DEMIRE's business are potential changes in the macroeconomic and sector-related environment in Germany. The sector is primarily impacted by the development of rents, micro locations of our commercial real estate, changes in the legal and regulatory framework as well as the developments on the money and capital markets. These developments include the trend in interest rates and the general availability of financing. In this respect, the German real estate market has shown long-term stability and currently the market's conditions are favourable. The markets in Eastern Europe and the Black Sea region, where our remaining legacy investments are located, continue to be difficult. The developments of external influencing factors in the reporting year are described in the chapter "Macroeconomic and industry environment".

## 2. Objectives and strategies

After building a value-creating portfolio of German commercial real estate in 2014 that corresponds to the Company's realignment, the DEMIRE Group is now focused on becoming one of the leading holders of German commercial properties. To achieve this, we rely on an investment strategy with a balanced risk-reward profile. The target portfolio should have a clear focus on the office segment and on logistics and retail properties with multiple uses. A volume of approximately EUR 10 million to EUR 50 million is being sought for each investment, giving the investments a very marketable size.

We are concentrating on top locations in mid-sized cities and on emerging areas bordering German metropolitan areas. To minimise risk, we focus on properties that generate positive cash flows from the start, those that are used by several medium-sized tenants with good credit standing and properties which can be used for multiple uses.

The combination of our value-added investment strategy and the core-plus approach offers attractive opportunities. The value-added strategy is aimed at investing in undervalued sites or properties. These properties are to be repositioned based on the corresponding growth in rental income and, if necessary, through renovation and revitalisation. Over and above the generation of successively increasing cash flows, we also strive to create long-term value appreciation. This can be achieved through sales – provided they are considered to be strategically or operatively necessary. To create a leverage effect, a somewhat higher share of debt is taken into consideration than in the case of core-plus investments. A key prerequisite for the investment decision is that these assets must already generate positive cash flow.

With the core-plus approach, the focus is on selecting properties with a good to very good tenant structure so that positive cash flows can be generated from the start. The corresponding leverage in this area is lower than in the value-added area. The aim is to achieve an increase in rental income by renewing lease contracts thus generating added value. The holding period of the properties is usually long term for both approaches.

The Group's medium-term targets based on this strategy are to have a core portfolio of EUR 1 billion that generates an annual rental income of EUR 75 million, a performance of 6 %, as well as an equity ratio of 40 %, which implies a higher portion of equity for future investments.

By achieving these operational objectives, our aim is to allow our shareholders to participate in our business success through an attractive dividend policy.

### 3. Control system

The DEMIRE Group's objectives are first and foremost the acquisition and asset management of commercial real estate and the establishment of a substantial portfolio of commercial properties in Germany with a balanced risk-reward profile, effective asset management to generate optimum yields from the existing properties and, if necessary, the individual sale of real estate. Cash flow is the key performance indicator during our phase of expansion. The properties we acquire should generate positive cash flow from the very start. The portfolio should also generate high and steady cash flow over the medium term and our investment strategy has been defined along these lines.

At the operational level, we continuously monitor the development of the occupancy rate, the actual net rent per m<sup>2</sup> (excluding utilities), the ongoing maintenance and operating costs, losses of rent and advertising costs, that is, the cash flow development and hence the actual development in value. The properties and the responsible employees or service providers are managed under defined property budgets and cash flow forecasts, which are continuously monitored and adapted when necessary. Integrated cash flow planning links the business units and the individual objects to one another. Net asset value ("NAV") according to the EPRA (European Public Real Estate Association) calculation method is the key indicator for measuring added value. A further key performance indicator is the return on equity. We continuously monitor the vacancy rate, in particular, in addition to the financial performance indicators previously described. Please refer to the comments in the notes to the consolidated financial statements under "Investment properties".

### 4. Research and development

DEMIRE does not conduct any proprietary research or development activities.

## II. ECONOMIC REPORT

### 1. Macroeconomic and industry environment

#### 1.1. Macroeconomic environment

The global economy recovered in 2014. According to an analysis published by the Institut für Weltwirtschaft (IfW) in Kiel, after developing moderately in the first half of 2014, global gross domestic product (GDP) climbed significantly in the third quarter. GDP increased 3.4 % in 2014 and was above the growth in the previous year. Regional development varied widely. The sharp decline in oil prices that began in the third quarter of 2014 provided a strong boost to the economy. The European economy not only benefited from low energy prices, but also from the European Central Bank's (ECB) announcement that it would buy up government bonds. Ultimately, it was the low interest rates that drove the rise in GDP.

This favourable environment also made its mark on the German economy. According to the IfW, Germany's economic performance rose by 1.6 % in 2014 compared to the prior year. After a strong first quarter performance, investment activity declined in the summer half-year period. The subsequent, strong upturn was driven by the domestic economy and private consumption in particular. This was supported by the steep decline in crude oil prices, which increased purchasing power and, in turn, German private consumption. The low level of unemployment also reflected the positive state of the German economy.

#### 1.2. Industry environment

##### 1.2.1. General development of commercial real estate markets

According to an analysis conducted by Jones Lang LaSalle, the global investment in commercial real estate rose approximately 20 % to USD 710 billion in 2014. The economic recovery in the USA and Great Britain contributed to this development. This rise was also supported by the low interest rates, which prompted investment in real estate as a tangible asset.

The German commercial real estate market also profited from the historically low interest rates with investors seeking alternative means of investment. In Germany, transaction volumes climbed roughly 30 % to EUR 39.8 billion. Analysts at Nord/LB detected stronger investment in what is known as an ABBA strategy which refers to properties in choice locations of second-tier cities or second-tier properties located in choice cities.

##### 1.2.2. Development in the market for office real estate

The largest class of commercial real estate continues to be office real estate. This asset class totalled about EUR 17.5 billion in 2014, or approximately 44 % of the total investment made in Germany. According to BNP Paribas Real Estate ("BNP Paribas"), the German market for office real estate is largely characterised by the eight large cities of Berlin, Dusseldorf, Essen, Frankfurt/Main, Hamburg, Cologne, Leipzig and Munich.

Contrary to expectations, the rental market for office space in Germany developed positively in 2014. Turnover volumes grew 3 %. As stated in an analysis published by BNP Paribas, office space turnover in the eight most important office space markets in Germany grew slightly to roughly 2.9 million m<sup>2</sup>. This positive development was strongly influenced by contracts signed for smaller spaces with areas of less than 5,000 m<sup>2</sup>.

Top rents continued the stable development they have seen over the past several years. According to BNP Paribas, the vacancy rate for the total supply of office space in Germany declined 4 % in 2014 to 6.89 million m<sup>2</sup>. Building activity for office space, however, declined by 18 %.

#### 1.2.3. Development in retail and logistics real estate markets

Rental of retail space increased by around 20 % in Germany in 2014 with top rents a solid 3 % higher than in the previous year.

Space turnover for logistics and warehousing areas grew 12 % compared to the previous year. According to BNP Paribas, the conclusion of large contracts for space of over 20,000 m<sup>2</sup> largely contributed to this rise.

#### 1.2.4. Effect of real estate market developments on DEMIRE

Overall, the conditions on the real estate markets proved favourable for the DEMIRE Group in the year 2014. During the current cycle, the Group is focused on the office property segment and can benefit from the positive development in second-tier locations in particular that is expected by the analysts of Nord/LB. Although the properties in the core portfolio occasionally include retail space, this segment plays a subordinate role.

## 2. Business performance

After establishing the foundation in 2013 for the DEMIRE Group's realignment, in the year 2014, the Group began with the development of a value-creating portfolio of German commercial real estate and has made solid progress. The proceeds from the successful placement of convertible bonds (EUR 11.3 million) in late 2013 – early 2014 were invested directly in German commercial real estate in line with the Group's new strategic realignment. In September 2014, we issued a corporate bond for refinancing with a volume of EUR 50 million. This bond was successfully placed with institutional investors as part of a private placement.

In May 2014, we acquired a portfolio containing several properties for the first time: a total of seven commercial properties with around 40,000 m<sup>2</sup> of rentable space in Bonn, Hamburg, Cologne, Leverkusen, Wismar and Wuppertal. We followed this acquisition with a purchase in August 2014 of part of an office building in Schwerin (Margaretenhof) with approximately 6,000 m<sup>2</sup> of office space. In September 2014, we then made the largest purchase in the Company's history by purchasing 107 properties with roughly 290,000 m<sup>2</sup> of rentable space. Finally, in December 2014, we acquired commercial properties in Berlin, Bremen and Stralsund with total usable space of 42,000 m<sup>2</sup>.

By the end of the reporting period the rentable space of the portfolio we had established amounted to more than 350,000 m<sup>2</sup> - most of which was office space. The property holdings are distributed throughout Germany and the majority are located in larger cities. The regional focus is on southern Germany in the states of Bavaria, Baden-Württemberg and North Rhine-Westphalia. By the end of 2014, annual net rents (excluding utilities) added up to around EUR 29.0 million, giving the DEMIRE Group an impressive commercial real estate portfolio with high cash flows.

We also significantly streamlined our legacy portfolio during the reporting period. We were able to dispose of our investment in Turkey with a capital gain and we sold three investments in the Ukraine. The Annual General Meeting in October 2014 resolved to change our fiscal year-end to December 31

as of the 2014 fiscal year, to cancel the existing authorised capital, to create new authorised capital and to extend our authority to repurchase our own shares. We refer to the chapter "Disclosures required by takeover regulation".

Personnel resources were also adjusted in light of the Company's development. Among others, as of December 1, 2014, Dipl.-Kfm. (FH) Markus Drews was appointed by the Supervisory Board as a member of the Company's Executive Board, especially for the acquisition and management of new real estate holdings.

By the end of the reporting period, the DEMIRE Group had already successfully completed a large portion of the realignment and plans to continue to grow in the 2015 fiscal year. Now the Company's medium-term objective is to become one of the leading commercial property holders in Germany.

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

#### 3.1. Results of operations

Selected information from the consolidated statement of income

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Profit/loss from the rental of real estate	2,290	460
Profit/loss from the sale of real estate companies	69	386
Profit/loss from asset management	0	38
Profit/loss from investments accounted for using the equity method	-1,014	-1,688
Other operating income and other effects	63,651	2,071
General and administrative expenses	-3,648	-4,656
Other operating expenses	-2,914	-2,164
<b>Earnings before interest and taxes (EBIT)</b>	<b>58,434</b>	<b>-5,553</b>
Financial result	-2,938	-182
Earnings before taxes	55,496	-5,735
<b>Net profit/loss for the period</b>	<b>45,707</b>	<b>-5,986</b>
Of which, attributable to parent company shareholders	43,302	-5,935
Basic earnings per share (EUR)	3.03	-0.43
Diluted earnings per share (EUR)	1.74	-0.43
NAV (EPRA)	4.26	0.56
Return on Equity	83.7 %	-77.7 %

The marked improvement in the results of operations of the DEMIRE Group is impressive evidence of its new strategic realignment and its dedicated holdings of German commercial properties.

During the abbreviated 2014 fiscal year, the Group's profit from the rental of real estate rose significantly from EUR 0.5 million to EUR 2.3 million. This rise resulted from the tremendous expansion in our commercial real estate portfolio in the reporting period from 15,000 m<sup>2</sup> of rentable space at the end of March 2014 to over 350,000 m<sup>2</sup>. There was a corresponding rise in rental income to EUR 3.7 million (previous year: EUR 0.7 million). However, as a result of the different time periods and the contribution from the real estate in Munich for a nine-month period and due to the real estate portfolios acquired in November, the figures compared to the 2013/2014 fiscal year ended March 31, 2014, are not fully comparable. Operating expenses to generate rental income increased from EUR 0.2 million to EUR 1.5 million and corresponded to the expansion of the portfolio.

The DEMIRE Group's profit from the sale of real estate companies amounted to EUR 0.1 million as of December 31, 2014, which was below the previous year's figure of EUR 0.4 million. Revenue from the sale of real estate companies amounted to EUR 4.8 million. The net assets from real estate companies sold totalled EUR -4.7 million. Included in this amount is the sale of three Ukrainian subsidiaries R-Quadrat Ukraine Gamma Ltd. (Cottage Villages project), MAGNAT Asset Management Ukraine Ltd. and Zetatrade Ltd. (Chmelnitzky project) from the legacy portfolio of the Investments segment invested in Eastern European countries.

During the abbreviated 2014 fiscal year and in line with its strategic focus, the DEMIRE Group did not generate any profits from either the sale of real estate or asset management carried out for third parties outside the Group.

Profit/loss from investments accounted for using the equity method, which essentially comprises the legacy portfolio up for sale, amounted to EUR -1.0 million as of December 31, 2014 (previous year: EUR -1.7 million). The decline in losses during the reporting year is largely due to the sale of investments in Turkey and to lower fair value adjustments of real estate inventory. The result consists of profits from investments accounted for using the equity method in the amount of EUR 0.2 million, losses from investments accounted for using the equity method in the amount of EUR -0.1 million and unrealised fair value adjustments in equity investments in the amount of EUR -1.1 million.

The DEMIRE Group's other operating income and other effects for the abbreviated 2014 fiscal year climbed significantly to EUR 63.7 million (previous year: EUR 2.1 million). The main reason for this rise was the profit from fair value adjustments of investment properties of EUR 63.6 million. This figure reflects, in particular, the increases in value of the newly acquired properties during the abbreviated fiscal year.

The DEMIRE Group's general and administrative expenses decreased by EUR 1.1 million to EUR 3.6 million as of December 31, 2014 (previous year: EUR 4.7 million), although acquisition-related expenses for the expansion of the real estate portfolio experienced an increase.

Other operating expenses in the DEMIRE Group increased considerably during the abbreviated 2014 fiscal year rising to EUR 2.9 million (previous year: EUR 2.2 million) as a result of the realignment and due to related special items such as legal and consulting fees.

Overall, earnings before interest and taxes (EBIT) amounted to EUR 58.4 million following a significant loss of EUR -5.6 million in the 2013/2014 reporting year. This substantial improvement is largely due to the fair value adjustments on the newly established commercial real estate portfolio.

Given the increasing financial expenses for the acquired real estate portfolios, the financial result amounted to EUR -2.9 million as of December 31, 2014 (previous year: EUR -0.2 million).

Net of taxes, we have a pleasing net profit for the period of EUR 45.7 million after reporting sharply negative results in previous years.

### 3.2. Segment reporting

Segment reporting contained in the consolidated financial statements is conducted in accordance with IFRS 8 “Operating Segments” based on the internal alignment of strategic business segments and regional aspects. The segment information presented corresponds to the information to be reported to the DEMIRE Executive Board in accordance with the management approach. Segment information is presented on a net amount basis, net of consolidation effects.

As part of the strategic realignment (a buy and hold strategy with active portfolio management), the Core Portfolio segment was added as of the 2013/2014 fiscal year ended March 31, 2014. Since this date, the Group has been divided into the segments of Investments, Asset Management, Core Portfolio and Central Functions.

The Investments segment contains information on the legacy portfolio and on the respective project holdings of the investments in Eastern Europe and the Black Sea region.

The Asset Management segment contained the asset management activities for third parties.

The Core Portfolio segment consists of the newly established and acquired domestic subsidiaries focussed on commercial real estate for the entrepreneurial Mittelstand in Germany. This segment includes investment properties and supports the development of domestic real estate projects. The focus is on the sustainable management of these respective properties, which are held in order to generate rental income and to increase their value.

The Central Functions segment mainly contains activities of DEMIRE Deutsche Mittelstand Real Estate AG in its function as the Group holding. These activities include, for example, risk management, finances and controlling, financing, legal, IT and compliance.



## INFORMATION FROM SEGMENT REPORTING

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
<b>Segment revenues</b>		
Investments	1,848	1,096
Asset Management	0	714
Core Portfolio	67,322	3,232
Central Functions	3,905	538
Total segments	73,075	5,580
<b>Segment expenses</b>		
Investments	-7,780	-4,874
Asset Management	-393	-1,374
Core Portfolio	-3,419	-531
Central Functions	-3,049	-4,354
Total segments	-14,641	-11,133
<b>EBIT by segment</b>		
Investments	-5,932	-3,778
Asset Management	-393	-660
Core Portfolio	63,903	2,701
Central Functions	856	-3,816
Total segments	58,434	-5,553
<b>Net profit/loss for the period</b>		
Investments	-6,282	-4,593
Asset Management	-389	-687
Core Portfolio	53,231	1,654
Central Functions	-853	-2,358
Total segments	45,707	-5,986
<b>Significant non-cash items</b>		
Investments	1,390	1,671
Asset Management	0	-31
Core Portfolio	73,397	25
Central Functions	-2,144	1,018
Total segments	72,643	2,683
<b>Impairment losses</b>		
Investments	693	3,027
Asset Management	0	274
Core Portfolio	0	0
Central Functions	0	0
Total segments	693	3,301

An analysis of the segments shows the increasing importance of the relatively new Core Portfolio segment, which was strengthened considerably in the abbreviated fiscal year to reflect the new strategic direction and which will continue to be expanded in the future. In contrast, the legacy assets up for sale included in the Investments segment continue to lose importance.

Segment revenues of DEMIRE Group increased significantly during the abbreviated 2014 fiscal year to a total of EUR 73.1 million (previous year: EUR 5.6 million). The marked increase resulted especially from the Core Portfolio with EUR 67.3 million compared to EUR 3.2 million in the previous year and is related to the further development and fair value adjustments of EUR 63.6 million recognised in profit and loss of the German commercial real estate portfolio during the reporting period.

Segment expenses increased from EUR 11.1 million in the 2013/2014 fiscal year to EUR 14.6 million during the abbreviated 2014 fiscal year. This was mainly due to increased expenses in the Core Portfolio segment of EUR 3.4 million in 2014 (previous year: EUR 0.5 million) due to business expansion. The increase reflects mainly consulting expenses in connection with the purchase of commercial real estate and the expansion of business operations. At EUR 7.8 million, there was also a significant deterioration in the Investments segment in comparison to the prior year (EUR 4.9 million) due to impairments of real estate inventory at investments accounted for using the equity method.

At EUR 58.4 million, EBIT by segments was positive overall due to the further expansion of the Core Portfolio after still being negative at EUR -5.6 million in the previous reporting period. In the Core Portfolio segment, fair value adjustments of EUR 63.6 million had a particularly positive impact on the EBIT. In the Investments segment, which includes the legacy portfolio up for sale, the loss at the EBIT level was much higher at EUR -5.9 million (previous year: EUR -3.8 million) due to impairment charges.

A similar positive development can be seen in the net profit for the period of the operating segments. In the Core Portfolio segment, net profit was burdened by a negative interest result of EUR 1.2 million and income taxes due to deferred taxes of EUR 9.5 million resulting from fair value adjustments. Net interest expense of EUR 0.3 million and income taxes of EUR 0.1 million had a negative impact on the Investments segment and resulted in a loss for the period. In the Central Functions segment, the interest result of EUR -1.6 million, which was partially offset by a tax benefit of EUR 0.2 million, was the main cause of a net loss for the period of EUR -0.7 million.

The significant non-cash items reflect the impairment losses on real estate inventory in the Investments segment and the fair value adjustments in the Core Portfolio segment. In the Central Functions segment, the measurement of the 2014/2019 corporate bond and the 2013/2014 convertible bond had the most impact.

The impairment loss in the fiscal year was significantly below the level of the 2013/2014 fiscal year and relates only to the Investments segment containing the legacy portfolio.

## AN OVERVIEW OF THE DEMIRE CORE PORTFOLIO

	m <sup>2</sup>	Project	Country (location of project)	DEMIRE's interest in %	Carrying amount 31/12/2014 EURk	Carrying amount 31/03/2014 EURk	Change in %
DEMIRE Real Estate München I GmbH	15,626	Munich Ohmstraße	Germany	100 %	16,200	13,500	20.0 %
Munich ASSET Vermögensverwaltung GmbH	12,445	Munich Hoferstraße	Germany	100 %	7,000	7,026	-0.4 %
Schwerin Margaretenhof 18 GmbH	7,803	Schwerin	Germany	100 %	9,710	0	n.a.
CAM Commercial Asset Management EINS GmbH	5,766	Leverkusen	Germany	100 %	11,340	0	n.a.
CAM Commercial Asset Management EINS GmbH	9,108	Cologne	Germany	100 %	13,000	0	n.a.
CAM Commercial Asset Management EINS GmbH	4,480	Cologne	Germany	100 %	8,200	0	n.a.
CAM Commercial Asset Management ZWEI GmbH	3,973	Hamburg	Germany	100 %	7,100	0	n.a.
CAM Commercial Asset Management DREI GmbH	7,650	Meckenheim	Germany	100 %	13,460	0	n.a.
CAM Commercial Asset Management VIER GmbH	5,054	Wismar	Germany	100 %	6,250	0	n.a.
CAM Commercial Asset Management VIER GmbH	1,913	Wuppertal	Germany	100 %	1,800	0	n.a.
GO LEONBERG ApS	6,934	Leonberg	Germany	94 %	8,700	0	n.a.
GO BREMEN ApS	26,918	Bremen	Germany	94 %	33,000	0	n.a.
GO LUDWIGSBURG ApS	7,868	Ludwigsburg	Germany	94 %	6,700	0	n.a.
ARMSTRIPE S.à.r.l.	47,541	Ulm	Germany	94 %	60,600	0	n.a.
BLUE RINGED S.à.r.l.	14,391	Darmstadt	Germany	94 %	19,090	0	n.a.
REUBESCENS S.à.r.l.	16,794	Kempten	Germany	94 %	14,620	0	n.a.
BRIARIUS S.à.r.l.	17,922	Several locations	Germany	94 %	13,000	0	n.a.
DENSTON Investments Ltd.	11,258	Bayreuth	Germany	94 %	13,000	0	n.a.
Condor Objektgesellschaft Eschborn GmbH	18,774	Eschborn	Germany	94 %	24,800	0	n.a.
Condor Objektgesellschaft Bad Kreuznach GmbH	7,767	Bad Kreuznach	Germany	94 %	4,600	0	n.a.
Condor Objektgesellschaft Düsseldorf GmbH	24,264	Düsseldorf	Germany	94 %	27,800	0	n.a.
Condor Objektgesellschaft Rendsburg GmbH	3,739	Rendsburg	Germany	94 %	1,905	0	n.a.
Condor Objektgesellschaft Bad Oeynhausen GmbH	3,052	Bad Oeynhausen	Germany	94 %	1,390	0	n.a.
Condor Objektgesellschaft Lichtenfels GmbH	4,652	Lichtenfels	Germany	94 %	1,825	0	n.a.
Condor Objektgesellschaft Yellow GmbH	71,686	Several locations	Germany	94 %	18,610	0	n.a.

In the current fiscal year, the average market rent of existing properties was at EUR 7.32/m<sup>2</sup> per month (previous year: EUR 8.40/m<sup>2</sup> per month) and was in a range of EUR 0.96 to EUR 11.20/m<sup>2</sup> per month (previous year: EUR 8.25 to EUR 8.50/m<sup>2</sup> per month). The average market rent was determined on the basis of rentable space available as of December 31, 2014. Maintenance costs in the current fiscal year were at 8.02 % of annual gross income (previous year: 3.0 %). The value-based vacancy rate relative to the target rent averaged 14.67 % in the current period with a range of 0.00 % to 82.32 % (previous year: 31.8 % to 49.3 %) dependent upon the type of rented space (office, warehouse etc.).

At the balance sheet date, a total area of 352,387 m<sup>2</sup> was rented, with 60,325 m<sup>2</sup> still vacant. Therefore, the average vacancy rate on the basis of rentable area amounts to 17.12 % (previous year: 38.99 %).

### **Legacy portfolio**

The legacy portfolio contains investments mainly in Eastern Europe and the Black Sea region. These investments will be completely dissolved in order to end DEMIRE's involvement in these regions in accordance with the Company's strategic realignment. The carrying amount of real estate inventory as of the reporting date was EUR 7,355k.

### **3.3. Financial position and liquidity**

#### **Financial management**

The financial management of the DEMIRE Group is executed in accordance with the guidelines adopted by the Executive Board. This applies to the control of funds and financing. The centralised liquidity analysis helps to optimise cash flows. The aim is to secure liquidity for the entire Group, while preserving our financial independence. In doing so, our focus is on long-term and stable financing to positively and sustainably support our business and allow ourselves an essential degree of freedom when making strategic decisions. We complied with all financing obligations, including credit clauses (financial covenants), in the abbreviated fiscal year and as of the balance sheet date. Financial covenants are customary and determine the compliance with financial key ratios, such as the equity ratio, the interest service coverage ratio (ISCR) and the debt service coverage ratio (DSCR). Providing the Supervisory Board with regular information on the financial situation is an integral part of DEMIRE's risk management system. The principles and objectives of capital management and control are presented in the notes to the consolidated financial statements.

## Selected information from the consolidated statement of cash flows

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Cash flow from operating activities	-3,986	-1,900
Cash flow from investing activities	-255,206	-18,715
Cash flow from financing activities	259,634	22,239
<b>Net change in cash and cash equivalents</b>	<b>442</b>	<b>1,624</b>
Cash and cash equivalents at the end of the period	4,397	3,955

Cash flow development reflects the investments made to expand the real estate holdings. The Group's complete cash flow statement is presented in the Group's notes for the abbreviated 2014 fiscal year.

Cash flow from operating activities was down by EUR 2.1 million compared with 2013/2014 fiscal year (EUR -1.9 million). Starting from a Group profit before taxes of EUR 55.5 million, cash flow was adjusted for valuation gains of EUR 63.6 million (fiscal year 2013/2014: EUR 2.9 million) under IAS 40 as a result of the expansion of the real estate portfolio and for an increase in the working capital and a change in trade accounts receivables and other receivables of EUR 7.6 million (previous year: EUR 1.6 million).

Cash flow from investing activities totalled EUR -255.2 million after EUR -18.7 million in the previous fiscal year and included payments of EUR -248.6 million for the purchase of investment properties. Proceeds from the disposal of investments accounted for using the equity method and other investments amounted to EUR 3.7 million from the sale of the investment in Turkey.

Cash flow from financing activities in the 2014 reporting year increased from EUR 22.2 million in the previous year to EUR 259.6 million. This result was also strongly affected from the financing of our growth. Proceeds from the assumption of financial debt totalled EUR 261.7 million.

The net change in cash and cash equivalents was EUR 0.4 million (previous year: EUR 1.6 million). Cash and cash equivalents at the end of the reporting period grew to EUR 4.4 million from EUR 4.0 million at the end of the previous fiscal year.

Throughout the entire reporting year, the DEMIRE Group was always in a position to fully meet its payment obligations. Possible liquidity shortages, for example, due to maturing loans were avoided through the appropriate financial management and lender agreements as presented in the risk report.

## 3.4. Net assets and capital structure

## Selected information from the consolidated balance sheet

<b>ASSETS</b> <b>EURk</b>	31/12/2014	31/03/2014
<b>Non-current assets</b>		
<b>Langfristige Vermögenswerte</b>		
Intangible assets	0	1
Property, plant and equipment	11,330	210
Investment properties	333,070	20,526
Investments accounted for using the equity method	2,613	4,694
Other financial assets	14	695
Loans to investments accounted for using the equity method	2,857	2,490
Other loans	322	351
Deferred tax assets	720	928
<b>Total non-current assets</b>	<b>350,926</b>	<b>29,895</b>
<b>Current assets</b>		
Real estate inventory	7,355	7,784
Trade accounts receivables and other receivables	9,287	1,744
Financial receivables and other financial assets	921	1,149
Tax refund claims	126	71
Cash and cash equivalents	4,397	3,955
<b>Total current assets</b>	<b>22,086</b>	<b>14,702</b>
<b>Investments accounted for using the equity method, available for sale</b>	<b>0</b>	<b>3,803</b>
<b>Total assets</b>	<b>373,012</b>	<b>48,400</b>

The total assets of the DEMIRE Group as at December 31, 2014, grew more than six fold to EUR 373.0 million (March 31, 2014: EUR 48.4 million). This significant rise was mainly the result of the acquisition-related growth of the real estate group in combination with the corresponding financing.

As of December 31, 2014, non-current assets grew by EUR 321.0 million to a total of EUR 350.9 million (March 31, 2014: EUR 29.9 million). Property, plant and equipment of EUR 11.3 million mainly consisted of advance payments for the purchase of a property in Leverkusen. Investment properties grew by EUR 312.5 million to EUR 333.1 million (March 31, 2014: EUR 20.5 million), of which EUR 63.6 million resulted from a fair value adjustment.

Investments accounted for using the equity method declined EUR 2.1 million to EUR 2.6 million (March 31, 2014: EUR 4.7 million) due to the measurement of the planned sale of holdings in the legacy portfolio.

At EUR 14k, other financial assets remained at prior years' level after a rise in the 2013/2014 fiscal year as a result of high VAT receivables (March 31, 2014: EUR 0.7 million).

Loans to investments accounted for using the equity method increased 15 % to EUR 2.9 million (previous year: EUR 2.5 million). At EUR 0.3 million, other loans remained at the previous year's level (March 31, 2014: EUR 0.4 million). Deferred tax assets declined 47 % to EUR 0.5 million (March 31, 2014: EUR 0.9 million).

As of December 31, 2014, the DEMIRE Group's current assets grew by EUR 7.4 million to EUR 22.1 million (March 31, 2014: EUR 14.7 million).

Real estate inventory declined slightly to EUR 7.4 million (March 31, 2014: EUR 7.8 million). This decline resulted among others from the fair value adjustment of EUR 0.3 million made mainly to properties located in the Ukraine and Germany, as well as currency translation effects.

Trade accounts receivable and other receivables climbed EUR 7.6 million to EUR 9.3 million (previous year: EUR 1.7 million) which can be attributed to the expansion of business operations. All receivables were due in less than three months.

Financial receivables and other financial assets were down by EUR 0.2 million compared to the prior reporting period and amounted to EUR 0.9 million.

Cash and cash equivalent rose 10.8 % to EUR 4.4 million (March 31, 2014: EUR 4.0 million). This item consists of cash on hand and credit balances at financial institutions.

In the abbreviated 2014 fiscal year, the disposal of the interests in Hekuba S.à.r.l. for EUR 3.7 million (carrying amount: EUR 3.5 million) and R-QUADRAT Ukraine Gamma Ltd. for EUR 0.3 million reduced the carrying amount of assets held for sale as of March 31, 2014 in the DEMIRE Group.

<b>EQUITY AND LIABILITIES</b> <b>EURk</b>	31/12/2014	31/03/2014
<b>Shareholders' equity and liabilities</b>		
Subscribed capital	14,306	13,895
Reserves	37,378	-6,061
<b>Equity attributable to parent company shareholders</b>	<b>51,684</b>	<b>7,834</b>
Interest of non-controlling shareholders	2,945	-132
<b>Total shareholders' equity</b>	<b>54,629</b>	<b>7,702</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Deferred tax liabilities	10,032	1,211
Non-current financial debt	248,092	24,646
<b>Total non-current liabilities</b>	<b>258,124</b>	<b>25,857</b>
<b>Current liabilities</b>		
Provisions	852	787
Trade payables and other liabilities	11,519	4,257
Tax liabilities	315	19
Current financial debt	47,573	9,779
<b>Total current liabilities</b>	<b>60,259</b>	<b>14,841</b>
<b>Total liabilities</b>	<b>316,383</b>	<b>40,698</b>
<b>Total equity and liabilities</b>	<b>373,012</b>	<b>48,400</b>

The DEMIRE Group's equity increased from EUR 7.7 million at the end of March 2014, to EUR 54.6 million as of December 31, 2014. Subscribed capital, or share capital, increased by EUR 0.4 million, or 3 % to EUR 14.3 million (previous year: EUR 13.9 million) as a result of the exercise of 411,500 convertible rights against the issue of new shares from conditional capital. Despite the rise in net profit for the period, the equity ratio of 14.6 % was below the level of 15.9 % on March 31, 2014 due to the strong increase in total assets.

As of December 31, 2014, DEMIRE Group's non-current liabilities increased to EUR 258.1 million (previous year: EUR 25.9 million) as a result of the development of a property held. The vast majority of non-current liabilities is comprised of non-current financial debt of EUR 248.1 million (previous year: EUR 24.6 million) and includes the corporate bond of EUR 50 million and a promissory note loan totalling EUR 148 million.

As of December 31, 2014, the DEMIRE Group's current liabilities grew from EUR 14.8 million as of March 31, 2014, to EUR 60.3 million.



The vast majority of current liabilities are comprised of DEMIRE Group's current financial debt, which grew to EUR 47.6 million (March 31, 2014: EUR 9.8 million). This sum included liabilities to financial institutions of EUR 5.4 million (March 31, 2014: EUR 3.3 million).

As of December 2014, trade payables and other liabilities rose in line with the expansion in business activities to EUR 11.5 million (March 31, 2014: EUR 4.3 million). Of this amount, EUR 5.3 million was recorded in trade payables (March 31, 2014: EUR 2.9 million) and EUR 6.2 million (March 31, 2014: EUR 1.4 million) was recorded under other liabilities.

The DEMIRE Group's total liabilities as of the December 31, 2014 reporting date amounted to EUR 318.4 million and were significantly higher than their level of EUR 40.7 million on March 31, 2014 as a result of the portfolio's expansion.

#### **4. Employees**

As of December 31, 2014, the Group employed 8 staff members excluding the members of the Executive Board (March 31, 2014: 4).

#### **5. Comparison of prior period's forecasts with actual business development**

We fully achieved our forecasts and objectives for the abbreviated 2014 fiscal year and in some cases even managed to exceed them. The objective envisaged last year to achieve a portfolio volume of EUR 100 million in the next 12 months was exceeded by more than 200 %. We also exceeded by far the planned appreciation in value through a solid acquisition strategy and active portfolio management.

The central and overriding objective was to secure liquidity. This objective was successfully achieved. The Company received EUR 50 million during the abbreviated 2014 fiscal year through the issue of a corporate bond year that was increased by a further EUR 50 million in March 2015 and which – together with additional debt financing provided from banks – covered a substantial portion of the purchase prices of our acquisitions carried out in the reporting period. It is also important to us to achieve continuous rental income from the real estate portfolio, which is now ensured through the acquisition of the two property portfolios. The consistent reduction in operating expenses also made a visible contribution.

After the successful placement of a convertible bond in the prior fiscal year, we placed a corporate bond in the amount of EUR 50 million – increased to EUR 100 million in March 2015 – to secure our liquidity and aid in the expansion of our portfolio. The issue volume and further substantial debt financing made it possible to execute the largest transaction in the Company's history – the purchase of 107 properties.

With the growth of commercial real estate holdings, rental income is becoming the DEMIRE Group's largest source of income.

After still reporting a net loss for the period of EUR -6.0 million in the previous year due to expenses for our realignment, we realised a significant increase in profits during the abbreviated 2014 fiscal year achieving a net profit for the period of EUR 45.7 million. This jump in earnings was mainly due to fair value adjustments in the portfolio of investment properties acquired during the abbreviated fiscal year. This result exceeded our forecasts and this was announced in an ad-hoc announcement in early March 2015.

By selling our interest in a Luxembourg investment company, we were able to dispose of our investment in Turkey and streamline our legacy portfolio. We also disposed of companies located in the Ukraine. These disposals resulted in a marked improvement in the Group's risk position. Still, we are not willing to conduct fire sales to dispose of the remaining investments held in our legacy portfolio.

## **6. General statement concerning the Group's business performance and financial position**

After the beginning of the Group's repositioning in the German commercial real estate market in the spring of 2013, we were successful in building an attractive portfolio in the 2013/2014 fiscal year. During the abbreviated 2014 fiscal year, we significantly increased our holdings, laying the groundwork for favourable business performance in the reporting period while at the same time ensuring that we always maintained sufficient liquidity. The annual rental income from these new holdings and 2015 acquisitions of approximately EUR 33 million will contribute significantly to our Group results in the future. In the current fiscal year, we want to consistently expand our holdings and tap further into the potential offered by our strategic realignment as one of the larger portfolio holders of commercial properties in Germany.

## **III. CHANGES IN THE COMPOSITION OF THE GOVERNING BODIES**

With effect from December 1, 2014, the Supervisory Board appointed Dipl.-Kfm. (FH) Markus Drews to the Executive Board. As the second member of the Executive Board next to Hon.-Prof. Andreas Steyer, Mr. Markus Drews is responsible for the areas of Organisation, Administration and Asset Management and, together with Hon.-Prof. Steyer, for transactions.

Dr. Dirk Hoffmann resigned from his position as member of the Supervisory Board with effect from December 31, 2014. Dr. Peter Maser was appointed to the Supervisory Board by a resolution of the District Court of Frankfurt/Main on January 12, 2015. The Extraordinary General Meeting on March 6, 2015, resolved the appointment to the Supervisory of Dr. Peter Maser, an attorney at Deloitte Legal Rechtsanwaltsgesellschaft mbH, Stuttgart, until the Annual General Meeting that discharges the members of the Supervisory Board for the fiscal year ended December 31, 2015.

## **IV. REMUNERATION REPORT**

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

### **1. Remuneration of the Executive Board**

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

## Existing employment contracts

### (1) Hon.-Prof. Andreas Steyer

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

Hon. Prof. Andreas Steyer is entitled to the customary contractual benefits in kind and fringe benefits. These include the provision of a company vehicle, the reimbursement of expenses and travel costs, the conclusion of a directors' and officers' liability insurance policy (D&O insurance), continued payments in the case of illness or an accident and death benefits.

Hon. Prof. Andreas Steyer receives a variable, ~performance-based remuneration, which consists of an annual bonus and a multi-year bonus with long-term incentives. Annual bonus and multi-year bonus are determined based on the achievement of objectives which are set by the Supervisory Board in agreement with the Executive Board member. The Supervisory Board takes the Group's position at the beginning of each fiscal year into consideration when setting the objectives to be achieved for receiving the annual bonus.

Hon.-Prof. Andreas Steyer has a time-based pro rata entitlement to a multi-year bonus if the performance period for the determination of the multi-year bonus has persisted for twenty-four months.

If the employment contract of Hon.-Prof. Andreas Steyer is ended prematurely due to a change in control, the Executive Board member is entitled to the fixed salary and variable remuneration for the remaining term of his appointment, each based on the amount of his remuneration in the last full calendar year preceding his departure. The maximum amount of this remuneration is two years' remuneration.

### (2) Mr. Markus Drews

The Supervisory Board appointed Mr. Markus Drews as an ordinary member of the Company's Executive Board in accordance with the resolution of December 1, 2014. His employment took effect as of January 1, 2015.

The fixed remuneration component plus a temporary administration fee to cover the increased expenses for the establishment and maintenance of an additional residence near the Company's headquarters will be paid monthly as a basic salary. The Executive Board member has a fixed-term employment contract.

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

Mr. Markus Drews receives variable, performance-based remuneration, which consists of an annual bonus. Two-thirds of the annual bonus is based on the achievement of objectives that are set by the Supervisory Board in agreement with the Executive Board member. One third of the annual bonus is set at the discretion of the Supervisory Board and based on a proper account of all relevant circumstances.

If the employment contract of Mr. Markus Drews is ended prematurely due to a change in control, the Executive Board member is entitled to a severance payment to the amount of his capitalised base salary for the subsequent six-month period.

The variable and fixed components of the remuneration of Executive Board members have maximum limits in terms of absolute value. A higher compensation than the amount of remuneration expected for the remaining term of the employment contract will not be granted.

The amount of variable remuneration depends two-thirds on reaching certain performance targets to be determined between the Executive Board and the Company, acting through the Supervisory Board, and one-third on the a proper assessment of all relevant circumstances determined at the discretion of the Supervisory Board.

#### Amount of benefits granted in the reporting year (in EUR)

BENEFITS GRANTED EUR	Hon.-Prof Andreas Steyer Chief Executive Officer, since March 5, 2013			
	FY 2013/2014	Abbr. FY 2014	Abbr. FY 2014 (Min)	Abbr. FY 2014 (Max)
Fixed remuneration	200,000.00	161,250.03	161,250.03	161,250.03
Fringe benefits	21,408.42	14,095.17	14,095.17	14,095.17
<b>Total</b>	<b>221,408.42</b>	<b>175,345.20</b>	<b>175,345.20</b>	<b>175,345.20</b>
Annual bonus	33,333.00	0.00	0.00	26,875.00
Multi-year bonus	0.00	0.00	0.00	53,750.00
<b>Total</b>	<b>254,741.42</b>	<b>175,345.20</b>	<b>175,345.20</b>	<b>255,970.20</b>
Pension costs	3,547.05	2,752.83	2,752.83	2,752.83
<b>Total remuneration</b>	<b>258,288.47</b>	<b>178,098.03</b>	<b>178,098.03</b>	<b>258,723.03</b>

<b>BENEFITS GRANTED</b> EUR	Markus Drews Member of the Executive Board, since December 1, 2014			
	FY 2013/2014	Abbr. FY 2014	Abbr. FY 2014 (Min)	Abbr. FY 2014 (Max)
Fixed remuneration	–	18,000.00	18,000.00	18,000.00
Fringe benefits	–	0.00	0.00	0.00
<b>Total</b>	–	<b>18,000.00</b>	<b>18,000.00</b>	<b>18,000.00</b>
Annual bonus	–	0.00	0.00	0.00
Multi-year bonus	–	0.00	0.00	0.00
<b>Total</b>	–	<b>18,000.00</b>	<b>18,000.00</b>	<b>18,000.00</b>
Pension costs	–	0.00	0.00	0.00
<b>Total remuneration</b>	–	<b>18,000.00</b>	<b>18,000.00</b>	<b>18,000.00</b>

#### Payments during the reporting year (in EUR)

<b>PAYMENTS</b> EUR	Hon.-Prof Andreas Steyer Chief Executive Officer, since March 5, 2013		Markus Drews Member of the Executive Board, since December 1, 2014	
	Abbr. FY 2014	FY 2013/2014	Abbr. FY 2014	FY 2013/2014
Fixed remuneration	161,250.03	200,000.00	18,000.00	–
Fringe benefits	14,095.17	21,408.42	0.00	–
<b>Total</b>	<b>175,345.20</b>	<b>221,408.42</b>	<b>18,000.00</b>	–
Annual bonus	0.00	0.00	0.00	–
Multi-year bonus	0.00	0.00	0.00	–
<b>Total</b>	<b>175,345.20</b>	<b>221,408.42</b>	<b>0.00</b>	–
Pension costs	2,752.83	3,547.05	0.00	–
<b>Total remuneration</b>	<b>178,098.03</b>	<b>224,955.47</b>	<b>18,000.00</b>	–

## 2. Remuneration of the Supervisory Board

The amount of remuneration received by the Supervisory Board is determined by the Annual General Meeting and is regulated in Section 16 ("Remuneration") of the Articles of Association. The most recent resolution on remuneration remains valid until the Annual General Meeting resolves a change in remuneration. Each member of the Supervisory Board receives fixed remuneration which is payable annually. The Chairman of the Supervisory Board receives three times the amount of base salary and the Deputy Chairman receives twice the amount of base salary. Supervisory Board members who were not members of the Supervisory Board for the entire fiscal year receive remuneration in accordance with the duration of their membership in the Supervisory Board.

In addition, the Company reimburses the Supervisory Board members any expenses incurred in exercising their Supervisory Board mandate, including the VAT payable on their remuneration and expenses as long as this was billed separately.

We would like to refer to the corresponding explanations to be found in the notes to the consolidated financial statements.

## V. EVENTS SUBSEQUENT TO THE END OF THE FISCAL YEAR

The following significant events occurred subsequent to the end of the fiscal year:

On December 23, 2014, DEMIRE's Executive Board and Supervisory Board resolved to increase the Company's share capital from authorised capital by EUR 5,633,710 from EUR 14,306,151 to EUR 19,939,861 against contribution in kind under the exclusion of the subscription rights of shareholders. Alpine Real Estate GmbH has been admitted to subscribe to the new shares and in return provided DEMIRE with a contribution in kind consisting of 94.9 % of Alpine's interest in both Hanse-Center Objektgesellschaft mbH and Glockenhofcenter Objektgesellschaft mbH and a receivable against Hanse-Center Objektgesellschaft mbH. The increase in share capital was entered into the commercial register on January 22, 2015. Both of the project companies possess a commercial real estate portfolio comprising a total of nearly 42,000 m<sup>2</sup> in Bremen, Berlin and Stralsund, among others. In the context of the capital increase, each new DEMIRE share was assigned a value of EUR 1.75.

With the consent of the Supervisory Board, the Executive Board is authorised by resolution of the Extraordinary General Meeting of March 6, 2015, to increase the Company's share capital until March 5, 2020 by issuing up to 8,552,290 new bearer shares in the form of no-par value shares with a notional par value of EUR 1.00 each against contribution in cash and/or in kind once or several times in partial amounts by up to EUR 8,552,290.00 (Authorised Capital I/2015).

Based on the resolution of the Extraordinary General Meeting of March 6, 2015, the Company's share capital is also conditionally increased by up to EUR 2,434,105.00 divided in up to 2,434,105 no-par value bearer shares (Conditional Capital 2015/I). The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds.

The Extraordinary General Meeting on March 6, 2015, resolved a stock option programme for which conditional capital was created in the amount of EUR 1,000,000. With the consent of the Supervisory Board, the Executive Board is authorised until December 31, 2015, ("Issue Period") as detailed in the following provisions under the 2015 stock option plan to issue up to 1,000,000 stock options with subscription rights for shares of DEMIRE Deutsche Mittelstand Real Estate AG with a vesting period of four years and an exercise period of another five years ("the exercise period") provided that each stock option entitles its holder to subscribe for one share of the Company. A maximum of up to 800,000 stock options (80 %) can be issued to members of DEMIRE's Executive Board and a total of up to 200,000 stock options (20 %) can be issued to selected employees of the Company or directors or employees of Group companies. This option was fully utilised for the Executive Board members and partially utilised for the employees.

On March 24, 2015, with the consent of the Supervisory Board, DEMIRE's Executive Board resolved to increase its 2014/2019 corporate bond issued in September 2014 by an additional EUR 50 million to a total

of EUR 100 million by way of a private placement. On March 26, 2015, the issue price for the new tranche in the Open Market of the Frankfurt Stock Exchange was at 100 %. The bond has a coupon of 7.50 % per annum to be paid in semi-annual interest instalments. DEMIRE intends to use the net proceeds from the bond increase to finance additional portfolio acquisitions and to strengthen its financial position.

On April 2, 2015, with the approval of the Supervisory Board, DEMIRE's Executive Board resolved to increase the Company's share capital from authorised capital approved by DEMIRE's Annual General Meeting on March 6, 2015 once by EUR 2,182,567.00 from EUR 20,017,811.00 to EUR 22,200,378.00 against contribution in kind under the exclusion of the subscription rights of shareholders. The Authorised Capital I/2015 resolved by DEMIRE's Extraordinary General Meeting on March 6, 2015, was entered into the commercial register on April 6, 2015. Ketom AG, Switzerland, was admitted to subscribe to the new shares in return for providing a contribution in kind consisting of a 94 % interest in the project company Sihlegg Investments Holding GmbH, Switzerland, as well as all claims from a shareholder loan granted to the project company by Ketom AG. The determination of the amount of the capital increase and the number of new DEMIRE shares to be issued was based on a value of EUR 4.028 per DEMIRE AG share. The project company owns the office and retail property Gutenberg-Galerie in Leipzig with a rentable space of approximately 20,750 m<sup>2</sup>. The increase of the share capital from EUR 20,017,811.00 by EUR 2,182,567.00 to EUR 22,200,378.00 took place on May 27, 2015 with the entry of the capital increase into the commercial register.

On March 18, 2015, Erste MAGNAT Immobiliengesellschaft mbH in Frankfurt/Main sold the Parchim property that contained a residential and office building, plot 24, the land parcel 88/15 with an area of 2,464 m<sup>2</sup> and buildings and open space for a price of EUR 650k.

On May 13, 2015, the Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved to issue a mandatory convertible bond with a volume of EUR 15 million against contribution in kind and by excluding shareholders' subscription rights. As part of the transaction, an investor in the 2014/2019 corporate bond will subscribe to new mandatory convertible bond to be issued with a term of three years (bullet bond maturing 2018) by contributing fractional bonds from the 2014/2019 corporate bond. The bonds carry an interest coupon of 2.75 % per annum starting from the date of issue and may be converted into shares at an initial conversion price of EUR 5.00 per share, subject to adjustments, as of September 1, 2015. The mandatory convertible bond carries a conversion obligation of the respective creditor at the maturity of the bond.

With the approval of the Supervisory Board on May 19, 2015, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved on May 13, 2015, to increase the Company's share capital from authorised capital once by EUR 2,541,149.00 against a mixed contribution in kind with the exclusion of shareholders' subscription rights. M1 Beteiligungs GmbH, Berlin, has been admitted to subscribe to the new shares in return for contributing a 94 % interest in Logistikpark Leipzig GmbH. Logistics Park Leipzig GmbH is the sole owner of a logistics property in Leipzig (Logistics Park Leipzig). The determination of the amount of the capital increase and the number of new DEMIRE shares to be issued was based on a value of EUR 5.84 per DEMIRE share. In addition to the shares, M1 Beteiligungs GmbH is to receive a cash payment of approximately EUR 19 million. The contribution, purchase and assignment agreement governing the contribution in kind is subject, among others, to the approval of the bank financing Logistikpark Leipzig GmbH. Following the execution of this capital increase and taking into account the capital increase against contribution in kind to purchase Gutenberg-Galerie, which was



resolved by the Executive Board on April 2, 2015, M1 Beteiligungs GmbH will hold an interest of around 10.25 % in DEMIRE's share capital. Mr Günther Walcher, who is also a member of DEMIRE's Supervisory Board, holds an indirect interest of 100 % in M1 Beteiligungs GmbH. The conclusion of the contribution, purchase and assignment agreement was preceded by a structured bidding process in which DEMIRE prevailed. The former logistics complex of Quelle (constructed in 1994) has total rentable space of around 184,000 m<sup>2</sup> and is located on property of roughly 330,000 m<sup>2</sup> situated approximately 10 km north of Leipzig's city centre. The property consists of around 164,000 m<sup>2</sup> of warehouse space, almost 20,000 m<sup>2</sup> of office space, at least 35,000 m<sup>2</sup> of surrounding area as well as two areas for expansion totalling about 38,000 m<sup>2</sup> that already have building permits. The logistics complex has a current occupancy rate of roughly 60 % and annual net rental income excluding utilities of approximately EUR 3.60 million. Based on its excellent location near the trade fair centre and the BMW plant and due to the high demand for logistics properties in Leipzig, the complex offers substantial potential.

On May 27, 2015, DEMIRE Deutsche Mittelstand Real Estate AG announced its acquisition of a 51 % interest in the asset management company Panacea Property GmbH and a 51 % interest in the facility management company Praedia Haus & Gartenservice GmbH. The real estate group also increased its stake in the property management platform DEMIRE Immobilien Management GmbH from 51 % to 100 %. The parties agreed not to disclose the purchase prices. With the purchase of these interests, DEMIRE has completed its expansion for the internal representation of all core competencies. These three new companies allow the real estate group to represent the entire value chain of property management internally and further optimise the administration of its commercial real estate portfolio in Germany.

In the period of early January 2015 to end-May 2015, a total of 163,125 convertible bonds were converted into no-par value shares of DEMIRE Deutsche Mittelstand Real Estate AG with a notional share of approximately 0.7 % in the share capital as of May 31, 2015.

## **VI. REPORT ON OPPORTUNITIES, RISKS AND OUTLOOK**

### **1. Opportunities report**

The macroeconomic and industry environment is currently favourable for DEMIRE and offers great opportunities for developing a value-creating property portfolio: Germany is exhibiting robust and sound economic development. As a result, the demand for commercial space in the areas we address remains stable. At the same time, the financing opportunities available for property acquisitions continue to be favourable and we expect it to remain so in the foreseeable future. Finally, there are still attractive entry-level prices allowing for substantial value appreciation due to our careful and professional selection of properties.

We want to continue to utilise this favourable environment to position the DEMIRE Group in Germany. We see significant opportunities therein to quickly propel the Group into a new dimension through portfolio acquisitions and to increase value with these real estate holdings via active and consistent asset and portfolio management.

We believe that we have achieved the foundation necessary to make DEMIRE a highly-focused and profitable holder of German commercial real estate possessing an attractive risk-reward profile and well-balanced cash flows during the next few years. This is how we aim to continue to strengthen DEMIRE's equity base. In the medium term, this will provide our shareholders not only the prospect



of appreciation in the share price, but also an owner of a company which distributes dividends regularly.

## 2. Risk report

The DEMIRE Group was able to greatly improve its risk profile in the reporting period by acquiring additional commercial properties in Germany in the course of the realignment. Nevertheless, we still encounter residual risk from our remaining portfolio in Eastern Europe and the Black Sea region. In these regions, disposals at suitable conditions are hindered, in particular, by the bleak economic situation, political unrest in the Ukraine and the continued reluctance of foreign investors. Until the complete sale of the real estate projects in Eastern Europe and the Black Sea region, the risks associated with these projects will continue to exist.

However, the focus on the German commercial real estate market is gradually gaining ground. For example, at the time of preparing this report, we announced our intention to purchase in Leipzig an office and retail property with a total area of approximately 21,000 m<sup>2</sup> and a logistics park with a total area of around 184,000 m<sup>2</sup>, each by way of a capital increase in kind against the issue of new shares. The Company's Supervisory Board approved the transaction, which is expected to be completed in the second quarter of 2015. Our strategy to continue expanding in the German commercial real estate market contributes significantly to limiting the risk to the DEMIRE Group's ongoing development. As explained in the chapter titled "Objectives and strategies", we strive to achieve a balanced opportunity and risk profile, focus on properties that generate positive cash flows from the start and create additional value through active asset and portfolio management.

### 2.1. Risk management system

The focus of risk management is still on securing the Group's realignment. Next to securing liquidity, the central task includes identifying and reducing the risk in the course of disposing of the remaining portfolio and identifying and utilising the opportunities in this process. Risk management also includes the management of existing investments, the evaluation of new investments in Germany and the provision of the necessary funding.

The identification of risks is an ongoing task of the management, which in turn is still supported by qualified external service providers. To facilitate this, *jours fixes*, controlling meetings, property discussions and individual meetings are conducted regularly. Due to the flat organisational structure of the DEMIRE Group, the Executive Board is directly involved in all major decisions. It also monitors that the measures adopted for risk mitigation are both implemented and observed. The flat hierarchy allows for a risk management system with comparatively easy and less complex structures. The entire risk management process is defined in a risk management manual, which is regularly reviewed and revised as appropriate. Risk management is applied throughout the Group.

The Supervisory Board is regularly informed of any business developments and on the progress of investments as well as on the status of the risk management system and its development. The control activities of the Supervisory Board are an essential element of the risk management system. Ad-hoc reportings are prepared when new risks arise or negative changes occur that lead to a high

risk factor.

## 2.2. Risks

The following section provides an overview of the key risks for the DEMIRE Group. The sequence of the risk categories – macroeconomic risks, market and sector risks, financial risks, operational and other risks – as well as the order within these categories, are in line, in descending order, with our current assessment of the relative magnitude of risk for DEMIRE. We base this assessment on a net perspective, i.e., after the implementation of risk-mitigating measures. With regard to risk quantification, particularly with respect to the effects of interest rate changes, please refer to the sensitivity analysis in the notes to the consolidated financial statements under “Investment properties” and “Financial instruments”.

### 2.2.1. Macroeconomic, market and sector risks

The portfolio of the DEMIRE Group is exposed to very different macroeconomic, market and sector-related risks. In terms of the Group's previous commitments in Eastern Europe and the Black Sea region, the risks remain high in a majority of the countries and in the Ukraine they have risen even higher in the reporting year. A solution to the Ukraine crisis and a calming of the geopolitical situation are currently not foreseeable. This spreads to the other countries in the region. Rising capital inflows from abroad would be almost indispensable in order to stimulate the local real estate markets, however, in view of the current situation and the high risk aversion of investors, these flows can hardly be expected.

Thus, it will continue to be very difficult to execute transactions in these countries in the near future. In this environment, local market risks for this portion of the DEMIRE Group property portfolio are still seen as significant. Selling portfolio projects remains very challenging. At the time of sale, the prices achievable could fall below the respective carrying amounts. It is currently believed that the risks are already reflected in the valuations of the properties. This is evident at our properties in the Ukraine, where impairment in the reporting year, mainly due to the political situation, led to a decline in the carrying amounts from EUR 6.0 million in the previous year to EUR 3.0 million, which at the same time essentially represents the level of risk for the Group.

In relation to the Group's portfolio of German commercial real estate, the risks are much lower. In addition, the inflow of funds from international investors depends on the relative attractiveness of Germany as a location, which is strongly characterised by the local legal and tax conditions. In the past, the German market often experienced significant fluctuations. Since the DEMIRE Group is concentrated on the German market, the risk cannot be offset by other regional real estate markets. The broad diversification of the commercial property portfolio containing 107 properties at seven locations purchased in September 2014 and the acquisition of the Hanse-Center Objektgesellschaft mbH and the Glockenhofcenter Objektgesellschaft mbH with commercial real estate in three further locations have all contributed to the fact that local factors only have a limited positive or negative effect. However, the macroeconomic environment, interest rates and generally upbeat corporate

expectations indicate generally positive sentiment on the German market.

## 2.2.2. Financial risk

### 2.2.2.1. Liquidity risk

We are in the process of fundamentally realigning the DEMIRE Group – previous investments are being sold and at the same time a new portfolio is being constructed. This realignment is accompanied by higher liquidity risk. Proceeds from the sale of projects in Eastern Europe and the Black Sea region are not predictable and therefore are not included in our projections. At the same time, our new portfolio in Germany is predominantly financed with debt and, in the medium term, will require refinancing.

Therefore, careful control of liquidity aimed at ensuring the Group's liquidity at all times is still one of the Executive Board's central tasks. Based on conservative assumptions, the necessary funds are budgeted and administered, especially for the Group's operational management.

During this past fiscal year, we have been able to significantly reduce our liquidity risk. The placement of a corporate bond and the acquisition of two real estate portfolios with properties across Germany have all contributed to this. After the completion of these transactions, DEMIRE will be in a position to receive recurring rental income of approximately EUR 29.0 million per year for the first time in the Company's history.

During the reporting period, we had sufficient access to debt financing in order to fund all of the targeted expansion. In September 2014 and March 2015, we issued a corporate bond with a volume of EUR 50 million in each of those months. The bond was placed with qualified institutional investors in the context of a private placement and has a term of five years and a coupon of 7.50 % per annum, payable semi-annually in arrears to investors. This strong signal of confidence on the part of the subscribers along with the clearly foreseeable positive cash flow of our properties formed the basis for assuming the loans to finance their acquisition. A promissory note loan in the amount of EUR 148 million, a term of five years and a 5.00 % coupon was taken out for the purchase of the commercial real estate portfolio and a mezzanine loan in the amount of EUR 12 million was granted by the seller. The latter will be repaid in the second quarter of 2015 from the proceeds of the second bond tranche. A further mezzanine loan of initially EUR 6.5 million and amounting to EUR 5.0 million as of the balance sheet date, extended until July 2015, was renegotiated after the end of the abbreviated fiscal year and was reduced to EUR 2.5 million in the course of a package deal. The loan will be redeemed in two instalments by the end of the next fiscal year. A mezzanine loan in the amount of EUR 27.8 million taken out at the end of the abbreviated fiscal year for a term of one year will also be due at the end of 2015. The necessary liquidity will be provided by the 2014/2019 corporate bond. An annuity loan in the amount of approximately EUR 3.2 million, which was due in September 2014, has been extended until June 2015. In addition, capital increases in kind against the issue of new shares was made possible through the creation of sufficient authorised capital. This option was utilised for the purchase of the Hanse-Center Objektgesellschaft mbH and the Glockenhofcenter Objektgesellschaft mbH at the end of the abbreviated fiscal year and again with the purchase of the Gutenberg-Galerie in April 2015 and the logistics park in May 2015. Therefore, the Company's continued existence is not jeopardised.

Events that lie outside of DEMIRE's influence may result in additional liquidity requirements, particularly as a result of the operational and other risks listed below.

#### 2.2.2.2. Currency risk

There are no foreign exchange risks for the German commercial real estate portfolio currently under construction since all transactions are conducted in euros.

There will continue to be currency translation risks for the investments previously made outside of Germany until the complete disposal of these investments. In the case of the subsidiaries in the Ukraine, for which the euro was defined as the functional currency in the 2013/2014 fiscal year, potential currency risks arise only when these investments are sold.

To the extent possible and feasible, projects in Eastern Europe and the Black Sea region were concluded in a currency-congruent manner. A hedge of the remaining exchange rate risk, which is essentially limited to the equity invested and profit potential, was carried out only in specific cases.

Generally, preference was given to hedging on an aggregated basis rather than on the basis of individual project-related risks. Here, a hedge was considered only when certain fluctuation ranges were exceeded and only for certain currencies and only to hedge equity (not potential profits). In summary, the management of currency risks was designed to accept this risk within certain ranges. The currency hedging strategy was and is set in close consultation with the Supervisory Board.

#### 2.2.2.3. Interest rate risk

DEMIRE Group uses debt to finance German commercial real estate investments to the extent typical of this sector. This includes both loans with variable and fixed interest rates as well as capital market-related instruments containing an option to convert into shares of the Company. For loans with variable interest rates, rising interest rates place a higher burden on the Group. As at the balance sheet date, there were approximately EUR 280.6 million in fixed interest rate loans and the remaining debt of around EUR 15.6 million had variable interest rates.

The remaining investments in Eastern Europe and the Black Sea region are financed to a large extent with equity, since borrowing in these regions is considered a secondary option due to the lack of available funding. To the degree that these investments were financed with debt, this financing is recorded at the project level. An evaluation of the interest rate policy is carried out at regular intervals and in close consultation with the Supervisory Board.

#### 2.2.3. Operating risk

The operating risk involved in investing in German commercial real estate differs fundamentally from the risk associated with the remaining projects in Eastern Europe and the Black Sea region.

The former exhibit classic rental risks whereas valuation risks tend to be lower due to the currently favourable market conditions. In Eastern Europe and the Black Sea region, however, the development of the investments no longer takes place. The current liquidity position and liquidity planning of the project companies are prepared regularly and in a timely manner. Financial stability is monitored

using this centralised process. Thus, valuation risks, disposal risks and long-term liquidity risks are in the foreground.

#### 2.2.3.1. Rental risk

Rental risks can generally arise in relation to commercial properties. In particular, high vacancy rates or the loss or reduction of rental income can lead to loss of revenue and additional costs (e.g., incentives to tenants, costs for expansion, assumption of moving costs, rent-free periods) that cannot be passed on to tenants. To counter these risks, DEMIRE aims to take a multi-tenant approach for portions of the portfolio, i.e., we prefer to invest in real estate used by multiple tenants. This means, at the termination of a lease, it is still possible to generate potentially reduced cash flows through the remaining tenants, to the extent that the existing rental agreements provide for varying expiration dates. When an investment with a single-tenant is entered into, a certain remaining lease term is the criterion for the investment. Furthermore, all expiring leases in the portfolio are monitored to ensure an active portfolio management across all projects. Another criterion is a “good” to “very good” credit rating of the tenants. This is routinely checked before acquiring or re-letting a property. The active management of receivables to facilitate regular payments ensures that rental losses are identified early on so that measures can be promptly taken.

Furthermore, the focus of the Group is on a continuous reduction in vacancies through active asset management, whereby vacancy costs can be reduced and rents and the corresponding potential value can be raised. At the time of preparing this report, as a result of the tenant structure, there were no material rental risks affecting the results of operations of the Group in the current abbreviated fiscal year 2014.

#### 2.2.3.2. Valuation risk

Properties reported under investment properties in the consolidated financial statements are recognised at their fair value in accordance with IAS 40. This fair value is based on value appraisals that are made at least once a year by independent and accredited experts. Various factors are being assessed and play a role in these expert reports: local conditions, such as a country's economic and political development, the development of rent periods, level of rents and vacancy rates, and qualitative factors, such as the location and the state of the property.

As of the reporting date, the investment properties are recognised at their current fair value, so that no significant valuation risks were present as of the reporting date. This is due to the comparatively short period of time that they have been a part of our portfolio. In making acquisition decisions, we carried out a comprehensive due diligence and a detailed analysis of the property, micro-location, tenants and other factors. We also work hard to increase the value of these properties through active asset management and targeted maintenance activities.

As part of the subsequent valuation of investment properties in the context of quarterly reporting or the upcoming consolidated financial statements, significant negative changes in the fair value of the respective properties may occur due to possible changes in the endogenous and exogenous parameters in the valuation report. This would then lead to valuation adjustments that, under certain circumstances, may also have a material adverse effect on Group net earnings. Initially, however, this

would not have a direct impact on the Group's liquidity as long as these impairments are not realised on the market at correspondingly lower sales prices.

In the remaining portfolio in Eastern Europe and the Black Sea region, the valuation risks due to the difficult economic and political situation in these countries – and particularly the tenant structure – are generally higher than the valuation risks for our German investments. However, due to the low carrying amount of these investments, the risk is manageable.

In recent years, we have made extensive adjustments to the carrying amounts in our balance sheet. However, due to the very difficult situation in the Ukraine, further impairments were necessary which subsequently burdened the Group's earnings. In addition, the sharp decline in the local currency resulted in further impairments to investments accounted for using the equity method that have affected the Group's equity. The losses from unrealised fair value adjustments in real estate inventory increased slightly to EUR 1.1 million after EUR 1.0 million in the previous year. The losses were related to our properties in the Ukraine and in Germany. We believe that we have taken all identifiable risks into full account.

#### 2.2.4. Other risks

##### 2.2.4.1. Legal risk

While in the past DEMIRE was predominantly involved in countries with less developed and less stable legal systems compared to Germany, as the investments in Eastern Europe and the Black Sea region are sold the resulting risks will substantially decline. In these countries, the legal risks relate to jurisdiction in general as well as to de facto circumstances and business practices prevalent in property and land register law in particular. Hence, risks arise in particular with regard to the application and enforcement of existing laws and decrees. These risks are generally not avoidable and may pose a burden on the Company until it withdraws from its investment in these countries.

With respect to DEMIRE's future business model, the risks result primarily from any changes in the legal framework. However, changes in the commercial segment of the market are less frequent and less severe than in the residential segment where private tenants are the corresponding business partners. In addition, DEMIRE may have to pay for previously unrecognised contamination, environmental contaminants, or harmful building structures or be required to meet any unfulfilled legal construction requirements. Other legal risks can, in principle, arise from various conflicts, such as in rental or personnel matters. Currently, the probability is considered low that such conflicts will occur.

##### 2.2.4.2. Tax risk

The tax structures of DEMIRE are complex in some areas because different taxable entities (inter-company relations and taxation at the level of individual companies) and different legal forms exist within the Group.

Particular restrictions on what is known as the interest barrier and the rules of the so-called minimum taxation as well as the extended tax deductions for property are regularly of essential relevance. Additionally, the tax-neutral allocation to reserves of capital gains (e.g. in accordance

with § 66 EStG) and the exemption from land purchase tax for acquisitions of interests in real estate project companies through the appropriate structures are important for DEMIRE's tax burden.

The Company believes that currently there are no significant tax risks that must be considered through the creation of the corresponding provisions. Tax risks may arise within the framework of tax audits, in the course of regular changes in the existing portfolio, or as part of any enhancements made to the portfolio.

#### 2.2.4.3. Personnel risk

The DEMIRE Group is leanly structured and will remain so in the future. Ongoing operational functions are also currently covered by external service providers, who are characterised, in part, by their long-standing business relationship, experience and market success. The majority of monitoring activities, such as the commercial management, are the responsibility of internal executives. The current control of the remaining investments in Eastern Europe and the Black Sea region as well as the gradual rebuilding of a portfolio of commercial real estate is also well covered.

In the course of the Group's future expansion, it will be important to have additional employees and external service providers who have the necessary knowledge of the German market in order to sustainably establish the new business model. Due to the long-standing experience and excellent network of DEMIRE's management team in the German real estate market, we are confident that we can achieve this at the appropriate time and to the extent necessary. An example is the appointment of Dipl.-Kfm. (FH) Markus Drews as a new member of the Company's Executive Board effective December 1, 2014. New employees were also hired in the new fiscal year in our legal department and in the areas of corporate governance and compliance as well as for the expansion of our business administration area.

#### 2.2.4.4. IT risk

A loss of data or a longer period of a loss of DEMIRE's IT systems can lead to business disruptions and increased costs. An external service provider is responsible for the maintenance and further development of the IT infrastructure and for securing the IT-supported business processes, which includes the database. The service provider monitors the functionality of the IT systems, the timeliness of the programmes used to ward off malicious software safely, secures the Company's data in contractually agreed upon fixed intervals or more often if necessary. This is the way in which we effectively protect the system against a loss of data or prolonged outage. Additionally, our service providers for accounting and consolidation processes and, to a lesser extent, our external asset managers are also equipped with suitable and secure IT systems.

### 2.3. Internal control and risk management system in the financial reporting process

The internal control and risk management system for the accounting and consolidation process is an essential component of the Group's risk management. It includes all accounting-related processes as well as all risks and controls with regard to accounting.

This system is aimed at achieving the following objectives:

- ensuring the efficiency of business activities and the protection of assets

- ensuring the accuracy and reliability of internal and external accounting
- compliance with the applicable legal regulations and the standard compliance of the consolidated financial statements and the combined management report

As the legal parent company, DEMIRE Deutsche Mittelstand Real Estate AG prepares the consolidated financial statements. Prior to this process, the accounting records and the preparation of the financial statements of the companies included in the consolidated financial statements are carried out primarily by specialised external service providers.

The required monthly evaluations and the prepared financial statements are fully and promptly communicated and monitored internally. Each process is based on a detailed time schedule. For the purposes of risk management, the plausibility, accuracy and the completeness of the entries are monitored and reviewed by the Group's own employees. The employees involved in this process meet the quality requirements and are trained regularly. The four-eye principle is also considered an essential control principle.

Additional key instruments for this purpose are:

- Uniform accounting principles through the selection of an external service provider for the majority of the group companies
- The clear separation of tasks and the allocation of responsibility between the internal and external areas concerned with the accounting process
- The involvement of external specialists when necessary, for example, in the valuation of properties

Together with our external service providers, new laws, accounting standards and other official pronouncements are continuously analysed for their relevance and for their impact on the consolidated financial statements and the combined management report. If necessary, the accounting policies of the Group are adjusted accordingly.

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

- The identification and analysis of key risk and control areas
- The use of monitoring and plausibility checks to monitor the process and its results at the level of the Executive Board and the operational units
- The use of preventive control measures in finance and accounting as well as for the key operational business processes relevant for accounting



- The use of measures to ensure the orderly, complete and timely computerised processing of accounting-related issues and data
- Measures for monitoring accounting-related internal controls and risk management systems and measures to remedy any control weaknesses.

## 2.4. Summarised overview of the risk situation

The DEMIRE Group's risk situation and that of the Company have already been radically improved by the tremendous success in the implementation of the corporate strategy during the reporting year and thereafter. The two properties acquired in Munich last year have strengthened the Group's profitability. This development will gain momentum as a result of other large portfolio acquisitions made during the reporting period. The broad diversification of these portfolios contributes significantly to risk reduction of these investments and the continued growth of the DEMIRE Group. To the current knowledge of the Executive Board, no risks are known that could jeopardise the Company's existence. The Company firmly believes that it will be able to exploit the opportunities and master the challenges it encounters in the future without undertaking any unacceptably high risk.

At the same time, the liquidity risk was greatly reduced by the September 2014 issue of the 2014/2019 corporate bond and the EUR 50 million increase in this bond to EUR 100 million in March 2015.

Still, however, DEMIRE is in the middle of the implementation phase of its realignment. The targeted disposals in Eastern Europe and the Black Sea region and our withdrawal from these countries are still being intensively and successfully driven forward. During the reporting period, we ended our investment in Turkey and sold three companies in the Ukraine. Nevertheless, until the complete sale of our previous investments, the risks in this context remain.

## 3. Report on outlook

### 3.1. Expected earnings and financial situation

After establishing a dedicated portfolio of German commercial real estate in the year 2014 in accordance with our realignment, DEMIRE is now pursuing the goal of growing into one of the leading portfolio managers of German commercial real estate. We will continue our gradual withdrawal from previous commitments in Eastern Europe and the Black Sea region, which we have already made progress on through our sale of our investments in Turkey and the three companies in the Ukraine. We cannot estimate the time it will take to receive the expected proceeds from the remaining investments since we are not willing to consider fire sales. We do, however, currently expect to be able to dispose of the remaining properties during the 2015 fiscal year. In terms of the portfolio's financial requirements, we do not believe that significant additional funds will be required to maintain today's assets or to prepare for the sale of investments. Further impairments, which may negatively impact the DEMIRE Group's level of equity, cannot be ruled out even when, from today's standpoint, the reasonable precautions have been taken.

In contrast, we do expect our new German commercial real estate portfolios to continue to develop positively. They will make a contribution to our rental income for a full twelve-month period for the first time, and will thus significantly strengthen the earnings of the Core Portfolio segment and of the Group. The recently announced purchase of the Gutenberg-Galerie and logistics park in Leipzig will

be completed in the second quarter of 2015 and from that point will also have a positive influence on the segment's revenues.

We are preparing for further substantial purchases of real estate and are generally optimistic that we will be able to almost double the volume of our German portfolio during the current fiscal year. This expansion is expected to mark a further step in the rapid growth we have planned for DEMIRE. With regard to financing, DEMIRE will consider all available options bearing the risk in mind. In this respect, DEMIRE has cash capital increases, capital increases in kind, the issue of bonds or the assumption of other liabilities as its available options.

We expect our active in-house asset, property and facility management to lead to a further increase in occupancy rates and visibly lower operating costs as early as in the current fiscal year. This should also lead to a sustainable value appreciation in the coming year, which in turn is expected to have a positive impact on the profitability of the portfolio through fair value adjustments and disposals to optimise and focus the portfolio. Nevertheless, it is still unclear whether we will be able to implement the necessary measures in time for the planned value appreciation to occur in the 2015 fiscal year or whether these improvements will be achieved in the following fiscal year.

In addition, the development of the Group's expenses during the fiscal year just begun will be marked by additional charges from funding our growth strategy since we do not yet generate enough cash flow internally for this purpose. Fundraising should take place shortly, especially with regard to debt. However, we will continue to consider the option of issuing equity-like financing instruments for a certain portion of funding.

In the past fiscal year, EBIT was greatly impacted by the result of the fair value adjustments in investment properties in the amount of EUR 63.6 million. The future fair value adjustment in existing properties or of newly acquired properties is difficult to forecast. However, for the 2015 fiscal year, we expect a significant rise in income from property rentals, since the acquired properties will make a contribution to earnings for a twelve-month time period for the first time. Overall, we expect rental income to grow to approximately EUR 33 million and an EBIT in the lower double-digit millions excluding any fair value adjustments made to properties.

The further development of our existing real estate portfolio will mainly include a significant increase in our rental income. The proceeds generated from this increase will contribute to the Group's achievement of a balanced cash flow from operating activities. We will also strive for a strong improvement in our net asset value. In particular, we intend to take advantage of the current favourable market environment to expand the Group. Therefore, our immediate priority – ahead of our achievement of earnings targets – is growth, measured by our portfolio volume in Germany. Above all, our primary objective is to secure a sufficient level of liquidity at all times.

This liquidity, which will also be used to repay the loans and interest due in 2015, will be generated this fiscal year through improved operating cash flow, especially as a result of additional rental

income from the properties acquired in 2014, and through the utilisation of our available equity and debt measures, such as the increase in the 2014/2019 corporate bond in March 2015.

## VII. DISCLOSURES REQUIRED BY TAKEOVER REGULATION

### 1. Composition of subscribed capital

#### a.) as at December 31, 2014

As at December 31, 2014, the Company had fully paid-in subscribed capital of EUR 14,306,151.00 that was divided into 14,306,151 no-par value bearer shares with a notional par value of EUR 1.00. Thereof, 5,000 shares are held by the Group. The shares of DEMIRE Deutsche Mittelstand Real Estate AG are listed in the regulated market (General Standard Segment) of the Frankfurt Stock Exchange.

By issuing the 2013/2018 convertible bond, the Company has granted conversion rights that entitle the holder to purchase new shares of the Company. Following the exercise of 411,500 conversion rights, there were conversion rights for 10,888,500 new shares outstanding as at December 31, 2014.

An additional 5,633,710 no-par value bearer shares, which were not yet admitted to trading, have been issued in the context of a capital increase in kind on December 23, 2014.

#### b) development after December 31, 2014

Upon entry in the commercial register on January 22, 2015, the Company's share capital was increased from authorised capital by EUR 5,633,710 from EUR 14,306,151 to EUR 19,939,861 by issuing 5,633,710 new shares against contribution in kind under the exclusion of the subscription rights of shareholders. The Company's share capital was further increased by EUR 77,950.00 to EUR 20,017,811 by issuing 77,950 new shares through the exercise of conversion rights of the 2013/2018 convertible bond. As at March 31, 2015, the Company's share capital amounted to EUR 20,017,811.00 and was divided into 20,017,811 no-par value bearer shares with a notional par value of EUR 1.00. By the time of publication of this report, an additional 85,175 new shares were issued in April and May of 2015 through the exercise of conversion rights of the 2013/2018 convertible bond. Following this exercise, there were conversion rights for 10,725,375 new shares outstanding under the convertible bond.

Of the new shares, the shares issued on January 22, 2015, have not yet been admitted to trading in the regulated market (General Standard Segment) of the Frankfurt Stock Exchange. It is planned that admission will be applied for during the first half of 2015.

On April 2, 2015, the Company resolved an additional capital increase from authorised capital of EUR 2,182,567 by issuing 2,182,567 new no-par value bearer shares. The new shares were entered into the commercial register on May 27, 2015.

With the approval of the Supervisory Board on May 19, 2015, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved on May 13, 2015, to increase the Company's share capital from authorised capital once by EUR 2,541,149.00 against a mixed contribution in kind with the exclusion of shareholders' subscription rights. The capital increases have not yet been entered into the commercial register. It is planned that the admission to trading for the additional shares will

be applied for during the first half of 2015.

## **2. Restrictions regarding voting rights or the transfer of shares**

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

## **3. Direct or indirect interests in the Company's share capital exceeding 10 % of the voting rights**

### **a.) as at December 31, 2014**

As at December 31, 2014, the following shareholders of DEMIRE Deutsche Mittelstand Real Estate AG held interests in the Company's share capital exceeding 10 % of the voting rights:

- DeGeLog Deutsche Gewerbe-Logistik Holding GmbH, Berlin, 28.66 %

As at December 31, 2014, the Company had no further notifications with regard to direct or indirect interests exceeding 10 % of the voting rights.

### **b.) development after December 31, 2014**

As at May 27, 2015, the following shareholders of DEMIRE Deutsche Mittelstand Real Estate AG held interests in the Company's share capital exceeding 10 % of the voting rights:

- Alpine Real Estate Invest GmbH, Berlin, 19.83 %
- DeGeLog Deutsche Gewerbe-Logistik Holding GmbH, Berlin, 18.40 %

At the time of publication of this report, the Company had no further notifications with regard to direct or indirect interests exceeding 10 % of the voting rights.

## **4. Holders of shares endowed with special rights conferring powers of control**

No such shares have been issued.

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

No such interests exist.

## **6. Statutory regulations and provisions of the Articles of Association concerning the appointment and removal from office of the Executive Board, and amendments to the Articles of Association**

### **6.1. Executive Board appointments and dismissals**

According to Section 84 AktG, members of the Executive Board are appointed by the Supervisory Board for a term of no longer than five years. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG consists of one or more persons. The number of Executive Board members is determined by the Supervisory Board. The Supervisory Board decides on the appointment of Executive Board members, the revocation of their appointment, as well as the conclusion, modification and termination

of the employment contracts concluded with Executive Board members. The Supervisory Board may appoint a chairman and deputy chairman of the Executive Board, and also appoint Deputy Executive Board members.

## 6.2. Changes to the Articles of Association

In accordance with Section 179, para. 1 AktG, changes to the Articles of Association require a resolution of the Annual General Meeting, which requires a three-quarters majority of the share capital represented at the vote pursuant to Section 179, para. 2 AktG, unless the Articles of Association provide for another majority. To the extent that the change of corporate purpose is effected, the Articles of Association may only specify a larger majority. In Section 20 para. 1, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association utilise the option to deviate in accordance with Section 179 para. 2 AktG and provide that, in principle, decisions may be taken on the basis of a simple majority of votes or on the basis of a simple capital majority to the extent that a capital majority is necessary, unless mandatory legal regulations require a greater majority. The Supervisory Board is authorised to resolve amendments to the Articles of Association that relate only to their wording. Furthermore, the Supervisory Board is authorised to amend the wording of Section 5 of the Articles of Association which defines, among others, the amount and division of the share capital, in order to adjust the wording to the scope of the capital increases from authorised capital.

## 7. Executive Board's authorisation to issue and repurchase shares

### 7.1. Authorised Capital

a.) as at December 31, 2014

By resolution of the Annual General Meeting of October 15, 2014, the Executive Board is authorised, with the consent of the Supervisory Board, to increase the Company's share capital until October 14, 2019, by issuing of up to 7,064,325 new, ordinary, no-par value bearer shares, each with a notional par value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions in partial amounts up to EUR 7,064,325.00 (Authorised Capital I/2014). Shareholders are generally entitled to subscription rights. The Executive Board is authorised, with the consent of the Supervisory Board, to exclude shareholder subscription rights for fractional shares, for capital increases not exceeding 10 % of the share capital and at an issue price that is not significantly less than the stock market price, as well as to serve option or conversion rights by issuing issue shares to employees and in cases of capital increases against contribution in kind.

b.) development after December 31, 2014

Following the issue of 5,633,710 no-par value bearer shares from authorised capital, the original authorisation to issue new shares (Authorised Capital I/2014) now amounts only up to 1,430,615 new shares and EUR 1,430,615.00.

By resolution of the Extraordinary General Meeting of March 6, 2015, the Executive Board is authorised, with the consent of the Supervisory Board, to increase the Company's share capital until March 5, 2020, by issuing of up to 8,552,290 new, ordinary, no-par value bearer shares, each with a notional par value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions in partial amounts up to EUR 8,552,290.00 (Authorised Capital I/2015). Shareholders are generally entitled to subscription rights. The Executive Board is authorised, with the consent of the Supervisory Board, to exclude shareholder subscription rights for fractional shares, for capital

increases not exceeding 10 % of the share capital and at an issue price that is not significantly less than the stock market price, as well as to serve option or conversion rights by issuing shares to employees and in cases of capital increases against contribution in kind.

## 7.2. Conditional Capital

a.) as at December 31, 2014

Following the exercise of conversion rights of the 2013/2018 convertible bond and the related issue of 411,500 new shares from conditional capital, the Company's share capital has been conditionally increased by up to EUR 6,535,825.00, divided into 6,535,825 ordinary no-par value bearer shares. The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds that are issued according to the respective resolution of the Annual General Meeting of October 23, 2013.

b.) development after December 31, 2014

Following the issue of an additional 77,950 new shares due to the exercise of conversion rights of the 2013/2018 convertible bond, the conditional capital now amounts to EUR 6,457,975.00. The other 85,175 exercises up to May 31, 2015 reduced the conditional capital because of missing registration in the commercial register.

By resolution of the Extraordinary General Meeting of March 6, 2015, the Company's share capital has been conditionally increased by up to EUR 2,434,105.00, divided into 2,434,105 no-par value bearer shares (Conditional Capital 2015/I). The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds that are issued according to the respective resolution under item 8 of the agenda of the Annual General Meeting of October 23, 2013, in the amended version of March 6, 2015.

By resolution of the Extraordinary General Meeting of March 6, 2015, the Company's share capital has been conditionally increased by up to EUR 1,000,000.00, divided into 1,000,000 no-par value bearer shares (Conditional Capital II/2015). The contingent capital increase shall only be implemented to the extent that the holders of stock options that were issued by the Company during the purchase period under the authorisation of the Extraordinary General Meeting of March 6, 2015, in the context of the 2015 stock option plan, exercise their subscription rights for shares of the Company and that the Company does not grant treasury shares to serve these subscription rights.

## 7.3. Authorisation to issue convertible bonds or bonds with warrants

By resolution of the Annual General Meeting of October 23, 2013, the Executive Board is authorised, with the consent of the Supervisory Board, to issue bearer or registered convertible bonds and/or bonds with warrants once or on several occasions until September 30, 2018, for a total nominal amount of up to EUR 50,000,000.00 with or without a limitation on the duration and to grant holders or creditors of bonds option or conversion rights for new no-par value bearer shares of the Company with a notional interest in the share capital of up to EUR 25,000,000.00. The option or conversion rights can be served from existing or future conditional or authorised capital, existing or treasury shares of the Company or from shares of a shareholder. The option or conversion rights can be issued by group companies or as contribution in kind. Shareholders' subscription rights can be excluded for fractional shares, in cases of a cash issue if the option or conversion rights do not exceed 10 % of the share capital and the issue price is not significantly less than the market value of the bond, to grant subscription rights to holders of option or conversion rights, as well as in the case of an issue

against contribution in kind. After the issue of the 2013/2018 convertible bond, the authorisation now amounts to EUR 38,700,000.00 and to option or conversion rights for 13,700,000 shares.

#### 7.4. Authorisation to repurchase shares

On the basis of the resolution of the Annual General Meeting of October 15, 2014, the Company is authorised until October 14, 2019, to acquire up to a total of 10 % of the share capital existing at the time of the passing of the resolution. The shares acquired on the basis of this authorisation and any other treasury shares that the Company has already acquired or already owns, may not comprise more than 10 % of the Company's existing share capital. This authorisation can be exercised in whole or in partial amounts on either one or several occasions.

Purchases are to be executed on the stock market or as part of a public share repurchase offer or in the form of a public solicitation addressed to the Company's shareholders to issue selling offers:

If the purchase is executed on the stock market, the consideration per share paid by the Company (in each case excluding ancillary purchase costs) may neither be 10 % more or 10 % less than 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 stock exchange trading days before the purchase. If the Company is listed on several stock exchanges, the respective last ten closing prices of the Company's shares on the Frankfurt Stock Exchange are applicable.

If the purchase is performed by way of a public purchase offer to all Company shareholders or by way of a solicitation addressed to the Company's shareholders to issue selling offers, the offered purchase or selling price or the limits of the offered purchase or selling price range per share, excluding ancillary purchase costs, may be neither 10 % more nor 10 % less than the average closing price of the Company's share in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) on the last ten stock exchange trading days before the date the offer is published or the solicitation to issue selling offers is published. If the Company is listed on several stock exchanges, the respective last ten closing prices of the Company's shares on the Frankfurt Stock Exchange before the publication of the offer are applicable.

If, after the publication of a purchase offer or the publication of a solicitation to issue selling offers, there are significant price deviations from the offered purchase or selling price or from the limits of the offered purchase or selling price range, the offer or solicitation to issue selling offers can be adjusted. In such instances, the relevant amount is determined according to the corresponding price before the publication of the adjustment; the 10 % limit for exceeding or falling below is applied to this amount.

The volume of the offer can be restricted. If the total subscription to the offering exceeds this volume, acceptance must be according to quotas. A provision may be made for preferential acceptance of unit numbers of tendered shares of less than up to 100 shares.

In addition to the disposal through the stock market, the Executive Board is authorised to utilise the shares acquired to reduce the share capital by cancelling the shares, to transfer the shares to third parties as consideration for business combinations or for acquisitions of entities or investments, to offer employees the option to purchase shares, to serve option or conversion rights or to sell the shares other than on the stock exchange provided the selling price is not significantly below the stock



market price.

No utilisation was made of this authorisation to date.

#### **8. Material Company agreements subject to a change in control following a takeover offer, and the resulting effects**

There are no such agreements.

#### **9. Company compensation agreements that have been made with the Executive Board or employees in the case of a takeover offer**

If a termination of employment occurs as part of a change in control, Hon.-Prof. Andreas Steyer is to receive the existing contractual entitlements for the remainder of his term as an appointed Executive Board member in the form of a one-time payment which will be due at the time of his departure. The amount of this payment will be based on the fixed salary and the target bonus in the last full calendar year prior to the departure of Mr. Andreas Steyer and shall not exceed two years' remuneration.

If the employment contract of Mr. Markus Drews is ended prematurely due to a change in control, the Executive Board member is entitled to a severance payment to the amount of his capitalised base salary for the subsequent six-month period.

Additionally, the contracts of both Executive Board members provide for their giving notice at the conditions mentioned above in the case of a change in control.

### **VIII. CORPORATE GOVERNANCE REPORT / STATEMENT ON CORPORATE GOVERNANCE**

DEMIRE Deutsche Mittelstand Real Estate AG is committed to the responsible and value-creating management and monitoring of the Company and the Group. The Group's transparent management principles and their clear development are to build, maintain and strengthen the trust of the shareholders, business partners, customers, capital market participants and employees. The Executive Board and the Supervisory Board work closely together for the benefit of the Company to ensure the responsible management and control of the Company through good corporate governance.

#### **ORGANISATION AND CONTROL**

DEMIRE Deutsche Mittelstand Real Estate AG is headquartered in Germany. The headquarters of the subsidiaries, affiliated companies and joint companies are based in accordance with the location of the real estate holdings in Germany or in the countries in which they conduct a majority of their activities.

The Group's organisation has been developed further during the 2014 fiscal year in line with the progress made in implementing the new strategy as an investor and holder of German commercial real estate. The Investments segment is responsible for managing and selling the portfolio holdings located mainly in Eastern Europe and the Black Sea region. The management of the portfolio is the responsibility of the Asset-Property-Facility Management segment. This unit ensures that property holdings achieve their optimum returns. The Central Functions segment assumes the administrative and general duties in the Group such as risk management, finances and controlling, financing, legal, IT and compliance.



In the past, the Executive Board has controlled the Group and the individual real estate investments in a cash flow oriented manner under clearly defined individual budgets and will continue to do so in the future. The development of each individual budget is based on budget targets and is part of routine strategy and reporting discussions of the Executive Board with the relevant operational managers.

### **SHAREHOLDERS AND THE ANNUAL GENERAL MEETING**

The shareholders of DEMIRE Deutsche Mittelstand Real Estate AG exercise their management and control rights at the Annual General Meeting. The Annual General Meeting executes all of its duties assigned by law. The meeting takes place within the first eight months of the fiscal year. The fiscal year end for DEMIRE Deutsche Mittelstand Real Estate AG was changed in 2014 to December 31. The Supervisory Board chairman presides over the Annual General Meeting. Each shareholder is entitled to attend the Annual General Meeting, to speak on the agenda items and to demand information about company matters to the extent necessary for the proper assessment of an item of the Annual General Meeting.

All of the outstanding shares of DEMIRE Deutsche Mittelstand Real Estate AG are bearer shares with identical rights and obligations. Each share has one vote at the Annual General Meeting and there are no limits on the voting rights and special voting rights of shareholders. A resolution usually requires a simple majority of votes. Where the law prescribes a majority of the capital represented, the Articles of Association provide for a simple majority of the capital represented (such as in the case of amendments to the Articles of Association and capital increases) with the exception of certain cases established by law (including reductions in capital and exclusion of subscription rights) that require a majority of three-quarters of the capital represented or a greater majority.

### **SHARES OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG OWNED BY MEMBERS OF CORPORATE BODIES AND MAJOR SHAREHOLDERS**

Shares owned by members of corporate bodies at the end of the 2014 fiscal year: Dr. Dirk Hoffmann held 174,000 shares of the Company, equivalent to a 1.22 % share of the outstanding shares. Hon.-Prof. Andreas Steyer held 40,000 shares of the Company, equivalent to a 0.28 % share of the outstanding shares. He also holds 28,571 convertible bonds.

Shares owned by major shareholders at the end of the 2014 fiscal year: DeGeLog Deutsche Gewerbe-Logistik Holding GmbH held 4,100,000 shares, equivalent to 28.66 % of the Company's outstanding shares. Alan James Lynch held 728,603 shares, representing a share of 5.09 %. The remaining 66.25 % is held by institutional and private investors, which also defines the free float according to the Deutsche Börse AG. None of these shareholders holds a 5 % or more of the outstanding shares. This information is based on voting rights notifications by shareholders pursuant to the German Securities Trading Act (WpHG) and information provided by members of the Company's corporate bodies.

### **ACCOUNTING AND AUDIT OF FINANCIAL STATEMENTS**

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU.

The Executive Board shall prepare the financial statements (balance sheet, statement of income

and notes) and the Company's management report within the first four months of each fiscal year and immediately provide it to the auditor. After the auditor has performed the audit, the Executive Board submits the financial statements including the auditor's audit report along with the Board's proposal for the appropriation of retained earnings to the Supervisory Board. The Supervisory Board reviews the financial statements, the management report and the Executive Board's proposal for appropriation of retained earnings and forwards its report on this matter to the Executive Board within one month of receiving the documentation of the Executive Board and the auditor's report on the audit of the financial statements.

The following agreements have been made with the auditor:

- The chairman of the Supervisory Board is to be notified immediately when potential grounds for exclusion or bias arise during the audit and these issues cannot be eliminated immediately.
- The auditor reports to the Supervisory Board on all findings and events material to the duties of the Supervisory Board that arise during the audit.
- If the auditor determines during the audit that there are inaccuracies in the Declaration of Conformity with the German Corporate Governance Code that was submitted by the Executive Board and Supervisory Board, the auditor is to make note of this in the audit report and inform the chairman of the Supervisory Board.

## TRANSPARENCY

Timely, uniform and comprehensive information is a high priority at DEMIRE. Reporting on the position, development and especially the financial results of the Group is carried out in the annual report, the three-month and nine-month interim reports and the half-year financial report. The Group also informs the public through press releases and ad-hoc announcements pursuant to § 15 of the German Securities Trading Act (WpHG). In addition, the Executive Board communicates extensively on financial issues with the relevant capital market participants at home and abroad. All financial publications, announcements and presentations that are created for reporting purposes are available on the Internet. The financial calendar is also available on the website and provides early information on regular reporting dates. DEMIRE Deutsche Mittelstand Real Estate AG maintains a list of insiders in accordance with the provisions of § 15b of the WpHG. The relevant persons are informed about the statutory duties and penalties.

## STATEMENT ON CORPORATE GOVERNANCE

DEMIRE Deutsche Mittelstand Real Estate AG is submitting a Statement on Corporate Governance pursuant to item 3.10 of the German Corporate Governance Code and pursuant to Section 289a HGB. The Declaration of Conformity regarding the German Corporate Governance Code pursuant to Section 161 AktG that is contained in this statement was also made available to shareholders on the Company's website ([www.demire.ag](http://www.demire.ag)) under the section "Company".

## Composition and operating procedures of the Executive Board and Supervisory Board

As a listed German stock corporation, the management of the Company is governed by the German Stock Corporation Act, other legal provisions of corporate and commercial law as well as by the

requirements of the German Corporate Governance Code in its current version. German stock corporations are required by law to have a dual management system. Therefore, there is a strict separation of the Executive Board as the managing body of the Company and the Supervisory Board as the supervisory body, with Management Board and Supervisory Board working closely together in the Company's best interests.

The Executive Board manages the company under its own responsibility and represents it in dealings with third parties. It defines the strategy in coordination with the Supervisory Board and implements this strategy with the goal of sustainable value creation. The members of the Executive Board are responsible for individual areas of responsibility independent of their common responsibility for the Group. They work together collegially and inform each other of important events and activities in their areas of competence. In the cases referred by law, the Executive Board shall obtain the approval of the Supervisory Board. In addition, DEMIRE's Articles of Association also list extraordinary transactions that require the approval of the Supervisory Board. The Executive Board has adopted Rules of Procedure with the approval of the Supervisory Board.

The Executive Board informs and reports to the Supervisory Board regularly, promptly and comprehensively about all company-relevant planning, business development and risk issues. Other important events must be reported by the Executive Board to the chairman of the Supervisory Board. In addition, the chairman of the Supervisory Board is regularly and continuously informed about business developments. In carrying out this reporting, the Executive Board relies on the risk management system applicable throughout the DEMIRE group of companies.

The Supervisory Board appoints the members of the Executive Board, sets their total compensation and supervises their management. It also advises the Executive Board in the management of Company. The Supervisory Board adopts the financial statements and approves the consolidated financial statements. Material decisions of the Executive Board require the approval of the Supervisory Board. In addition, the Supervisory Board has adopted Rules of Procedure.

The Supervisory Board currently consists of three members who are elected by the DEMIRE Annual General Meeting. The chairman of the Supervisory Board coordinates the work of the Supervisory Board. The Supervisory Board has not formed any committees.

Further details about the work of the Supervisory Board can be found in the Supervisory Board's report, which is part of the annual report.

#### **Wording of the last Declaration of Conformity regarding the German Corporate Governance Code pursuant to Section 161 AktG**

"The Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG (the "Company") monitor the compliance with the German Corporate Governance Code. They hereby declare that the Company has been complying and will continue to comply with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated June 24,

2014, and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, subject to the following exceptions:

- Article 2.3.1: The currently valid version of the Company's Articles of Association provides the option of a postal vote by the shareholders and a corresponding authorisation of the Executive Board. However, it is currently not intended to introduce such a postal ballot.
- Article 3.8: For D&O insurance, a deductible for the Executive Board was agreed upon but a deductible is not intended for the Supervisory Board. It is the opinion of the Company that an agreement on such a deductible for Supervisory Board members would significantly reduce the attractiveness of a position on the Company's Supervisory Board and thereby have a negative impact on the chances of winning adequate candidates for a position on the Company's Supervisory Board.
- Article 4.2.3: The service contracts of the Executive Board members include variable remuneration components with a one-year and multiple-year basis for assessment. Fixed and variable remuneration provide a cap. Gains under the 2015 stock option programme are limited to ten times the fair value of the subscription rights granted.
- Article 5.1.2: No age limit has been established for members of the Executive Board. In the Company's view, age is not an appropriate criterion to be used in appointing board members. Furthermore, there is currently no female member in the Executive Board. Should the Executive Board need to expand, even more effort will be given than in the past to find suitable female candidates. In addition, the key position of "Financial Director" is held by a woman.
- Article 5.3: The Supervisory Board does not form committees since it consists of only three members.
- Article 5.4.1: No age limit has been established for members of the Supervisory Board. It is the opinion of the Company that age is not an appropriate criterion to be used for in the election of Supervisory Board members. In the composition of the Supervisory Board, diversity in particular is currently being taken into account. In future elections, women will be increasingly sought as Supervisory Board candidates.

- Article 7.1.2: 1. The Company will continue to comply with the publication deadlines required by law until further notice.

This declaration has been made available to shareholders by its direct reproduction on the homepage at [www.demire.ag](http://www.demire.ag).

Frankfurt/Main, June 2015  
DEMIRE Deutsche Mittelstand Real Estate AG

On behalf of the Supervisory Board  


**Prof. Dr. Hermann Anton Wagner**  
Chairman of the Supervisory Board

 itive Board

**Hon.-Prof. Andreas Steyer MRICS**  
CEO



**Dipl.-Kfm. (FH) Markus Drews**  
COO“

## IX. MANAGEMENT REPORT FOR DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG

In addition to reporting on the situation of the DEMIRE Group, the following describes the development of the Company. The general statements presented in the group management report on the market, strategy, management, opportunities and risks of business activities and the events subsequent to the end of the fiscal year apply equally to the Company.

The DEMIRE Deutsche Mittelstand Real Estate AG is the operational management unit of the DEMIRE Group. This unit generated revenue in the abbreviated 2014 fiscal year from the management services provided for or from project companies. The number of employees, excluding Executive Board members, increased in the reporting year to an average of 5 employees (previous year: 3 employees).

The Company's financial statements as of December 31, 2014 were prepared according to the German Commercial Code (HGB) and the provisions of the German Stock Corporation Act (AktG). There were no additional provisions arising from the Company's Articles of Association.

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

#### Results of operations

EURk	2014	2013/2014
Revenues	7,396	849
Other operating income	2,179	482
Staff costs	-369	-1,281
Other operating expenses	-6,456	-5,093
Income from loans	1,309	371
Write-downs of financial assets	-2,944	-7,975
Interest income	-1,648	-294
Loss from profit transfers	-388	0
<b>Result of ordinary business activity</b>	<b>-921</b>	<b>-12,941</b>
<b>Net loss</b>	<b>-1,131</b>	<b>-12,853</b>

The Company's revenues soared almost eightfold to EUR 7.4 million compared to the previous year following the change in strategy and mainly related to expenses passed on in the context of real estate advice provided for group companies. In the abbreviated 2014 fiscal year, other operating income rose sharply overall to EUR 2.2 million. This was mainly driven by expenses passed on to affiliated companies of EUR 2.1 million. Staff costs declined as planned to EUR 0.4 million (fiscal year 2013/2014: EUR 1.3 million). The costs in the previous year were mainly the result of severance payments to former Executive Board members who had left the Company.

Other operating expenses grew around 27 % to EUR -6.5 million. Despite additional purchases of commercial real estate portfolios and the issue of a corporate bond, legal and consulting fees rose only moderately from EUR 1.3 million to EUR 1.4 million. In comparison, accounting and audit costs increased to EUR 0.4 million (fiscal year 2013/2014: EUR 0.3 million) as a result of the larger portfolio of commercial property. DEMIRE Deutsche Mittelstand Real Estate AG is only subject to currency risk in connection with loans to subsidiaries in non-euro countries.

Income from loans of financial assets grew significantly to EUR 1.3 million (fiscal year 2013/2014: EUR 0.4 million). Other interest and similar income rose to EUR 129k (fiscal year 2013/2014: EUR 46k).

As a result of the further streamlining of the legacy portfolio during the reporting year, write-downs of financial assets declined considerably and placed a much smaller burden of the Company's earnings than it had in the previous years. In the abbreviated 2014 fiscal year, extraordinary write-downs amounted to EUR 2.9 million in comparison to EUR 8.0 million in the previous 2013/2014 reporting year. As in prior years, the cause of these write-downs was changes in the fair value of the legacy portfolio due to the continued weakness in the real estate markets in the former target regions.

For the first time, a loss of EUR 0.4 million was assumed in the abbreviated 2014 fiscal year based on the profit and loss transfer agreement concluded between DEMIRE AG and DEMIRE Commercial Real Estate GmbH.

Interest income deteriorated from EUR -0.3 million to EUR -1.6 million due to the interest expense on the 2013/2014 convertible bond for a nine month period and the interest expense for the corporate bond for one quarter.

At just EUR 0.9 million after a significant loss of EUR -12.9 million in the 2013/2014 fiscal year, the result of ordinary business activities improved due to both higher income and lower expenses.

After taxes paid of around EUR 0.2 million, the net loss for the year was EUR 1.1 million after EUR -12.9 million in the prior year.

### **Financial position**

The financial management of the Company is carried out according the guidelines adopted by the Executive Board. This applies to the control of funds as well to financing. The central liquidity analysis assists in optimising cash flows. The aim is to secure liquidity while preserving financial independence. In doing so, our focus is on long-term and stable financing to positively and sustainably support our business and allow ourselves an essential degree of freedom when making strategic decisions. We complied with all financing obligations, including credit clauses (financial covenants), in the abbreviated fiscal year and as of the balance sheet date. Financial covenants are customary and determine the compliance with financial key ratios, such as the equity ratio, the interest service coverage ratio (ISCR) and the debt service coverage ratio (DSCR).

Regular information provided to the Supervisory Board with regard to the financial position is an integral part of DEMIRE's risk management system.

**Liquidity position**

Cash flow from operating activities amounted to EUR 2.1 million following a total of EUR -5.8 million in the previous year and was especially impacted in the reporting year by a rise in legal and consulting expenses (EUR 1.4 million) as part of the expansion in our commercial real estate portfolio and costs in connection with the issue of the corporate bond.

The cash outflow from investing activities increased significantly to EUR -54 million (previous year: EUR -3.0 million) as a result of a loan granted to subsidiaries for their purchase of commercial real estate.

During the abbreviated 2014 fiscal year, the Company generated cash flow from financing activities of EUR 50 million (previous year: EUR 11.3 million) from the issue of a corporate bond. Cash and cash equivalents as of the balance sheet date amounted to EUR 1.2 million (previous year: EUR 3.1 million).

**Net assets**

The Company's total assets as of December 31, 2014, grew from EUR 26.1 million to EUR 82.2 million.

In the course of expanding the Group's commercial real estate portfolio, the Company's fixed assets climbed considerably from EUR 16.3 million in the previous year to a current total of EUR 67.3 million at the end of the reporting year. Financial assets with an increase in loans to affiliated companies – project companies of the real estate holdings – for the acquisition financing were the main reason for this rise to EUR 58.0 million (previous year: EUR 2.1 million). In contrast, interests in affiliated companies declined by around EUR 1.1 million due to disposals and fair value adjustments and investments fell by EUR 3.7 million.

The largest item under current assets, receivables and other assets nearly doubled from EUR 5.6 million as of March 31, 2014, to EUR 12.8 million as of December 31, 2014. This rise mainly originated from trade receivables in the context of management service provided by DEMIRE to project companies.

Liquidity as of the reporting date amounted to EUR 1.2 million after EUR 3.1 million as of March 31, 2014. The change in liquidity of EUR 1.9 million was positively impacted by cash flow from operating activities of EUR 2.1 million and cash flow from financing activities of EUR 50 million and was negatively impacted by cash flow from investing activities of EUR 54 million.

Prepaid expenses declined from EUR 1.2 million to EUR 0.9 million as a result of a periodic adjustment in accrued expenses.

On the liabilities side of the balance sheet, the Company's equity declined from EUR 10.7 million as of March 31, 2014 to EUR 10.0 million as of December 31, 2014. Given the significant rise in total assets, this is equivalent to an equity ratio of 12.1 % after 40.9 % on March 31, 2014. Due to the significantly improved result in the reporting year compared to the prior year, accumulated losses amounted to EUR 107.2 million and capital reserves to EUR 102.8 million, respectively, and were essentially unchanged compared to the previous year.



Provisions grew from EUR 0.8 million in the previous year to EUR 1.7 million in the abbreviated 2014 fiscal year. This rise concerned provisions mainly for obligations resulting from the preparation of the financial statements and consolidated financial statements, auditing, other personnel-related costs and outstanding invoices.

The Company's liabilities increased from EUR 14.6 million to EUR 70.6 million as of December 31, 2014. The main reason for this rise was the placement of a corporate bond with a volume of EUR 50.0 million and an increase in trade receivables of around EUR 2.4 million and an increase in liabilities to affiliated companies of approximately EUR 3.2 million.

Overall, DEMIRE AG's results of operations, net assets and financial position have developed positively along with the expansion of the DEMIRE Group's real estate portfolio.

#### Report on outlook

The Company's revenues should continue to increase in the current fiscal year. The Company will carry out additional services for its own project companies, above and beyond the management services it has provided to date and will receive competitive compensation. Along with the expansion of the real estate portfolio, we expect an increase in revenues of approximately 50 %. The objective is also to achieve a positive EBIT and an accompanying improvement in the return on equity in the 2015 fiscal year. With the financing options we have available to us, we strive to achieve a stable development in our liquidity position.

Frankfurt/Main, June 3, 2015  
DEMIRE Deutsche Mittelstand Real Estate AG



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



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

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

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



## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF INCOME APRIL 1, 2014 TO DECEMBER 31, 2014

EUR	Note	01/04/2014 –31/12/2014	01/04/2013 –31/03/2014
Rental income	D.1	3,748,621	648,660
Operating expenses to generate rental income	D.2	-1,458,837	-189,111
<b>Profit/loss from the rental of real estate</b>		<b>2,289,784</b>	<b>459,549</b>
Revenue from the sale of real estate companies		4,782,591	402,989
Net assets from real estate companies sold		-4,713,385	-16,606
<b>Profit/loss from the sale of real estate companies</b>	<b>D.3</b>	<b>69,206</b>	<b>386,383</b>
Revenue from asset management		0	81,980
Expenses for asset management		0	-43,720
<b>Profit/loss from asset management</b>		<b>0</b>	<b>38,260</b>
Profits from investments accounted for using the equity method		198,870	23,487
Losses from investments accounted for using the equity method		-125,997	-761,274
Unrealised fair value adjustments in equity investments		-1,086,940	-950,165
<b>Profit/loss from investments accounted for using the equity method</b>	<b>D.4</b>	<b>-1,014,067</b>	<b>-1,687,952</b>
Profit/loss of fair value adjustments in investment properties	D.5	63,608,203	2,904,810
Unrealised fair value adjustments in real estate inventory	D.6	307,289	-1,139,995
Impairment of goodwill and receivables	D.7	-693,440	-1,211,739
Other operating income	D.8	429,327	1,518,352
<b>Other operating income and other effects</b>		<b>63,651,379</b>	<b>2,071,428</b>
General and administrative expenses	D.9	-3,648,633	-4,656,040
Other operating expenses	D.10	-2,913,860	-2,164,126
<b>Earnings before interest and taxes</b>		<b>58,433,809</b>	<b>-5,552,498</b>
Financial income		6,955,074	1,134,628
Financial expenses		-9,892,767	-1,316,761
<b>Financial result</b>	<b>D.11</b>	<b>-2,937,693</b>	<b>-182,133</b>
<b>Profit/loss before taxes</b>		<b>55,496,116</b>	<b>-5,734,631</b>
Income taxes	D.12	-9,789,363	-251,122
<b>Net profit/loss for the period</b>		<b>45,706,753</b>	<b>-5,985,753</b>
Of which, attributable to:			
<b>Non-controlling interests</b>	<b>D.13</b>	<b>2,404,819</b>	<b>-51,249</b>
<b>Parent company shareholders</b>		<b>43,301,934</b>	<b>-5,934,504</b>
Basic earnings per share	D.14	3.03	-0.43
Diluted earnings per share	D.14	1.74	-0.43

## STATEMENT OF COMPREHENSIVE INCOME

EUR	Note	01/04/2014 –31/12/2014	01/04/2013 –31/03/2014
<b>Net profit/loss for the period</b>		<b>45,706,753</b>	<b>-5,985,753</b>
Share of other comprehensive income attributable to associated companies accounted for using the equity method, before taxes	E.14	-1,067,214	-1,019,015
Currency translation differences, before taxes		626,104	455,977
<b>Total of other comprehensive income which may be reclassified to profit and loss in future periods, before taxes</b>	<b>G.1/G.2</b>	<b>-441,110</b>	<b>-563,038</b>
<b>Total comprehensive income</b>		<b>45,265,643</b>	<b>-6,548,791</b>
Of which, attributable to:			
<b>Non-controlling interests</b>		<b>2,605,311</b>	<b>-22,921</b>
<b>Parent company shareholders</b>		<b>42,660,332</b>	<b>-6,525,870</b>

**ASSETS**

<b>EUR</b>	<b>Note</b>	<b>31/12/2014</b>	<b>31/03/2014</b>
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Property, plant, and equipment	E.1.1	0	1,200
Investment properties	E.1.2	11,329,947	209,751
Investments accounted for using the equity method	E.1.3	333,070,000	20,526,382
Other financial assets	E.1.4	2,612,951	4,694,231
Loans to investments accounted for using the equity method	E.1.5	14,383	694,633
Other loans	E.1.6	2,856,582	2,490,210
Deferred tax assets	E.1.7	322,218	351,482
Total non-current assets	E.5.1	719,820	927,506
<b>Summe langfristige Vermögenswerte</b>		<b>350,925,901</b>	<b>29,895,395</b>
<b>Current assets</b>			
Real estate inventory		7,354,885	7,783,845
Trade accounts receivables and other receivables		9,286,985	1,743,632
Financial receivables and other financial assets		921,160	1,148,792
Tax refund claims		125,800	71,195
Cash and cash equivalents		4,397,265	3,954,663
<b>Total current assets</b>		<b>22,086,095</b>	<b>14,702,127</b>
<b>Investments accounted for using the equity method, available for sale</b>	<b>E.3</b>	<b>0</b>	<b>3,802,647</b>
<b>Total assets</b>		<b>373,011,996</b>	<b>48,400,169</b>

## SHAREHOLDERS' EQUITY AND LIABILITIES

EUR	Note	31/12/2014	31/03/2014
<b>SHAREHOLDERS' EQUITY</b>			
<b>Shareholders' equity</b>			
Subscribed capital		14,306,151	13,894,651
Reserves		37,377,704	-6,061,225
<b>Equity attributable to parent company shareholders</b>		<b>51,683,855</b>	<b>7,833,426</b>
Interest of non-controlling shareholders		2,945,398	-131,664
<b>Total shareholders' equity</b>	<b>E.4</b>	<b>54,629,253</b>	<b>7,701,762</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	E.5.1	10,031,740	1,210,981
Non-current financial debt	E.5.2	248,091,940	24,646,158
<b>Total non-current liabilities</b>		<b>258,123,680</b>	<b>25,857,139</b>
<b>Current liabilities</b>			
Provisions	E.6.1	852,026	786,883
Trade payables and other liabilities	E.6.2	11,519,200	4,257,040
Tax liabilities	E.6.3	314,430	18,586
Current financial debt	E.6.4	47,573,407	9,778,759
<b>Total current liabilities</b>		<b>60,259,063</b>	<b>14,841,268</b>
<b>Total liabilities</b>		<b>318,382,743</b>	<b>40,698,407</b>
<b>Total equity and liabilities</b>		<b>373,011,996</b>	<b>48,400,169</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

TEUR	Note	01/04/2014 –31/12/2014	01/04/2013 –31/03/2014
<b>Group profit/loss before taxes</b>		<b>55,496</b>	<b>-5,735</b>
Interest expenses paid for financial debt		1,607	363
Change in trade accounts receivable and other receivables		-7,543	1,612
Change in deferred tax assets		208	-928
Change in income tax receivables		-55	1
Change in financial receivables and other financial assets		470	-830
Change in intangible assets		1	0
Change in provisions		65	-518
Change in trade payables and other liabilities		7,558	3,192
Change in deferred tax liabilities		8,821	1,165
Valuation gains under IAS 40		-63,608	-2,905
Profit from the sale of real estate companies		-69	-386
Income taxes		-9,789	-251
Change in reserves		2,290	565
Profit/loss from investments accounted for using the equity method		1,014	1,688
Fair value adjustments in real estate inventory		-307	1,140
Other non-cash items*		-145	-73
<b>Cash flow from operating activities</b>	<b>F</b>	<b>-3,986</b>	<b>-1,900</b>
Payments for investments in property, plant and equipment		-11,356	-221
Payments for the purchase of investment properties		-248,726	-17,621
Proceeds from the disposal of property, plant, and equipment		0	30
Proceeds from the capital reduction of investments accounted for using the equity method and other investments"		0	363
Payments for the acquisition of interests and for increasing the capital reserve of investments accounted for using the equity method and other investments		0	-1,085
Proceeds from the sale of interests in investments accounted for using the equity method and other investments		3,700	0
"Payments for granting loans to investments accounted for using the equity method and to other investments"		0	-104
Proceeds from the repayment of loans from investments accounted for using the equity method and other investments		101	0
Payments for the acquisition of subsidiaries and for the purchase of net assets (net of cash acquired)		0	-2
Proceeds from (p/y: payments for) the sale of subsidiaries (net of cash sold)		1,075	-75
<b>Cash flow from investing activities</b>	<b>F</b>	<b>-255,206</b>	<b>-18,715</b>
Change in financial debt resulting from the acquisition of shell companies		0	13,248
Proceeds from the issuance of convertible bonds		0	11,300
Proceeds from the issuance of financial debt		261,738	67
Interest paid on financial debt		-1,607	-349
Payments for the redemption of financial debt		-497	-2,026
<b>Cash flow from financing activities</b>	<b>F</b>	<b>259,634</b>	<b>22,239</b>
<b>Net change in cash and cash equivalents</b>		<b>442</b>	<b>1,624</b>
Change due to currency translation		0	-2
Cash and cash equivalents at the start of the period		3,955	2,333
<b>Cash and cash equivalents at the end of the period</b>	<b>F</b>	<b>4,397</b>	<b>3,955</b>
<b>Supplementary information concerning the statement of cash flows:</b>			
Income tax refunds (+)/-payments (-)		0	-39
Interest received		0	9
Interest paid		1,607	364

\*The line item „other non-cash items“ included in the previous year was allocated to line items included for the first time.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

TEUR		Share capital	Reserves							
	Note	Subscribed capital	Capital reserves	Retained earnings including Group profit/loss	Reserves for treasury shares	Currency translation	Other reserves	Equity attributable to parent company shareholders Eigenkapital	Interests of non-controlling shareholders	Total equity
<b>01/04/2014</b>	<b>G</b>	<b>13,895</b>	<b>7,455</b>	<b>-10,500</b>	<b>-310</b>	<b>-2,706</b>	<b>0</b>	<b>7,835</b>	<b>-133</b>	<b>7,702</b>
Capital increase (related to the conversion of convertible bonds)	G	0	0	0	0	-1,067	0	-1,067	0	-1,067
Change in scope of consolidation	G	0	0	0	0	425	0	425	201	626
<b>Change related to the convertible bond recognised directly in equity</b>	<b>G</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-642</b>	<b>0</b>	<b>-642</b>	<b>201</b>	<b>-441</b>
Change in deferred taxes recognised directly in equity	G	0	0	43,302	0	0	0	43,302	2,405	45,707
<b>Proportional transfer of earnings-neutral changes in equity in investments accounted for using the equity method</b>	<b>G</b>	<b>0</b>	<b>0</b>	<b>43,302</b>	<b>0</b>	<b>-642</b>	<b>0</b>	<b>42,660</b>	<b>2,606</b>	<b>45,266</b>
Currency translation differences		411	108	0	0	0	0	519	0	519
Total other comprehensive income	G	0	0	0	0	0	0	0	472	472
Net profit/loss for the period	G	0	493	0	0	0	0	493	0	493
Total comprehensive income	G	0	177	0	0	0		177	0	177
<b>31/12/2014</b>	<b>G</b>	<b>14,306</b>	<b>8,233</b>	<b>32,802</b>	<b>-310</b>	<b>-3,348</b>	<b>0</b>	<b>51,684</b>	<b>2,945</b>	<b>54,629</b>
<b>01/04/2013</b>	<b>G</b>	<b>13,895</b>	<b>7,455</b>	<b>-1,266</b>	<b>-310</b>	<b>-2,115</b>	<b>-3,299</b>	<b>14,361</b>	<b>-109</b>	<b>14,252</b>
Reclassification of other reserves	G	0	0	0	0	-1,019	0	-1,019	0	-1,019
Proportional transfer of earnings-neutral changes in equity in investments accounted for using the equity method	G	0	0	0	0	428	0	428	27	455
<b>Currency translation differences</b>	<b>G</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-591</b>	<b>0</b>	<b>-591</b>	<b>27</b>	<b>-564</b>
Total other comprehensive income	G	0	0	-5,935	0	0	0	-5,935	-51	-5,986
<b>Net profit/loss for the period</b>	<b>G</b>	<b>0</b>	<b>0</b>	<b>-5,935</b>	<b>0</b>	<b>-591</b>	<b>0</b>	<b>-6,526</b>	<b>-24</b>	<b>-6,550</b>
Total comprehensive income				-3,299			3,299			0
<b>31/03/2014</b>	<b>G</b>	<b>13,895</b>	<b>7,455</b>	<b>-10,500</b>	<b>-310</b>	<b>-2,706</b>	<b>0</b>	<b>7,835</b>	<b>-133</b>	<b>7,702</b>

## Notes to the consolidated financial statements for the abbreviated fiscal year from April 1, 2014 to December 31, 2014

(previous year: April 1, 2013 to March 31, 2014)

### A. GENERAL INFORMATION

#### 1. Corporate information

DEMIRE Deutsche Mittelstand Real Estate AG (hereinafter also referred to as the „Company“ or „DEMIRE“) is recorded in the commercial register in Frankfurt/Main, Germany, which is the location of the Company's headquarters. MAGNAT Real Estate Opportunities GmbH & Co. KGaA was formed on April 6, 2006 and recorded in the commercial register in Frankfurt/Main, Germany on May 31, 2006. On September 17, 2010, the Company's legal form was changed from that of a GmbH & Co. KGaA to a public stock corporation („Aktiengesellschaft“) and was recorded in the commercial register (HRB 89041). The Extraordinary General Meeting of June 27, 2013 passed the resolution to change the Company's name to „DEMIRE Deutsche Mittelstand Real Estate AG“. The registration of the name change was recorded in the Company's commercial register on July 30, 2013.

The Company's headquarters are located at Lyoner Strasse 32 in Frankfurt/Main. Previously, the Company's fiscal year ended on March 31. The Company's Annual General Meeting of October 15, 2014, resolved a change in the fiscal year-end, which was recorded in the commercial register on November 18, 2014. With effect from January 1, 2015 the fiscal year was aligned to the calendar year. With this change, the Company intended to establish a uniform fiscal year-end across most of the units included in the scope of consolidation. Therefore, the fiscal year from April 1, 2014 to December 31, 2014 was an abbreviated fiscal year. As a result of the change in the fiscal year-end to December 31, prior year figures are not fully comparable.

The Company was originally listed on the open market in July 2006. On October 30, 2007 the Company switched stock exchange segments. Since this time, the Company's shares have been listed in the General Standard segment of the Frankfurt Stock Exchange. As a result of this segment change, DEMIRE is subject to the stringent EU-wide transparency requirements of the regulated market.

To date, DEMIRE Deutsche Mittelstand Real Estate AG itself has not carried out any investments in real estate or real estate projects. Generally, investments are processed through project companies. Interests in these project companies are either directly or indirectly held (through intermediate holding companies) by DEMIRE Deutsche Mittelstand Real Estate AG.

These consolidated financial statements, prepared in the name of the legal parent company DEMIRE Deutsche Mittelstand Real Estate AG are to be attributed economically to the economic acquirer identified as MAGNAT Asset Management GmbH, Vienna, Austria (formerly R-QUADRAT Immobilien GmbH), within the context of a reverse acquisition in fiscal year 2009/2010 (see A.5). The total of the consolidated subsidiaries and the joint ventures and associated companies accounted for using the equity method will be referred to hereinafter as the „DEMIRE Group“ or „DEMIRE“.

MAGNAT Asset Management GmbH, Vienna, Austria had carried out the real estate asset management within the Group and, to a limited extent, for third parties until September 30, 2013.

As a result of the strategic realignment towards a clear focus on commercial real estate in Germany, DEMIRE's business model has changed from a „develop & sell“ to a „buy & hold“ strategy with active portfolio management.

Today, DEMIRE's investment portfolio is distributed among seven countries. Based on the new focus on Germany, DEMIRE is pursuing an accelerated withdrawal from the remaining regions.

## 2. Application of International Financial Reporting Standards (IFRS)

DEMIRE prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS) in line with Article 4 of the EC Directive number 1606/2002 of the European Parliament and Council from July 19, 2002 regarding the application of international financial reporting standards. The consolidated financial statements of the DEMIRE Group, which are prepared for DEMIRE Deutsche Mittelstand Real Estate AG as the legal parent company, are prepared according to uniform accounting principles. This takes into account all IFRS standards that require mandatory application as of the reporting period ending on December 31, 2014, including currently valid International Accounting Standards (IAS), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), including the currently valid interpretations of the former Standing Interpretations Committee (SIC) as applicable in the EU. The consolidated financial statements prepared by DEMIRE Deutsche Mittelstand Real Estate AG fully comply with the IFRS guidelines in their currently valid version to the extent they were adopted by the European Union according to Article 6 para. 2 IAS VO 1606/2002 by comitology procedure in accordance with European Union regulations. They also give consideration to the supplementary German commercial law provisions, applicable in accordance with Section 315a para. 1 of the German Commercial Code (HGB).

## 3. New accounting standards that require mandatory application as at December 31, 2014

The accounting methods applied generally correspond to the methods applied in the previous year with the following exceptions:

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Committee (IFRIC) have approved standards and interpretations (which have already passed the EU recognition procedure) and require mandatory first-time application in the reporting period:

### IFRS 10

#### Consolidated Financial Statements

IFRS 10 replaces the existing provisions of IAS 27 for consolidated financial statements and the provisions of SIC 12 for the consolidation of special purpose entities. The provisions of IFRS 10 lead to a standardisation of the previous consolidation concepts under IAS 27 and SIC 12. IFRS 10 sets out a new definition of the point at which a parent company assumes control of an investee. The term control combines the power to direct the relevant activities of the investee with the right to variable returns from its involvement with the investee; i.e. to receive or to be exposed to variable returns from the investee and to have the ability to determine those returns. In addition, IFRS 10 includes provisions relating to potential voting rights, protective rights of third parties, and power without a majority of voting rights („de facto control“). The new definition of the term control may change

the scope of consolidation, particularly due to the discretion when assessing the parent company's economic influence over the investee. The amended standard has no impact on the consolidated financial statements of DEMIRE.

## IFRS 11

### Joint Arrangements

IFRS 11 governs the accounting in situations where several companies control a joint venture or joint operation. The contract partners should account for the respective contractual rights and obligations of the joint arrangement depending upon whether the corresponding agreement is to be considered a joint venture or joint operation. IFRS 11 eliminates the previous option of recognising joint ventures according to proportionate consolidation; application of the equity method is mandatory. The distinction between joint operation and the classification of as a joint venture is specified. In the case of a joint operation, the partners have immediate rights and obligations with respect to the assets, liabilities, expenses, and income. In the case of a joint venture, the partners have rights to the net assets of the joint venture. The amended standard has no impact on the consolidated financial statements of DEMIRE.

## IFRS 12

### Disclosures of Interests in Other Entities

IFRS 12 defines the required disclosures for companies which carry out their accounting in accordance with both of the new standards, IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". In accordance with IFRS 12, companies must disclose information which allows the assessment as to the nature, risk, and financial impact related to investments in subsidiaries, associated companies, joint arrangements, or special purpose entities. Among others, the disclosures particularly include discretionary decisions and assumptions in determining the scope of consolidation. Apart from the disclosures in the notes, the new standard has not resulted in any additional changes.

## Amendments to IFRS 10, IFRS 11 and IFRS 12

### Transitional Provisions

The IASB has issued a supplement to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12. This supplement clarifies the date of the first application of the new standards. It specifies that when there are differing results when consolidating entities according to IFRS 10 and according to IAS 27/SIC 12, the immediately preceding comparable period must be restated. In addition, there are provisions as to differences in carrying amounts, to disclosures in the notes, and to entities which are or are not be consolidated according to IFRS 10 as well as IAS 12/SIC 12. The transitional provisions have no impact on the consolidated financial statements of DEMIRE.

**Amendments  
to IFRS 10,  
IFRS 12 and  
IAS 27**

**Investment Entities**

The amendments to IFRS 10, IFRS 12 and IAS 27 include a definition of investment entities as well as provisions relating to the consolidation of subsidiaries of these investment entities. Investment entities include investment funds, among others. Such entities measure the investment in subsidiaries at fair value through profit or loss according to IFRS 9 “Financial Instruments” and according to IAS 39 “Financial Instruments: Recognition and Measurement” rather than consolidating these subsidiaries. The amendments have no impact on the consolidated financial statements of DEMIRE.

**Amendments  
to IAS 27**

**Separate Financial Statements**

In the future, the new version of IAS 27 will only govern the accounting of investments in subsidiaries, joint ventures, and associated companies in separate IFRS financial statements. The amendment has no impact on the consolidated financial statements of DEMIRE.

**Amendments  
to IAS 28**

**Investments in Associated Companies and Joint Ventures**

The objective of IAS 28 is to define provisions for the extended application of the equity method. The amendment has no impact on the consolidated financial statements of DEMIRE.

**Amendments  
to IAS 32**

**Offsetting Financial Assets and Financial Liabilities**

Offsetting in accordance with IAS 32 continues to be possible only if a legal right exists at the current time which allows the recognised amounts to be offset and offsetting is intended to be carried out on a net basis or to offset the realised financial assets with the corresponding financial liabilities at the same time. The amendments relate to the clarification of the terms “current time” and “at the same time”. For the assessment of the current time, today’s circumstances are to be drawn upon. In order to consider performance and disposal as being at the same time, certain conditions must be met. The amendment has no impact on the consolidated financial statements of DEMIRE.

**Amendments  
to IAS 36**

**Recoverable Amount Disclosures for Non-Financial Assets**

The amendments to IAS 36 concern changes in the notes regarding impairment tests. The amendment has no impact on the consolidated financial statements of DEMIRE.

### Amendments Novation of Derivatives and Continuation of the Existing Hedge Accounting to IAS 39

The amendments to IAS 39 concern new provisions regarding the criteria for the continuation of hedge relationships, also in the case of the novation of derivatives. The amendment has no impact on the consolidated financial statements of DEMIRE.

#### 4. New accounting standards and amendments to standards to be applied in the future

The following standards, amendments to standards and interpretations have been published by the IASB at the time of preparing these consolidated financial statements but did not yet require mandatory application in the reporting period. The Company has not utilised the option to make voluntary prior application.

	Endorsed by the EU	EU endorsement still outstanding	Mandatory first-time application for fiscal years beginning on or after
Amendments to IAS 1		x	01/01/2016
Amendments to IAS 16 and IAS 38		x	01/01/2016
Amendments to IAS 16 and IAS 41		x	01/01/2016
Amendments to IAS 19	x		01/02/2015
Amendments to IAS 27		x	01/01/2016
IFRS 9 „Financial Instruments“ (2014)		x	01/01/2018
Amendments to IFRS 10 and IAS 28		x	01/01/2016
Amendments to IFRS 10 and, IFRS 12 and IAS 28		x	01/01/2016
Amendments to IFRS 11		x	01/01/2016
IFRS 14 "Regulatory Deferral Accounts"		x	01/01/2016
IFRS 15 „Revenue from Contracts with Customers“		x	01/01/2018
IFRIC 21 „Levies“	x		17/06/2014
Annual improvements to IFRS (2010 – 2012)	x		01/02/2015
Annual improvements to IFRS (2011 – 2013)	x		01/01/2015
Annual improvements to IFRS (2012 – 2014)		x	01/01/2016

#### IAS 1 “Presentation of Financial Statements

Amendments to IAS 1: disclosure initiative (applicable to fiscal years beginning on or after January 1, 2016; amended standard has not yet been endorsed by the EU). The amendments relate to numerous issues relating to disclosures and specify that disclosures in the notes are only necessary if their content is material. This also explicitly applies if a standard requires a list of minimum disclosures. Additionally, the standard includes explanations on the aggregation and disaggregation

of line items in the balance sheet and the statement of other comprehensive income. Furthermore, the standard clarifies how the interest in other comprehensive income of entities accounted for using the equity method should be presented in the statement of other comprehensive income. The amendments are applicable to fiscal years beginning on or after January 1, 2016. EU endorsement is still pending. The Company currently does not expect the amendment to have a significant impact on the presentation of its consolidated financial statements.

### **IAS 16 and IAS 38 "Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation"**

On May 12, 2014, the International Accounting Standards Board (IASB) adopted amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation". The amendments provide additional guidelines as to which methods of depreciation and amortisation of tangible and intangible assets may be used. The amendments will enter into force for fiscal years beginning on or after January 1, 2016. The provisions of IAS 16 were amended to clarify that depreciation and amortisation methods that are based on revenues and that result from operating activities utilising the asset are not appropriate. The IASB noted that revenue represents the generation of expected economic benefits rather than the consumption of economic benefits. The provisions of IAS 38 were amended to include a refutable presumption that revenue-based depreciation and amortisation methods are not appropriate for the same reasons as stated in IAS 16. The impact of the future application to DEMIRE's consolidated financial statements is currently being assessed.

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### **IAS 16 and IAS 41 "Amendments: Agriculture: Bearer Plants"**

On June 30, 2014 the International Accounting Standards Board (IASB) adopted amendments to IAS 16 and IAS 41 "Amendments: Agriculture: Bearer Plants". The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same manner as property, plant and equipment. The amendments will enter into force for fiscal years beginning on or after January 1, 2016. The amendments will have no impact on the consolidated financial statements of DEMIRE.

### **Amendments to IAS 19 "Employee Benefits"**

Amendments to IAS 19 – "Employee Benefits" (amendments concerning contributions by employees or third parties that are linked to the service period). The amendments are applicable to fiscal years beginning on or after July 1, 2014; for IFRS adopters in the EU, the first time application is mandatory for fiscal years beginning on or after February 1, 2015). The amendments will have no impact on the consolidated financial statements of DEMIRE.

### **IAS 27 "Equity Method in Separate Financial Statements"**

Amendments to IAS 27 – Equity Method in Separate Financial Statements. The amendments are applicable to fiscal years beginning on or after January 1, 2016; EU endorsement of the amendment is still pending. The amendments will have no impact on the consolidated financial statements of DEMIRE.

### **IFRS 9 "Financial Instruments"**

The IASB issued IFRS 9 "Financial Instruments" on July 24, 2014. The new standard is the result of the completion of different phases of a comprehensive IASB project on financial instruments and contains provisions on the recognition, measurement and derecognition of financial instruments

as well as on hedge accounting. IFRS 9 (2014) replaces all previously issued (previous) versions of IFRS 9 and combines those with the new provisions on the recognition of impairments and minor amendments with regard to the classification and measurement of financial assets. Thus, the new standard will replace the accounting provisions for financial instruments previously governed by IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is to be applied for the first time for fiscal years beginning on or after January 1, 2018. Early application may be permissible subject to the final approval during the EU endorsement process. DEMIRE is currently assessing the impact of the future application on the consolidated financial statements.

#### **Amendments to IFRS 10 and IAS 28**

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These amendments are applicable to fiscal years beginning on or after January 1, 2016; EU endorsement of the amendment is still pending. DEMIRE is currently assessing the impact of the future application on the consolidated financial statements.

#### **Amendments to IFRS 10, IFRS 12 and IAS 28**

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception. These amendments are applicable to fiscal years beginning on or after January 1, 2016; EU endorsement of the amendment is still pending. The amendments will have no impact on the consolidated financial statements of DEMIRE.

#### **IFRS 11 "Amendments: Acquisition of Interests in a Joint Operation"**

On May 6, 2014, the International Accounting Standards Board (IASB) adopted amendments to IFRS 11 "Acquisition of an Interest in a Joint Operation". With the accounting of the acquisition of interests in a joint operation (amendments to IFRS 11), IFRS 11 is changed so that the acquirer of interests in a joint operation, which represents an operation as defined by IFRS 3, must apply all principles for the accounting of business combinations in IFRS 3 and other IFRSs, provided they do not contradict with the guidelines of IFRS 11. The amendments will enter into force for fiscal years beginning on or after January 1, 2016. The impact of the future application on the consolidated financial statements of DEMIRE is not expected to be material.

#### **IFRS 14 "Regulatory Deferral Accounts"**

On January 30, 2014 the International Accounting Standards Board (IASB) adopted IFRS 14 "Regulatory Deferral Accounts". The IFRS standard currently does not contain any provisions regarding rate-regulated sales activities. The objective of IFRS 14 is to improve the comparability of financial statements of such entities that conduct rate-regulated sales activities. Rate regulations can lead to economic benefits or disadvantages if expenses in the current reporting period have an impact on the required prices in future reporting periods. The national accounting standards in individual countries allow for or require the capitalisation/deferral of such economic benefits. The impact of the future application on the consolidated financial statements of DEMIRE is currently being assessed.



### **IFRS 15 “Revenue from Contracts with Customers”**

On May 28, 2014 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) issued the joint accounting standard IFRS 15 (“Revenue from Contracts with Customers”). The objective of the new standard on revenue recognition is to combine the numerous provisions previously included in several standards and interpretations. At the same time, unified principles were established that are applicable for all industries and for all categories of revenue transactions. According to IFRS 15, revenue is recognised in the amount that is expected as consideration for the transfer of goods or services to customers. With regard to determining the time or time period, revenue is recognised as control of the goods or services is passed to the customer (control approach). Control is defined as the ability to direct the use of the goods or services and to obtain the economic benefits from the goods or services. By decision of the IASB of April 2015, the first-time application of IFRS 15 was delayed to January 1, 2018. The impact of the future application on the consolidated financial statements of DEMIRE is currently being assessed.

### **IFRIC 21 “Levies”**

IFRIC 21 concerns the accounting of levies charged by public authorities other than income taxes in the meaning of IAS 12 “Income Taxes” and specifically when the liability to pay such a levy should be recognised as a liability in the financial statements. The interpretation was issued on May 20, 2013. The amendments require first time mandatory application for fiscal years beginning after June 17, 2014, whereby early adoption is permitted. EU endorsement occurred on June 13, 2014. IFRIC 21 will not have a material impact on DEMIRE’s future consolidated financial statements.

### **Annual improvements to IFRS (2010-2012) and IFRS (2011-2013)**

As part of its annual “Improvements Project”, the IASB has implemented a large number of minor content-related and editorial amendments to various standards:

<b>IFRS 1</b>	Applicable IFRS
<b>IFRS 2</b>	Definition of vesting conditions
<b>IFRS 3</b>	Exceptions to scope of application for joint arrangements and accounting of contingent considerations in the context of business combinations
<b>IFRS 8</b>	Information on the aggregation of operating segments and the requirement of a reconciliation of segment assets
<b>IFRS 13</b>	Application of the so-called portfolio exception and the waiving of discounting of current receivables and liabilities in measuring fair value, if the effect is immaterial
<b>IAS 16 / IAS 38</b>	Revaluation Method: determination of accumulated depreciation/amortisation at the time of the revaluation

**IAS 24** Extended definition of related parties to include so-called management entities and regulation of the accompanying disclosure requirements

**IAS 40** Interrelationship of IFRS 3 and IAS 40 when classifying “investment property” as owner-occupied property.

The **Annual Improvements** to IFRS (2010-2012) require first time mandatory application for fiscal years beginning on or after February 1, 2015. The amendments to IFRS (2011-2013) require first time mandatory application for fiscal years beginning on or after January 1, 2015. The amendments will have no effect on DEMIRE’s future consolidated financial statements.

#### **Annual Improvements to IFRS (2012-2014)**

Annual improvements to IFRS – 2012-2014 Cycle (Amendments to IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”, IFRS 7 – “Financial Instruments: Disclosures”, IAS 19 “Employee Benefits”, IAS 34 “Interim Financial Reporting”. These amendments are applicable to fiscal years beginning on or after January 1, 2016; EU endorsement of the amendments is still pending. The amendments will have no effect on DEMIRE’s consolidated financial statements.

#### **5. Reverse acquisition**

On October 29, 2009, the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG (at that time MAGNAT Real Estate Opportunities GmbH & Co. KGaA) resolved the contribution of the interest in R-QUADRAT Immobilien GmbH (now known as MAGNAT Asset Management GmbH), Vienna, Austria, and its subsidiaries (to be referred to hereinafter as “R-QUADRAT Group”) by way of a capital increase in kind. The first-time consolidation of R-QUADRAT Group in DEMIRE’s consolidated financial statements as of March 31, 2010, became effective on August 31, 2009.

In the consolidated financial statements of 2009/2010, the legal acquirer DEMIRE Deutsche Mittelstand Real Estate AG (formerly named MAGNAT Real Estate Opportunities GmbH & Co. KGaA) was incorrectly also classified as the economic acquirer. However, from an economic standpoint, R-QUADRAT Immobilien GmbH (now named MAGNAT Asset Management GmbH), Vienna, Austria, must be regarded as the economic acquirer according to IFRS 3.21 (2004). Therefore, the consolidated financial statements must be prepared from the standpoint of the economic acquirer (“reverse acquisition”). In the context of the purchase price allocation, hidden reserves and hidden liabilities must be disclosed at the economically acquired company and not at the legally acquiring company. In the 2011/2012 fiscal year, the corresponding adjustments according to IAS 8.42 were retroactively made (please refer to the 2013/2014 Annual Report).

## 6. Key discretionary decisions, judgments, and estimates

### Discretionary decisions

When applying the accounting methods, the Company's management has made the following discretionary decisions. This applies to the following items in particular:

- For assets to be sold, it must be determined as to whether they can be sold in their current condition and if a sale is highly probable. If this is the case, the assets, and where applicable the corresponding liabilities, are to be reported and measured as assets and liabilities available for sale.
- For real estate, DEMIRE must determine at each reporting date whether these assets are to be allocated to real estate inventory or to investment properties. The classification is based on the following assessment:
  - Real estate inventory: The primary goal with regard to these properties is either a "buy & sell" or "develop & sell" strategy. Thus, these properties are held for sale in the course of ordinary business activities.
  - Investment properties: The primary goal with regard to these properties is sustainable management. Thus, these properties are held with the intention of generating rental income and/or for capital appreciation.
- Upon assuming control of a subsidiary or upon the acquisition of assets, it must be determined as to whether this transaction should be classified as a business combination according to IFRS 3, or as an acquisition of a group of assets or net assets (aggregated assets). If a business operation defined as an integrated group of activities is acquired in addition to assets and liabilities, this constitutes a business combination that requires accounting according to IFRS 3. An integrated group of activities is defined, for example, as business processes in the areas of property management, credit management and accounting. Additionally, the fact that staff is employed at the acquired real estate company is also an indication that a business operation has been acquired.

### Estimates and assumption

The preparation of consolidated financial statements complying with IFRS requires the management to make estimates and assumptions. Various items require forward-looking assumptions to be made. These assumptions may have a material impact on the carrying amounts of the assets and the liabilities as at the balance sheet date as well as the level of income and expenses in the reporting year. The most important forward-looking assumptions and other material sources of estimation uncertainty as of the closing date that could result in a considerable risk of significant adjustments to the carrying amounts of assets and liabilities in the next fiscal year are discussed below.

Investment properties

The Group holds investment properties measured at fair value in accordance with IAS 40. The fair values of the investment properties are based on annual valuation reports of renowned external independent experts and have been ascertained in accordance with international valuation standards. The valuation is based on discounted earnings models in accordance with the German ordinance on the valuation of property/real estate and on the basis of comparable prices or market prices, if available.

Market values are determined on the basis of discounted earnings models in accordance with the Federal Building Code (Baugesetzbuch), the Property Valuation Regulation (Immobilienwertermittlungsverordnung [ImmoWertV]) and the Valuation Guidelines (Wertermittlungsrichtlinie [WertR]). Measurement is based on a sustainable management of the properties and includes the rentable space, taking into account the rents (excluding utilities) that can be attained in the local market assuming sustainable occupancy/vacancy rates, which are predominantly influenced by local market supply and demand. The operating costs necessary to maintain the properties in a rentable condition are offset against these attainable rents. The necessary investment is dependent upon the current condition of the property and is based on the assessment of the expert opinion with regard to future investment while taking into account the investments actually required in the past, the customary maintenance costs recommended in specialist literature and the opinion of the experts. A multiple which is based on property yields and remaining useful lives is applied to the net present value. The property yields are determined by local/regional expert committees of the municipalities. The land value (area x land value/m<sup>2</sup>) is added to the net present value. The sum of net present value and land value totals the fair value. All expert opinions are based on an on-site visit of the property.

Due to their long-term nature, these valuation assumptions are subject to uncertainties that can lead to both positive and negative valuation changes in the future. Measurement under IAS 40 is based on assumptions that may diverge from the expectations of the Company's management. Should there be a significant increase in the vacancy rate or in the currently low interest rate level, the result would be a decrease in the portfolio's overall fair value. If the Company's management had chosen the acquisition cost model as permitted under IAS 40, then the carrying amounts of investment properties and the corresponding income and expense items would deviate significantly

Trade accounts receivables

Assessing the recoverability of receivables from current leases is also derived from estimates. Estimates for the recoverability of outstanding receivables are based on an analysis of the term structure of outstanding receivables and the corresponding probability of default based on past experience.

### Real estate inventory

Estimates of the net realisable value of the real estate inventory are based on the most reliable substantial indicators at the time when the estimates are made and take into consideration the amount expected to be received for the inventory. These estimates consider price or cost changes directly related to transactions after the reporting period insofar as these transactions shed light on circumstances that already existed at the end of the reporting period. Estimates of net realisable value also take into account the purpose for which the real estate inventory is held. The determination of the net realisable value is based either on the comparative value method in the context of valuation reports by renowned external independent experts in accordance with international valuation standards or on internal estimates of the market value by the legal representatives of the Company. The carrying amount of the respective real estate inventory amounts to EUR 7,355k (previous year: EUR 7,784k). Of this amount, a total of EUR 1,541k (previous year: EUR 5,648k) of real estate inventory has been valued using internal estimates of the market value. A write-up of the amortised cost (EUR 2,957k) of one piece of real estate inventory was made due to re-rental of the property. The remaining EUR 2,857k (previous year: EUR 2,136k) are based on valuation reports using the comparative value method. Regarding the result of the valuations, we refer to Note D.6.

### Deferred tax assets on tax-loss carryforwards

Deferred tax assets are recognised for all unutilised tax-loss carryforwards to the extent that it is likely that taxable income will be available so that the tax-loss carryforwards can actually be utilised. Deferred tax assets for tax-loss carryforwards were recognised in the amount of EUR 1,698k (previous year: EUR 928k). The determination of the amounts of the deferred tax assets depends mainly on the management's assessment, the amount and expected timing of future taxable income, and future tax structuring options. Based on these estimates, the amount of deferred tax assets recognised for the tax-loss carryforwards is reviewed annually to conform to the current conditions. For further explanations, please see Note D.12 and E.5.1.

### Other provisions

With regard to provisions, assumptions are to be made concerning probability of occurrence and the amount of utilisation of the uncertain obligation, taking into account the information available at the time of preparing the financial statements.

### Obligations from operating leases – The Group as lessor

The Group has entered into commercial property lease agreements for its real estate inventory and its investment properties. Hereby, it was agreed that the Group should retain all the significant risks and opportunities connected with the ownership of these properties that are rented on the basis of an operating lease. Consequently, the Group accounts for these properties as operating leases. Material assumptions concern the allocation of the leases to the operating leases following an analysis of the contracts' terms and conditions and the evaluation of the recoverability of outstanding receivables arising from lease agreements from commercial rentals.

## B. SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

### 1. Scope of consolidation

In addition to the Group's economic parent company, MAGNAT Asset Management GmbH (see explanations under A.5.), the consolidated financial statements generally include all German and foreign subsidiaries from the date of their acquisition. The scope of consolidation is shown in the list enclosed as Appendix 1. The scope of consolidation comprises 54 fully consolidated entities (previous year: 24), including the parent company.

NUMBER OF FULLY CONSOLIDATED SUBSIDIARIES	2014	2013/2014
As at April 1	30	34
Additions	27	3
Disposals	3	3
Disposals through mergers	0	4
As at December 31 (previous year: March 31)	54	30

In the previous year's period, by way of an agreement dated July 29, 2013, Magnat Development GmbH was merged with DEMIRE Deutsche Mittelstand Real Estate AG effective April 1, 2013. By way of an agreement dated July 15, 2013, Magnat Development GmbH withdrew as a general partner of Magnat First Development GmbH & Co. KG. Upon the withdrawal of the general partner, Magnat First Development GmbH & Co. KG ceased to exist. The company's assets and liabilities accrued to the remaining shareholder, DEMIRE Deutsche Mittelstand Real Estate AG.

Despite an interest of 59.78 %, OXELTON ENTERPRISES Limited, Limassol, Cyprus, is not fully consolidated but rather accounted for using the equity method as a joint venture since, under the Articles of Association; the decisions of both shareholders must be unanimous.

#### Definition of types of entities:

Subsidiary: An entity that is controlled by another entity (referred to as parent company).

Associated company: An entity upon which the investor has a significant influence but does not exert control or joint control.

Joint venture: A joint arrangement in which the parties that exert joint control have rights in the net assets of the arrangement.

### Changes in the scope of consolidation

The following amounts of assets and liabilities of Condor Objektgesellschaft Rendsburg GmbH, Condor Objektgesellschaft Bad Oynhausen GmbH, Condor Objektgesellschaft Lichtenfels GmbH, Condor Objektgesellschaft Yellow GmbH, all located in Frankfurt/Main, were recognised as at the acquisition date of September 30, 2014 and of Condor Objektgesellschaft Düsseldorf GmbH, Frankfurt/Main, as at the acquisition date of December 15, 2014 (94 % of the assets and liabilities were acquired, respectively):

EURk	Amounts recognised as at the acquisition date
<b>Assets acquired</b>	
Non-current assets	48,957
Current assets	2,072
<b>Total assets</b>	<b>51,029</b>
<b>Acquisition costs</b>	<b>2,857</b>

The entities mentioned above are included in the consolidated financial statements with their assets and liabilities because the acquisition of the interests in the reporting period did not constitute a business combination as defined by IFRS 3 (acquisition of aggregated assets).

The following amounts of assets and liabilities of GO Bremen ApS Denmark, GO Leonberg ApS Denmark, GO Ludwigsburg ApS Denmark, Denston Investments Ltd. Cyprus, Alemory 66. Grundstücks GmbH Germany, Reubescens S.à.r.l. Luxembourg, EOGF Grundstücksgesellschaft mbH Germany, Blue Ringed S.à.r.l. Luxembourg, Briarius S.à.r.l. Luxembourg, Armstripe S.à.r.l. Luxembourg were recognised as at the acquisition date of December 15, 2014 (94 % of the assets and liabilities were acquired, respectively):

EURk	Amounts recognised as at the acquisition date
<b>Assets acquired</b>	
Non-current assets	149,515
Current assets	5,579
<b>Total assets</b>	<b>155,094</b>
<b>Acquisition costs</b>	<b>1,710</b>

The entities mentioned above are included in the consolidated financial statements with their assets and liabilities because the acquisition of the interests in the reporting period did not constitute a business combination as defined by IFRS 3 (acquisition of aggregated assets).

The purchase prices for the real estate companies acquired on December 15, 2014, include the interests in the companies as well as shareholder loans of the previous shareholders that were assumed by the Company. The recognition of the shareholder loans below the current carrying amounts was due to the fact that most of the acquired companies had negative equity and the shareholder loans were so-called non-performing loans.

The following amounts of assets and liabilities of CAM Commercial Asset Management EINS GmbH, CAM Commercial Asset Management ZWEI GmbH, CAM Commercial Asset Management DREI GmbH, CAM Commercial Asset Management VIER GmbH, all located in Frankfurt/Main (100 % of the assets and liabilities were acquired, respectively), as well as Schwerin Margaretenhof 18 GmbH, Berlin (94.9 % of the assets and liabilities were acquired), were recognised as at the acquisition date of December 31, 2014:

EURk	Amounts recognised as at the acquisition date
<b>Assets acquired</b>	
Non-current assets	50,254
Current assets	1
<b>Total assets</b>	<b>50,255</b>
<b>Acquisition costs</b>	<b>42,555</b>

The entities mentioned above are included in the consolidated financial statements with their assets and liabilities because the acquisition of the interests in the reporting period did not constitute a business combination as defined by IFRS 3 (acquisition of aggregated assets).

The liabilities of the acquired companies were refinanced and mainly replaced by loans for the acquisition at the acquisition date.

#### Changes in the scope of consolidation in the prior year

The following amounts of assets and liabilities of DEMIRE Real Estate München I GmbH, Frankfurt/Main, were recognised as at the acquisition date of November 27, 2013 (EUR 27k was recognised in the financial statements as acquisition cost):

EURk	Amounts recognised as at the acquisition date
<b>Assets</b>	
Called-in, outstanding capital contribution	25
<b>Total assets</b>	<b>25</b>



The following amounts of assets and liabilities of MUNICH ASSET Vermögensverwaltung GmbH, Frankfurt/Main, were recognised as at the acquisition date of February 5, 2014, (EUR 26k was recognised in the financial statements as acquisition cost):

EURk	Amounts recognised as at the acquisition date
<b>Assets</b>	
Land & buildings	6,908
Outstanding capital contribution	13
Cash and cash equivalents	12
<b>Total assets</b>	<b>6,933</b>
<b>Liabilities</b>	
Trade payables	1
Financial debt	6,908
<b>Total liabilities</b>	<b>6,909</b>

The following amounts of assets and liabilities of MUNICH ASSET Vermögensverwaltung 1 GmbH, Frankfurt/Main, were recognised as at the acquisition date of February 3, 2014, (EUR 26k was recognised in the financial statements as acquisition cost):

EURk	Amounts recognised as at the acquisition date
<b>Assets</b>	
Called-in, outstanding capital contribution	26
<b>Total assets</b>	<b>26</b>

DEMIRE Real Estate München I GmbH, MUNICH ASSET Vermögensverwaltung GmbH and MUNICH ASSET Vermögensverwaltung 1 GmbH are included in the consolidated financial statements with their assets and liabilities because the acquisition of the interests in the prior year's period did not constitute a business combination as defined by IFRS 3 (acquisition of aggregated assets).

### Disposals during the reporting year

The following entities were disposed of in the course of the reporting year:

	Date of disposal	Proceeds from disposal in EURk	Disposal gain/loss in EURk	Carrying amount in EURk
MAGNAT Asset Management Ukraine Ltd., Kiew, Ukraine	15/12/2014	0	14	-14
R-QUADRAT Ukraine Gamma Ltd., inkl. RQ Gamma LLC*, beide Kiew, Ukraine.	30/12/2014	325	-112	437
Zetatrade Ltd., Kiew, Ukraine	30/12/2014	750	0	750
Hekuba S.à.r.l., Luxemburg	End of June	3,700	167	3,533

\* see Note E 3.

Summarised financial information on the companies disposed (amounts in EURk):

	MAGNAT Asset Management Ukraine Ltd., Kiew, Ukraine	R-QUADRAT Ukraine Gamma Ltd., Kiew, Ukraine	Zetatrade Ltd., Kiew, Ukraine
Aggregated assets	4	355	1,676
of which cash and cash equivalents	0	55	0
Aggregated liabilities	32	160	1,576

### Disposals during the prior year

The following companies were disposed of in the course of the prior year:

	Date of disposal	Proceeds from disposal in EURk
MAGNAT Immobilien GmbH & Co. Schumannngasse 16 KG, Vienna, Austria	13/06/2013	42
MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG, Vienna, Austria	13/06/2013	334
MAGNAT Immobilien GmbH & Co. Brünner Straße 261-263 KG, Vienna, Austria	13/06/2013	27

Summarised financial information on the companies disposed (amounts in EURk):

	MAGNAT Immobilien GmbH & Co. Schumanngasse 16 KG, Vienna, Austria	MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG, Vienna, Austria	MAGNAT Immobilien GmbH & Co. Brünner Straße 261-263 KG, Vienna, Austria
Aggregated assets	349	1,307	31
of which cash and cash equivalents	25	23	27
Aggregated liabilities	360	1,305	5

#### Disclosures according to IFRS 12

##### a) Disclosures relating to fully consolidated subsidiaries

An overview of subsidiaries in which DEMIRE AG held an interest as at December 31, 2014 (IFRS 12.10 ff), is provided in Appendix 1.

The direct and indirect interests in the capital of its subsidiaries held by DEMIRE AG correspond to the share of voting rights. The non-consolidated companies are considered as immaterial with regard to the key ratios of net income, total assets and revenues and are not included in the scope of consolidation.

##### b) Disclosures relating to associated companies

The interests in associated companies accounted for using the equity method had the following impact on the DEMIRE Group's balance sheet and statement of income.

COMPANY	Carrying amount as at 31/12/2014 in EURk	Carrying amount as at 31/03/2014 in EURk
SQUADRA Immobilien GmbH & Co. KGaA	1,592	1,718
Russian Land AG	23	23
	<b>1,615</b>	<b>1,741</b>

DEMIRE's interest in the assumed profit or loss according to the annual or interim financial statements of the associated companies is as follows:

COMPANY	Carrying amount as at 31/12/2014 in EURk	Carrying amount as at 31/03/2014 in EURk
SQUADRA Immobilien GmbH & Co. KGaA	-126	-108
Russian Land AG	0	23
	<b>-126</b>	<b>-85</b>

The following table lists information relating to investments in associated companies assessed as material.

COMPANY	Type	Head- quarter	Fiscal year	Equity in EURk	Interest in equity %	Net prof- it/ loss for the period in EURk
SQUADRA Immobilien GmbH & Co. KGaA	Associ- ated company	Germany, Frankfurt/ Main	01/04/2014 – 31/03/2015	12,663	24.78	-508

The summarised financial information on the Group's material associated companies is provided below. The financial information provided corresponds to the amounts of the financial statements prepared by the associated companies.

<b>SQUADRA IMMOBILIEN GMBH &amp; CO. KGAA</b>	31/12/2014 EURk	31/03/2014 EURk
<b>BALANCE SHEET</b>		
Non-current assets	12,606	12,722
Current assets	397	800
thereof cash and cash equivalents	74	199
Non-current liabilities	0	0
Current liabilities	340	351
thereof financial debt	93	111
<b>Net assets</b>	<b>12,663</b>	<b>13,171</b>
<b>Statement of income</b>		
Revenues	129	385
Depreciation/amortisation	9	15
Interest income	0	151
Interest expenses	0	148
Income taxes	0	20
Other income	0	0
<b>Net profit/loss for the period</b>	<b>-508</b>	<b>-668</b>
<b>Reconciliation</b>		
Net assets of the associated company at the beginning of the fiscal year	13,171	13,839
Net profit/loss	-508	-668
Net assets of the associated company as at December 31	12,663	13,171
Group's interest in %	24.78	24.78
Interest in the net assets of the associated company	3,138	3,264
Decrease from reverse acquisition	1,546	1,546
<b>Carrying amount of investment</b>	<b>1,592</b>	<b>1,718</b>

The following table lists the associated companies assessed as immaterial.

<b>COMPANY</b>	Type	Head-quarter	Fiscal year	Equity in EURk	Interest in equity %	Net profit/ loss for the period in EURk
Russian Land AG	Associ-ated company	Vienna, Austria	01/01/2013 – 31/12/2013	7	40.34	58

<b>SUMMARISED FINANCIAL INFORMATION</b>	31/12/2014 EURk	31/03/2014 EURk
Group's share in profit/loss from continuing operations	0	23
Group's share in profit/loss after taxes from discontinued operations	0	0
Group's share in other comprehensive income	0	0
<b>Total comprehensive income (profit/loss)</b>	<b>0</b>	<b>23</b>

<b>CARRYING AMOUNTS</b>	31/12/2014 EURk	31/03/2014 EURk
Total carrying amounts	23	23

c) Disclosures relating to joint ventures

The interests in joint ventures had the following impact on the DEMIRE Group's balance sheet and statement of income:

<b>COMPANY</b>	Carrying amount as at 31/12/2014 in EURk	Carrying amount as at 31/03/2014 In EURk
OXELTON ENTERPRISES Limited	869	2,823
R-QUADRAT Polska Alpha Sp. z o.o.	0	0
Irao MAGNAT 28/2 LLC	129	129
Irao MAGNAT Gudiashvili LLC	0	0
	<b>998</b>	<b>2,952</b>

A subsidiary of DEMIRE holds 60 % of OXELTON ENTERPRISES Limited (interest of the DEMIRE Group: 59.78 %). The underlying project includes the building rights to a corresponding property in Kiev with an existing permission for the construction of an office building and commercial property. Construction work has not yet started.

DEMIRE holds a 50 % interest in R-QUADRAT Polska Alpha Sp. z o.o. The underlying project is located in the centre of Kąty Wrocławskie. Initially planned was the construction of residential dwellings and commercial areas in three construction steps with a total of around 77,700 m<sup>2</sup> of usable residential area. Two of the three construction sections have been completed.

A subsidiary of DEMIRE holds a 50 % interest in Irao MAGNAT 28/2 LLC (interest of the DEMIRE Group: 49.82 %). A building comprising apartments, a penthouse, and commercial units was constructed together with a local partner.

DEMIRE has a 50 % interest in Irao MAGNAT Gudiashvili LLC. The intention was to develop the “Gudiashvili Square” project in Tbilisi together with a local partner. For this purpose, the project company acquired the existing building and started with the revitalisation. In the reporting period, DEMIRE and the local partner jointly decided to exit the project.

DEMIRE's interest in the transferred profit or loss according to the annual or interim financial statements of the joint ventures is as follows:

COMPANY	Profit/loss per 31/12/2014 in EURk	Profit/loss per 31/03/2014 in EURk
R-QUADRAT Polska Alpha Sp. z o.o.	0	0
Irao MAGNAT 28/2 LLC	0	-9
Irao MAGNAT Gudiashvili LLC	0	0
OXELTON ENTERPRISES Limited	199	-645
	<b>199</b>	<b>-654</b>

The following table lists the joint ventures assessed as immaterial.

COMPANY	Type	Head- quarter	Fiscal year	Equity in EURk	Interest in equity %	Net profit/ loss for the period in EURk
Irao MAGNAT Gudiashvili LLC	Joint venture	Tbilisi, Georgia	01/01/2014 – 31/12/2014	60	50	-8
Irao MAGNAT 28/2 LLC	Joint venture	Tbilisi, Georgia	01/01/2013 – 31/12/2013	265	50	-9

SUMMARISED FINANCIAL INFORMATION	31/12/2014 EURk	31/03/2014 EURk
Group's share in profit/loss from continuing operations	0	-9
Group's share in profit/loss after taxes from discontinued operations	0	0
Group's share in other comprehensive income	0	0
<b>Total comprehensive income (profit/loss)</b>	<b>0</b>	<b>-9</b>

<b>CARRYING AMOUNTS</b>	31/12/2014 EURk	31/03/2014 EURk
Total carrying amounts	0	0

<b>UNRECOGNISED LOSSES</b>	31/12/2014 EURk	31/03/2014 EURk
Unrecognised losses of the period	4	37
Accumulated unrecognised losses	41	37

The following table lists information relating to investments in associated companies assessed as material:

<b>COMPANY</b>	Type	Head-quarter	Fiscal year	Equity in EURk	Interest in equity %	Net profit/ loss for the period in EURk
OXELTON ENTERPRISES LIMITED	Joint venture	Cyprus, Limassol	01/01/2014 – 31/12/2014	230	60	-881
R-QUADRAT Polska Alpha Sp.z.o.o.	Joint venture	Warsaw, Poland	01/01/2014 – 31/12/2014	-11,325	50	-1,154



The summarised financial information on the Group's material joint ventures is provided below. The financial information provided corresponds to the amounts of the financial statements prepared by the associated companies:

<b>R-QUADRAT POLSKA ALPHA SP. Z O.O.</b>	<b>31/12/2014 EURk</b>	<b>31/03/2014 EURk</b>
<b>BALANCE SHEET</b>		
Non-current assets	1	4
Current assets	3,664	4,141
thereof cash and cash equivalents	74	314
Non-current liabilities	0	0
Current liabilities	14,990	14,636
thereof financial debt	11,972	11,584
<b>Net assets</b>	<b>-11,325</b>	<b>-10,491</b>
<b>Statement of income</b>		
Revenues	828	1,019
Depreciation/amortisation	3	5
Interest income	0	0
Interest expenses	726	668
Income taxes	0	0
<b>Net profit/loss for the period</b>	<b>-1,154</b>	<b>-723</b>
<b>Reconciliation</b>		
Net assets of the associated company at the beginning of the fiscal year	-10,491	-9,739
Net profit/loss	-1,154	-1,310
Change in currency translation reserves	320	558
Net assets of the associated company as at December 31	-11,325	-10,491
Group's interest in %	50.00	50.00
Interest in the net assets of the associated company	-5,663	-5,246
<b>Carrying amount of investment</b>	<b>0</b>	<b>0</b>

<b>OXELTON ENTERPRISES LIMITED</b>	31/12/2014 EURk	31/03/2014 EURk
<b>BALANCE SHEET</b>		
Non-current assets	12,200	14,673
Current assets	3,419	4,465
thereof cash and cash equivalents	16	27
Non-current liabilities	5,919	5,218
thereof financial liabilities	5,919	5,218
Current liabilities	859	964
thereof financial liabilities	741	944
<b>Net assets</b>	<b>8,841</b>	<b>12,956</b>
<b>Statement of income</b>		
Revenues	810	100
Depreciation/amortisation	0	0
Interest income	0	0
Interest expenses	395	542
Income taxes	0	0
<b>Net profit/loss for the period</b>	<b>331</b>	<b>-1,074</b>
<b>Reconciliation</b>		
Net assets of the associated company at the beginning of the fiscal year	8,841	12,956
Net profit/loss	331	-1,074
Change in currency translation reserves	-1,779	-1,679
Impairments	-1,810	-1,362
Net assets of the associated company as at December 31	5,583	8,841
Group's interest in %	60.00	60.00
Interest in the net assets of the associated company	3,350	5,304
Decrease from reverse acquisition	-2,481	-2,481
<b>Carrying amount of investment</b>	<b>869</b>	<b>2,823</b>

## 2. Consolidation methods

### Consolidation methods

The Group controls an investee only when all of the following conditions are met:

- Control over the investee (i.e. based on currently existing rights, the Group has the option to control those activities of the investee that have a significant influence on the investee's return);
- risk exposure or rights to variable returns from its involvement in the investee;
- the option to exert its control over the investee to influence the amount of the investee's returns.

If the Group does not hold the majority of voting right or similar rights on an investee, the Group considers all facts and circumstances when assessing whether it has control over the investee. These includes

- contractual agreements with others exercising voting rights;
- rights resulting from other contractual agreements;
- voting rights and potential voting right of the Group.

Subsidiaries are consolidated from the date control is assumed by the Group and are no longer consolidated from the date that control ceases. The assets, liabilities, income and expenses of a subsidiary, which was acquired or sold during the reporting period, are included in the balance sheet and statement of comprehensive income from the date the Group assumes control over the subsidiary until the date that control ceases.

Transactions through which the share of interest in a subsidiary changes without giving up control over the subsidiary are recognised as equity transactions. If a parent company loses control over a subsidiary, the following bookings are posted:

- Derecognition of the assets (including goodwill) and liabilities of the subsidiary;
- Derecognition of the carrying amount of interest of non-controlling shareholders in the former subsidiary;
- Derecognition of accumulated currency translation differences recognised in equity;
- Recognition of the fair value of the consideration received;

- Recognition of the fair value of the remaining interest,
- Recognition of profits/losses in the statement of income;
- Reclassification of the components of other comprehensive income attributable to the parent company into the statement of income or retained earnings as if the Group had directly disposed of the corresponding assets and liabilities.

Since 2014, the consolidated financial statements comprise the financial statements of MAGNAT Asset Management GmbH, Vienna, Austria, and its subsidiaries as of December 31 (previous year: March 31) of each fiscal year. The financial statements and interim financial statements of the subsidiaries are prepared by applying uniform accounting methods on the same balance sheet date as that of the parent company.

Capital is consolidated using the purchase method by offsetting the acquisition costs of the interests with the proportional revalued equity of the subsidiaries at the date of acquisition. Upon first-time consolidation, the conditions prevailing on the date when the interests in the consolidated subsidiary are acquired are generally taken into consideration. Any resulting differences are allocated to the assets and liabilities insofar as their fair values differ from the carrying amounts shown in the financial statements. In subsequent periods, identified hidden reserves are carried in line with the corresponding assets and liabilities. Where non-controlling shareholders hold an interest in the subsidiary's equity on the balance sheet date, this item is allocated to non-controlling interests.

Intragroup revenues, expenses and income, and all receivables and liabilities between consolidated companies are eliminated.

Associated companies and joint ventures are consolidated in the Group using the equity method.

In the case of business acquisitions, DEMIRE assesses whether the acquisition constitutes a business combination according to IFRS 3 or the acquisition of a group of assets and liabilities (as aggregated assets). The real estate companies acquired in the 2014 abbreviated fiscal year do not constitute business combinations under IFRS 3 due to a lack of business operations. In accordance with IFRS 3.2b DEMIRE is to identify and recognise the individually identifiable assets acquired and liabilities assumed as aggregated assets acquired. The acquisition costs of the group of assets are to be allocated to the individually identifiable assets and liabilities at the date of acquisition based on their fair value. Such a transaction or event does not result in goodwill or in a difference resulting from capital consolidation.

### Currency translation

The reporting currency is the euro. Where figures have been rounded to EURk this has been stated. When rounding to EURk discrepancies may occur.

The functional currency concept is applied for consolidated companies whose financial statements are prepared in foreign currencies. Pursuant to IAS 21 (The Effects of Changes in Foreign Exchange Rates), assets and liabilities denominated in foreign currencies are translated into the euro reporting currency at the rate prevailing on the balance sheet date, and expenses and income are translated on the basis of year-average exchange rates.

For subsidiaries and companies accounted for using the equity method that prepare their financial statements in foreign currencies, the functional currency is determined on the basis of the economic environment in which the respective company operates.

As of the previous fiscal year, management has determined the EUR as the functional currency for the Ukrainian subsidiaries. The change to the EUR was based on the expectation that future transactions with regard to these subsidiaries will presumably be settled in EUR and that meanwhile only an irrelevant portion of revenues and costs are settled in the local currency hryvnia (UAH).

In the period under review, the financial statements of some companies accounted for using the equity method were not prepared in the reporting currency of the euro. Insofar as these companies were included in the consolidated financial statements using the equity method, the proportional equity was translated into the reporting currency applying the functional currency concept. Proportional profits/losses were translated at year-average rates.

Currency translation differences are recognised in other comprehensive income and totalled EUR -3,348k (previous year: EUR -2,706k) on an accumulated basis.

### C. ACCOUNTING POLICIES

The consolidated financial statements were prepared on the assumption of a going concern. In the opinion of the Executive Board, there is no intention or need to discontinue business activities. The following assumptions were discussed in detail by the Company's governing bodies:

- The profitability largely depends on the economic situation of the countries in which DEMIRE is engaged.
- Based on the new focus and realignment of the business model towards a classical "buy & hold" strategy with active portfolio management, continuous and stable cash inflow should contribute to strengthening the liquidity following the respective execution of future investments.
- Due to DEMIRE's former business model, the Company's liquidity depends on disposals.
- For this reason, the establishment and monitoring of liquidity management is a key focal point of the Company's governing bodies.
- The budgeted figures applied are based on management's assumptions and measures initiated by the management.
- Alternative measures are planned and initiated in order to ensure that the budget is achieved.
- A key component of this is the measures currently being implemented for further cost containment.
- A further significant deterioration in the economic situation in Eastern Europe will require a new assessment of the assumptions with regard to accelerated disposals.

Assets and liabilities are presented according to their terms (due in more than/less than one year). Deferred taxes are generally reported as non-current.

The statement of income was structured according to the recommendations of the European Public Real Estate Association (EPRA).

Assets are generally measured at the cost of acquisition or production, except for the fair value measurement of investment properties pursuant to IAS 40.

The assets and liabilities identified at MAGNAT Development GmbH, MAGNAT First Development GmbH & Co. KG, and MAGNAT Investment II B.V., as well as their subsidiaries, were recognised at fair value as at the acquisition date. The subsequent measurement of these assets and liabilities is carried out according to the following accounting policies.

### **Intangible assets**

Intangible assets include acquired software and other purchased intangible assets, which are amortised on a straight-line basis over a period of three to four years according to their useful economic life.

### **Property, plant and equipment**

Property, plant and equipment is measured at the cost of acquisition or cost of production, less accumulated scheduled depreciation. Operating and office equipment is depreciated based on the straight line method using useful lives of three to fifteen years. Advance payments made on property, plant and equipment are recognised at their nominal value.

### **Impairment of non-financial assets**

Assets as defined by IAS 36.1 are tested for impairment if circumstances or changes to circumstances suggest that their carrying amounts may no longer be recoverable. An impairment loss is recognised in profit or loss if the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of either the asset's net realisable value or its value in use. Net realisable value is the amount achievable when an asset is sold on normal market terms less selling costs. Value in use is the present value of estimated future cash flows expected from the continued utilisation of an asset and its disposal at the end of its useful life. The recoverable amount is calculated for each asset individually, or, if this not possible, for the cash-generating unit to which the asset belongs.

A reversal of impairment loss of previously impaired assets is mandatory if the reason for the impairment loss no longer exists. The only exception to this regulation is an impairment loss applied to goodwill, where reversals of impairment losses are expressly prohibited.

### **Financial assets and liabilities**

Financial assets and financial liabilities are classified upon initial recognition and in line with the categories of IAS 39. The Company primarily holds financial instruments at amortised cost under the categories of loans and receivables and financial liabilities. Financial assets and financial liabilities are initially recognised in the balance sheet when a Group company becomes a contracting party of the instrument. The initial recognition of a financial instrument is carried out at fair value, including possible transaction costs.

"Loans and receivables" contain non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Subsequent measurement is at amortised cost. If there is objective evidence that such an asset is impaired, an impairment loss is directly recognised in profit or loss. Subsequent reversals of impairment losses are recognised in profit or loss up to the level of the asset's amortised cost that would have resulted without impairment. Non- and low-interest-bearing non-current receivables are carried at their present value. At DEMIRE, this category contains loans to investments accounted for using the equity method, trade accounts receivable and other receivables, as well as financial receivables.

“Financial assets and financial liabilities measured at fair value through profit or loss” may constitute both primary and derivative financial instruments. Items in this category are subsequently measured at fair value. Gains and losses on financial instruments in this measurement category are to be recognised directly in profit or loss. The allocation to the measurement category “held for trading” only contains derivatives, which are currently not held by the DEMIRE Group.

“Other financial liabilities” are non-derivative financial liabilities that are subsequently measured at amortised cost. Differences between the amount received and the expected repayment amount are recorded over the term in profit or loss. DEMIRE allocates financial debt, trade payables and other liabilities to this category.

Loans to investments accounted for using the equity method, loans, trade accounts receivables and other receivables (with the exception of receivables arising from income tax and value added tax), as well as financial receivables are allocated to the “loans and receivables” category. These are initially measured at fair value including possible transaction costs. Subsequently, they are measured at amortised cost applying the effective interest method. Default risks are reflected through impairments. Non-interest-bearing and low-interest receivables are recognised at their present value.

Interests in affiliated companies and associated companies that are neither fully consolidated nor consolidated using the equity method due to their minor significance are recognised at acquisition costs less any impairment since the fair values of these assets cannot be reliably determined. These assets comprise of non-listed interests for which no active market is available. This mainly related to non-consolidated real estate subsidiaries with only minor business activities.

The Company derecognises a financial asset if it has expired because of payment or when the payment is no longer anticipated. Financial liabilities are derecognised if these are redeemed, i.e. if the contractual obligations have been settled, waived, or have expired.

#### **Impairment of financial assets**

On each balance sheet date, the Group determines whether a financial asset or a group of financial assets is impaired.

If there are objective indications that an impairment of loans and receivables recognised at amortised cost has occurred, the amount of the impairment is assessed as the difference between the carrying amount of the asset and the present value of the expected future cash flows (with the exception of expected future loan defaults that have not yet occurred) and discounted applying the original effective interest rate of the financial assets (in other words, the effective interest rate calculated upon initial recognition).



The asset's carrying amount is reduced utilising the valuation adjustment account. The impairment loss is recognised in profit or loss.

It is first determined whether there is an objective indication of impairment to financial assets that are individually considered to be significant and to financial assets that are not considered to be individually or collectively significant. If the Group determines that no objective indication of impairment exists for an individually tested financial asset, whether significant or not, it assigns the assets to a group of financial assets with similar default risk characteristics and collectively tests them for impairment. Assets that are tested individually for impairment and for which an impairment loss is reported are not included in the collective impairment assessment.

If the amount of impairment loss decreases in one of the subsequent reporting periods and the decrease can be related objectively to a circumstance arising after the impairment was recognised, the previously recorded impairment loss is reversed. The amount of the reversal is limited to the amortised cost at the date of the reversal. The reversal is recognised through profit or loss in the loans and receivables category. If for trade accounts receivables there are objective indications (such as probability of insolvency or significant financial difficulties on the part of the debtor) that not all amounts due under the original payment terms will be collected, an impairment loss is applied using a valuation adjustment account. The amounts in the valuation adjustment account are derecognised against the carrying amounts of the impaired financial asset if they are classified as uncollectible.

### **The classification of net gains and losses**

Net gains and losses from loans and receivables primarily comprise interest income. In addition, they also comprise the corresponding impairments and impairment reversals on these financial assets as well as gains and losses from currency translation. Net gains and losses from financial liabilities include gains and losses from currency translation next to interest expenses.

### **Investments accounted for using the equity method**

Interests in companies in which DEMIRE can exert significant influence, but does not possess control, are recognised applying the equity method pursuant to IAS 28. Interests in joint ventures are also recognised by applying the equity method pursuant to IFRS 11. Interests in investments accounted for using the equity method are initially recognised at cost. The difference between the acquisition costs and the proportionate share of equity represents goodwill. The carrying amount of the interest subsequently increases or decreases according to the owner's interest in the net profit for the period (including currency translation) of the investments accounted for using the equity method. The equity method is no longer applied when the significant influence ends or when the company is no longer classified as an associated company or joint venture. If at the same time, assets exist against investments accounted for using the equity method for which settlement is neither planned nor likely, then these assets are allocated, according to their economic substance, to the net investment in the investments accounted for using the equity method.

After applying the equity method, the Group determines whether an additional impairment is required for the Group's interest in the investments accounted for using the equity method. On each balance sheet date, the Group determines the extent to which there are objective indications that an interest in an investment accounted for using the equity method has been impaired. If this is the case, a positive difference between the carrying amount and the recoverable amount (the higher of either value in use and fair value less costs to sell) is reported through profit or loss as an impairment loss. If the reasons for a previously recognised impairment loss no longer exist, such an impairment loss is reversed accordingly.

### **Investment properties**

Properties which are held or constructed to generate rental income and/or for capital appreciation are classified as "investment properties". Currently, the investment properties solely consist of commercial properties.

The initial recognition of investment properties is carried out at the cost of acquisition or production, including incidental acquisition costs. At subsequent measurement, investment properties are measured at fair value pursuant to IAS 40. Gains and losses resulting from the adjustments are reported as income or expenses under "profit/loss from fair value adjustment in investment properties" in the consolidated statement of income.

The fair values of investment properties were calculated by an independent external expert using recognised appraisal methods. The commissioned experts possess the relevant professional qualification and experience to carry out the appraisals. The expert reports are based on information provided by the Company such as current rents, maintenance costs, remaining useful lives and current vacancies as well as on assumptions of the experts, which are based on market data and which were assessed by the expert based on his professional qualification, such as rental trends, discount rates and capitalisation rates. The optimum use of the respective objects is assumed when calculating the value of properties (see Note C. Accounting and valuation parameters, investment properties).

Investment properties are derecognised when they are sold or are no longer permanently used and a disposal is not expected to yield a future economic benefit. Any resulting gains or losses are recognised in the year of disposal or retirement. Investment properties are transferred when a change in utilisation through owner-occupation occurs or when the disposal process is initiated.

### **Measurement at fair value**

For the purpose of financial reporting, certain assets and liabilities of the Group are measured at fair value. The fair value is the amount to be achieved upon the sale of an asset in an orderly business transaction between market participants on the transaction date or the amount to be paid for the transfer of a liability. Hereby, it is irrelevant whether the price is directly observable or determined by applying a valuation method.

If fair value is determined using a valuation method, the fair value is to be assigned to one of the following three levels in the fair value hierarchy dependent upon the available observable parameters and the respective importance of these parameters for the overall measurement:

- Level 1: Input factors are quoted (unadjusted) prices in active markets for identical assets or liabilities that are available as of the valuation date.
- Level 2: Other input factors than the quoted prices in Level 1 and factors which are either directly observable or can be indirectly derived for the asset or liability.
- Level 3: Input factors for the asset or liability are not observable.

To determine the point in time at which a reclassification between the different hierarchy levels is considered to have occurred, the Company uses the time of the event or of the change in circumstances that caused the reclassification.

Details regarding the valuation techniques and input factors used in the measuring fair value of the individual assets and liabilities can be found in Note E. and Note I. 1.

### **Real estate inventory**

Real estate inventory is recognised pursuant to IAS 2 (see Note A.6). Real estate inventory is recognised at the lower of acquisition or production cost and net realisable value. Net realisable value is the estimated sales proceeds achievable in the normal course of business, less the estimated costs until completion and estimated sales costs. Acquisition or production cost includes general overhead costs attributable to the production process along with directly attributable specific costs.

The net realisable value is newly determined in each subsequent period. If the circumstances that had previously led to an impairment of the inventory's value to a level below its acquisition or production cost no longer exists, or if there is a substantive indication of an increase in the net realisable value due to a change in economic circumstances, then the amount of the impairment is reversed insofar as the new carrying amount equals the lower of acquisition or production cost or adjusted net realisable value (in other words, the reversal is limited to the amount of the original impairment). For example, this would be the case if the real estate inventory which is recognised at net realisable value due to a decline in its selling price would remain in the portfolio and in subsequent periods its selling price would rise again.

## Taxes

Actual tax assets and liabilities for the past period are measured as the amount expected to be recovered from or paid to the taxation authorities. The amounts are calculated on the basis of the tax rate and tax laws applicable on the balance sheet date.

### Deferred taxes

Deferred taxes are recognised using the liability method for temporary differences between the carrying amount of an asset or liability in the consolidated balance sheet and its tax valuation as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences with the exception of deferred tax liabilities arising from taxable temporary differences connected with interests in subsidiaries, associated companies, and joint ventures, if the timing of the reversal of the temporary differences can be controlled, and it is likely that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences as yet unutilised tax-loss carryforwards and unutilised tax credits to the extent that it is likely that taxable income will be available against which the deductible temporary differences, unutilised tax-loss carryforwards, and unutilised tax credits can be offset, with the exception of:

- Deferred tax assets relating to deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination, and which, at the time of the transaction, affects neither the profit/loss for the period under commercial law, nor the taxable profit/loss.
- Deferred tax assets arising from taxable temporary differences connected with interests in subsidiaries, associated companies, and joint ventures, if it is likely that the temporary differences will not be reversed in the foreseeable future, and that there will be insufficient taxable income available against which the temporary differences can be used.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced insofar as it is no longer likely that sufficient taxable income will be available against which at least part of the deferred tax asset can be offset. Unrecognised deferred tax assets are reviewed at each balance sheet date, and recognised insofar as it has become likely that future taxable income will allow the deferred tax assets to be realised.

Deferred tax assets for loss carryforwards are capitalised only when it is likely that they will be offset with earnings achieved within the foreseeable future. According to IAS 12.36, deferred tax assets on tax-loss carryforwards on the level of the tax entity were only capitalised in the DEMIRE Group to the extent that deferred tax liabilities were recognised.

Deferred tax assets and liabilities are measured applying the tax rates expected to be valid in the period in which the asset is realised or the liability is satisfied. The amounts are calculated on the basis of the tax rates (and tax laws) applicable on the balance sheet date. The subsidiaries' deferred tax assets and liabilities are calculated using the tax rates of the respective country.

Deferred tax assets and liabilities are offset against one another according to IAS 12.71 if the Group has an enforceable right to offset tax assets against tax liabilities, and these assets and liabilities relate to income taxes levied by the same taxation authority against the same taxable entity or against different taxable entities that intend to realise the assets and fulfil the liabilities at the same time (IAS 12.74).

Deferred taxes relating to items that are recognised in other comprehensive income are not recognised through profit or loss but instead in the statement of comprehensive income.

#### **Value added tax**

Revenues, expenses, and asset are recognised after deducting the value added tax with the exception of the following instances:

- If the value added tax incurred on the purchase of assets or services cannot be recovered from the taxation authorities, the value added tax is recognised as part of the asset's acquisition or production cost, or as part of the expense item.
- Receivables and liabilities are recognised with the value added tax included.

The amount of value added tax recovered from, or paid to, the taxation authority is recognised in the consolidated balance sheet under receivables or liabilities, respectively.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash and demand deposits and are recognised at their nominal amount. Cash and cash equivalents denominated in foreign currencies are translated at the rate prevailing on the reporting date.

#### **Investments available for sale accounted for using the equity method**

Interests in investments accounted for using the equity method are classified as available for sale if the carrying amount can be largely realised by a sale and if the sale is highly probable. These are recognised at the lower of their carrying amounts and fair values less selling costs. The disposal costs are not recognised at their present value assuming that the disposal will take place within one year. Impairments from subsequent measurements will be recognised in profit or loss. A subsequent rise in the fair value will be recognised as a gain to the maximum extent of the previous impairment.

Following the disposals in the reporting year, the provision for discontinued operations under IFRS 5 were applied. Therefore, all income and expenses, including the disposal gain, attributable to the discontinued operations, were reported under the line item "profit/loss from the sale of real estate companies" in the consolidated statement of income.

**Trade payables and other liabilities**

Following initial recognition, liabilities are measured at amortised cost.

**Financial debt**

Convertible bonds are embedded financial instruments that are to be divided into a financial debt and a conversion right for accounting purposes. Depending on the terms of the convertible bond, the conversion right can be of an equity or debt nature. If the conversion right is to be classified as debt, as in this case, the composite financial instrument may also be entirely accounted for at fair value. Accordingly, the Company classified the convertible bond issued by the Company as "at fair value through profit or loss" (IAS 39.11 (c)). Thus, all fair value adjustments were recognised in profit or loss.

By resolution of the creditors' meeting on September 30, 2014, the terms and conditions of the convertible bond were amended so that the conversion right qualified for the classification as equity as of this date. Due to the material adjustment of the financial debt, the adjustment was treated as a repayment and new issue. Accordingly, the fair value was disposed of (partly through profit or loss) and the convertible bond was newly recognised as at September 30, 2014, based on a market standard interest rate. The equity portion was directly recognised in equity.

The financial debt will now be carried as "other liability" through profit or loss by using the effective interest method.

**Provisions**

During the fiscal year, provisions are recognised for obligations to third parties for which it is likely that there will be an outflow of resources in future periods. Provisions for obligations that will likely not result in a burden on assets in the subsequent year are recognised in the amount of the present value of the expected outflow of assets. The measurement of provisions is reviewed on each balance sheet date.

**Interests of non-controlling shareholders**

The interests in net assets of non-controlling shareholders are recognised and are reported separately from the parent company shareholders' interests in the Group equity. The interests in net assets of non-controlling shareholders are composed of the amount of the interests of non-controlling shareholders as of the balance sheet date of the previous year, and the interests of non-controlling shareholders in the equity changes in the year under review.

**Leasing****a) Determining whether an agreement contains a lease**

Determining whether an agreement constitutes a lease, or contains a lease, is performed on the basis of the economic contents of the agreements at their start based on an assessment as to whether the satisfaction of the agreement depends on the utilisation of a particular asset, and whether the agreement transfers a right to utilise the asset.

After the start of a lease, a renewed assessment as to whether an agreement contains a lease is only performed if one of the following conditions has been satisfied:

- Contractual terms are changed to the extent that the amendment relates not only to the renewal or extension of the agreement;
- A renewal option is exercised, or an extension is granted, unless the renewal or extension terms were originally taken into consideration in the term of the lease;
- A change occurs to the determination as to whether satisfaction depends on the specific asset, or
- The asset undergoes a significant change.

#### b) The Group as lessor

Leases, through which not all of the opportunities and risks connected with ownership are essentially transferred by the Group to the lessee, are classified as operating leases. Initial direct costs incurred in negotiating and entering into an operating lease are added to the carrying amount of the leased asset, and recognised as an expense over the lease term in line with the rental income. Contingent rental payments are recognised as income in the period in which they are generated.

#### c) The Group as lessee

Lease payments for operating leases are expensed through the statement of income on a straight-line basis over the term of the lease agreement.

### Revenue recognition

Revenues comprise proceeds from the sale of real estate companies, proceeds from the sale of real estate, proceeds from asset management services, net rents and ancillary rental costs. Net rents and ancillary rental costs are reported as rental income in the consolidated statement of income. Revenues are reported on an accrual basis in accordance with the terms of the underlying contract and when it is likely that the Company will receive the economic benefit from the transaction. However, if there is doubt concerning the collectability of an amount that has already been recognised as revenues, the uncollectible or doubtful amount is expensed and is not offset against revenues.

Revenue is recognised on sales transactions when

- all significant opportunities and risks connected with the ownership have transferred to the acquirer;

- the Group retains neither rights of disposition nor effective control over the object of sale;
- the amount of revenue and the costs arising in connection with the sale can be determined reliably;
- it is sufficiently likely that the Group will receive an economic benefit from the sale and
- expenses incurred, or to be incurred, in connection with the sale can be determined reliably.

**Profit/loss from asset management**

The profit/loss from asset management in the previous year included revenues from asset management mandates from non-Group companies. The corresponding expenses are allocated accordingly. The expenses related to inter-company asset management mandates are included under general administrative expenses.



## D. NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

### 1. Rental income

The Group's rental income is composed as follows:

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Net rents	3,375	558
Income from ancillary rental costs	374	91
	<b>3,749</b>	<b>649</b>

Rental income in the reporting year arises primarily from the rental of commercial real estate.

### 2. Operating expenses to generate rental income

In the reporting year, operating expenses to generate rental income amounted to EUR 1,459k (previous year: EUR 189k). Operating expenses of EUR 1,296k (previous year: EUR 177k) are generally allocable and can be passed on to tenants. Of this amount, a total of EUR 220k (previous year: EUR 86k) could not be passed on due to vacancies. Operating expenses of EUR 163k (previous year: EUR 12k) are not allocable.

### 3. Profit/loss from the sale of real estate companies

In the reporting year, the Group generated a profit/loss from the sale of real estate companies of EUR 69k (previous year: EUR 386k). Hekuba S.a.r.l. was sold at a price of EUR 3,700k resulting in a profit of EUR 167k. The Group also sold R-Quadrat Ukraine Gamma Ltd., including its 50 % interest in RQ Gamma LLC, with a loss of EUR 112k and MAGNAT Asset Management Ukraine Ltd. with a profit of EUR 14k in the reporting year (see Note B.1).

In the previous year, the Group had disposed of MAGNAT Immobilien GmbH & Co. Schumannsgasse 16 KG, MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG and MAGNAT Immobilien GmbH & Co. Brünner Straße 261-263 KG (see Note B.1).

### 4. Profit/loss from investments accounted for using the equity method

Profits from investments accounted for using the equity method in an amount of EUR 199k (previous year: EUR 23k) mainly include the proportionate results of OXELTON ENTERPRISES Limited (EUR 198k, previous year: loss of EUR 644k).

Losses from investments accounted for using the equity method in an amount of EUR 126k (previous year: EUR 761k) primarily include the proportionate loss of SQUADRA Immobilien GmbH & Co. KGaA (EUR 126k, previous year: EUR 108k).

The item unrealised fair value adjustments in equity investments comprises recognised impairment losses on the carrying amounts of investments accounted for using the equity method as well as the proportionate results of these companies based on the market value changes of their real estate inventory. This includes impairment losses of EUR 1,087k (previous year: EUR 817k) on OXELTON ENTERPRISES Limited. The impairment was based on the lower net realisable value. The net realisable value is the estimated sales proceeds achievable in the normal course of business less the estimated costs until completion and estimated sales costs. The impairment loss applied to OXELTON ENTERPRISES Limited is the result of fair value less selling costs. In order to calculate the fair value, a value assessment was performed on the Peremogi project which is held by a subsidiary of OXELTON ENTERPRISES. The estimation of the market value of this project is based on the residual value method. As part of the residual value method, the property's market value after completion was first calculated using the discounted earnings method. Subsequently, all costs required for the realisation of the construction measures, and other costs arising in connection with the project development, were deducted. A net initial return of 10 % was applied for determining the discounted earnings value.

DEMIRE's share in the transferred profit or loss in investments accounted for using the equity method is listed under E.1.4.

At R-QUADRAT Polska Alpha Sp. z o.o., which is an investment accounted for using the equity method, proportionate accumulated losses of EUR 4,057k (previous year: EUR 3,469k) were not recognised. A total of EUR 588k of these proportionate losses had occurred in the reporting period (previous year: EUR 362k). Additionally, proportionate losses of EUR 4k of Irao MAGNAT Gudiasvili LLC were not recognised. At this company, the share of losses exceeded the value of the investment and therefore no further losses were recognised.

## 5. Profit/loss of fair value adjustments in investment properties

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
	63,608	2,905
	<b>63,608</b>	<b>2,905</b>

The profit/loss of fair value adjustments in investment properties of EUR 63,608k (previous year: EUR 2,905k) concerns domestic and foreign real estate companies holding properties in Germany that were acquired by DEMIRE, as well as a property acquired in Munich in the prior year. The fair value of the properties was determined by a valuation report as of December 31, 2014, provided by an external independent expert. The appreciation in value since the acquisition was largely due to the fact that the purchase price of the properties had already been agreed upon in mid-2013 and was part of the price for a package deal. In particular, the favourable yield curves in combination with the more intense competitive situation with foreign investors led to a significant increase in valuation parameters for determining the properties' fair value during the period from mid-2013 until the end of 2014.

We refer to Note E.1.3.

## 6. Unrealised fair value adjustments in real estate inventory

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Profits from unrealised fair value adjustments in real estate inventory	407	0
Losses from unrealised fair value adjustments in real estate inventory	-100	-1,140
	<b>307</b>	<b>-1,140</b>

Profits and losses from unrealised fair value adjustments in real estate inventory include effects primarily from the valuation being based on the assessment of market values. The profit of EUR 407k is attributable to write-ups to amortised cost after reverse acquisition of properties of 1. MAGNAT Immobiliengesellschaft mbH. We refer to Note E.2.1.

## 7. Impairment of receivables

Impairment of receivables is composed as follows:

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Trade accounts receivables and other receivables	54	14
Financial receivables and other financial assets	639	1,198
	<b>693</b>	<b>1,212</b>

## 8. Other operating income

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Income from the reversal of provisions	88	32
Derecognition of liabilities	46	201
Income from expenses passed on	1	11
Gains from foreign currency differences	5	664
Compensation for damages	0	326
Benefits in kind	20	34
Reversal of impairment losses on receivables	19	14
Others	250	236
	<b>429</b>	<b>1,518</b>

**9. General and administrative expenses**

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Legal and consulting fees	2,659	1,617
Staff costs	578	1,331
Advertising and travel expenses	158	181
Supervisory Board compensation	63	40
Expenses for asset management	52	1,393
Others	139	94
	<b>3,649</b>	<b>4,656</b>

**10. Sonstige betriebliche Aufwendungen**

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Third-party services	685	51
Non-deductible input taxes	662	231
Losses from foreign currency differences	194	1,291
Fees and incidental costs of monetary transactions	178	63
Property management	176	0
Differences arising from debt consolidation	95	118
Legal and consulting fees	78	0
Occupancy costs	60	39
Insurance fees	51	35
Expenses for Annual General Meeting and investor relations	42	79
Impairments	0	77
Others	693	180
	<b>2,914</b>	<b>2,164</b>

**11. Financial result**

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Financial income	6,955	1,135
Financial expenses	-9,893	-1,317
	<b>-2,938</b>	<b>-182</b>

As a result of a change in the terms and conditions of the convertible bond on September 30, 2014, and the corresponding accounting of this change as a repayment and new issue, the difference between the bond's fair value and its nominal value were recognised in profit or loss and led to a profit of EUR 6,000k. At that time, upon the initial recognition of the new debt instrument, an amount of EUR 490k was recognised directly in equity as an equity component. This was offset by the development of the bond's fair value during the period from April 1, 2014 to September 30, 2014, resulting in financial expenses of EUR 6,519k. Additionally, the item includes interest expenses to credit institutions and other lenders of EUR 3,474k (previous year: EUR 1,317k) resulting mainly from the Group's investments. We refer to Note I.1.

Financial income in the previous year stemmed mainly from loans granted to companies accounted for using the equity method.

Detailed information regarding net gains and losses from loans and receivables and financial debt can be found in Note I.1.

## 12. Income taxes

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Current income taxes	348	15
Deferred income taxes	9,441	236
<b>Total income taxes (- = income / + = expense)</b>	<b>9,789</b>	<b>251</b>

The current tax expenses of EUR 348k (previous year: EUR 15k) include corporate and trade taxes.

Deferred taxes consist of deferred tax benefits of EUR 682k (previous year: EUR 0k) and deferred tax expenses of EUR 10,123k (previous year: EUR 236k). Deferred tax expenses resulted almost exclusively from temporary differences arising from the valuation of investment properties according to IAS 40.

Current income taxes are distributed among domestic and foreign companies as follows:

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Germany	314	9
Foreign countries	34	242
	<b>348</b>	<b>251</b>

As at the balance sheet date, there were unutilised tax-loss carryforwards from consolidated companies totalling EUR 22,752k (previous year: EUR 27,611k). Of this amount, EUR 22,577k were non-lapsable tax-loss carryforwards. Of the remaining tax-loss carryforwards, EUR 12k will lapse next year. In subsequent years, the following amounts will lapse: 2016: EUR 73k; 2017: EUR 29k; 2018: EUR 35k; 2019: EUR 26k. Deferred tax assets are capitalised for these tax-loss carryforwards only when it is likely that they will be offset with earnings achieved within the foreseeable future. In the DEMIRE Group, deferred tax assets on tax-loss carryforwards at the level of the same tax entity were only capitalised to the extent that deferred tax liabilities were recognised.

Distributions to shareholder by DEMIRE AG have neither a corporate nor a trade tax effect on the Company. Nevertheless, the Company is generally liable for German capital gains tax plus the Solidarity Surcharge (withholding tax), which the Company is required to withhold from the distribution approved and transfer to the relevant German tax office.

The distributions generally require that shareholders pay income and corporate taxes unless the distributions are not subject to taxation due to the shareholders' tax status or other circumstances. Withholding tax that the Company withholds and transfers can generally be offset with its income and corporate tax liability, independently of the shareholders' tax status, and is reimbursable.

#### Tax reconciliation statement

The tax reconciliation statement between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 31.93 % (previous year: 31.93 %). The Group tax rate of 31.93 % includes a 15 % corporate tax rate valid from January 1, 2008 a 5.5 % solidarity surcharge, and a 16.1 % trade tax. The calculation of deferred taxes of domestic real estate companies is based on a tax rate of 15.83 % as these companies generate income exclusively from managing their own real estate and have the option of deducting their profit under trade tax law by this amount of income generated. In these cases, only the corporate tax rate and the solidarity surcharge are applicable. The calculation of deferred taxes for foreign companies acquired during the reporting period was also based on a tax rate of 15.83 % since these companies are not subject to trade tax.

<b>EURk</b>	<b>01/04/2014– 31/12/2014</b>	<b>01/04/2013– 31/03/2014</b>
<b>Profit/loss before taxes</b>	<b>55,496</b>	<b>-5,735</b>
<b>Group tax rate</b>	<b>31.93 %</b>	<b>31.93 %</b>
<b>Expected tax income</b>	<b>17,720</b>	<b>-1,831</b>
Differences in tax rates	-11,197	6
Tax effect arising from non-deductible operating expenses	502	632
Tax effect of tax-free income	-123	-137
Tax effects arising from non-utilised losses and non-recognised temporary differences for which no deferred tax assets were capitalised	4,066	1,556
Tax effects arising from the recognition of deferred tax assets for tax-loss carryforwards not capitalised in prior periods	-1,051	0
Others	-128	25
<b>Effective income taxes</b>	<b>9,789</b>	<b>251</b>

Tax-free income resulted primarily from the profits of companies accounted for using the equity method and the positive result from the sales of real estate companies. Income from companies accounted for using the equity method is included in profit/loss from investments accounted for using the equity method in the statement of income. The tax effect arising from non-deductible operating expenses mainly results from a loss from the investments accounted for using the equity method.

According to IAS 12 (Income Taxes), deferred tax liabilities are to be recognised on the difference between the proportionate share in equity of a subsidiary in the consolidated statement of income and the carrying amount of the subsidiary in the parent company's balance sheet under tax law (outside basis differences), if realisation is to be expected. These differences usually result from retained earnings in domestic and international subsidiaries.

Recognising deferred taxes on outside basis differences as temporary differences means that future tax effects are to be reported at the time of the origination of profits, even if a distribution of profits to the parent company and a corresponding taxation at the parent company will only occur in future periods. Since the Company can determine the timing of distributions or the retention of earnings from subsidiaries, the recognition of outside basis differences was waived. As of the balance sheet date, outside basis differences existed only in an immaterial amount. Since a distribution is neither planned nor foreseeable, recognition of outside basis differences was waived.

For additional information relating to deferred taxes, we refer to Note E.5.1.

**13. Net profit/loss for the period – of which attributable to non-controlling shareholders**

Net profit/loss for the period attributable to non-controlling shareholders of EUR 2,405k (previous year: EUR -51k) primarily relates to non-controlling interests in MAGNAT Investment I B.V., Netherlands, and Dovemco Ltd., Cyprus.

**14. Earnings per share**

Basic earnings per share is computed by dividing the net profit/loss for the period attributable to the parent company shareholders by the weighted average number of shares outstanding.

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
<b>Net profit/loss</b>	<b>45,707</b>	<b>-5,986</b>
Net profit/loss attributable to the parent company shareholders	43,302	-5,935
Interest expenses from convertible bond	495	n/a
Net profit/loss attributable to the parent company shareholders (diluted)	43,797	n/a
<b>Number of shares</b>		
Weighted average number of shares outstanding	14,306,151	13,894,651
Impact of conversion of convertible bonds	10,888,500	N/A
Weighted average number of shares (diluted)	25,194,651	N/A
<b>Earnings per share</b>		
Basic earnings per share (EUR)	3.03	-0.43
Diluted earnings per share (EUR)	1.74	-0.43

A total of 10,888,500 convertible bonds were taken into consideration in the calculation of the diluted weighted average number of shares as of December 31, 2014. In the previous year, 11,300,000 convertible bonds were excluded as their effect would have been anti-dilutive.



## 15. Staff costs

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Salaries	545	1,742
Statutory social expenses	33	193
	<b>578</b>	<b>1,935</b>

The total sum of staff costs is included in general and administrative expenses.

## 16. Scheduled depreciation and amortisation

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
of other intangible assets	1	8
of property, plant, and equipment	41	22
	<b>42</b>	<b>30</b>

Scheduled depreciation and amortisation is included in both general and administrative expenses and other operating expenses.

**E. NOTES TO THE CONSOLIDATED BALANCE SHEET****1. Non-current assets****1.1 Intangible assets****1.1.1 Goodwill**

This includes goodwill recognised as part of the capital consolidation of the MAGNAT Asset Management GmbH and MAGNAT Investment I B.V. subsidiaries. As of the balance sheet date, this line item included a fully amortised goodwill of EUR 463k.

**1.1.2 Other intangible assets**

A useful life of three to four years is applied to other intangible assets. This primarily includes computer software. The amortisation is reported in the statement of income in the line item other operating expenses (EUR 0k; previous year: EUR 8k).

EURk	2014	2013 / 2014
Acquisition cost as at April 1 of the fiscal year	50	51
Cumulative amortisation as at April 1 of the fiscal year	49	41
<b>Carrying amounts as at April 1 of the fiscal year</b>	<b>1</b>	<b>10</b>
Additions	0	0
Disposals	1	1
Amortisation	0	8
Acquisition cost as at the end of the fiscal year	49	50
Cumulative amortisation as at the end of the fiscal year	49	49
<b>Carrying amounts as at the end of the fiscal year</b>	<b>0</b>	<b>1</b>

## 1.2 Property, plant and equipment

### Office and operating equipment

Property, plant and equipment include office and operating equipment. A useful life of 3 to 15 years is applied for their depreciation. The depreciation is reported in the statement of income in the in the line item other operating expenses (EUR 3k; previous year: EUR 22k).

EURk	2014	2013 / 2014
Acquisition cost as at April 1 of the fiscal year	336	145
Cumulative amortisation as at April 1 of the fiscal year	126	104
<b>Carrying amounts as at April 1 of the fiscal year</b>	<b>210</b>	<b>41</b>
Additions	30	221
Disposals	210	30
Amortisation	3	22
Acquisition cost as at the end of the fiscal year	156	336
Cumulative amortisation as at the end of the fiscal year	129	126
<b>Carrying amounts as at the end of the fiscal year</b>	<b>27</b>	<b>210</b>

### Advance payments

EURk	2014	2013 / 2014
Acquisition cost as at April 1 of the fiscal year	0	0
Cumulative amortisation as at April 1 of the fiscal year	0	0
<b>Carrying amounts as at April 1 of the fiscal year</b>	<b>0</b>	<b>0</b>
Additions	11,303	0
Disposals	0	0
Amortisation	0	0
Acquisition cost as at the end of the fiscal year	11,303	0
Cumulative amortisation as at the end of the fiscal year	0	0
<b>Carrying amounts as at the end of the fiscal year</b>	<b>11,303</b>	<b>0</b>

Advance payments concern a property of the core portfolio for which the transfer of benefits and obligations occurred on January 1, 2015.

### 1.3 Investment properties

Investment properties are measured at fair value. During the fiscal year, the fair value has changed as follows.

EURk	2014	2013 / 2014
<b>Fair value as at April 1 of the fiscal year</b>	<b>20,526</b>	<b>0</b>
Reclassifications from property, plant and equipment	210	
Additions	248,726	17,621
Unrealised gains from fair value measurement (included in item D.7 of the statement of income)	63,608	2,905
<b>Fair value as at the end of the fiscal year</b>	<b>333,070</b>	<b>20,526</b>

The additions to investment properties concern 120 objects in Germany which were acquired during the current fiscal year. The properties are commercial properties which are rented over the long term. The fair value of the properties newly acquired in the fiscal year was determined by an external independent expert as at December 31, 2014.

To determine the point in time at which a reclassification between the different hierarchy levels is considered to have occurred, the Company uses the time of the event or of the change in circumstances that caused the reclassification. In the period under review, no reclassifications between hierarchy levels 1, 2, and 3 have been carried out when measuring at fair value.

The table below presents information regarding the fair value measurement of the Group's investment properties as of December 31, 2014, according to IFRS 13.

EURk	Fair value 31/12/2014	Measurement hierarchy		
		Quoted prices in active markets for identical assets (Level 1)	Other material, observable input factors (Level 2)	Material, non-observable input factors (Level 3)
Commercial properties in Germany	333,070	0	0	333,070

EURk	Fair value 31/03/2014	Measurement hierarchy		
		Quoted prices in active markets for identical assets (Level 1)	Other material, observable input factors (Level 2)	Material, non- observable input factors (Level 3)
Commercial properties in Germany	20,526	0	0	20,526

The fair values determined are fully based on the results of external experts which have been commissioned to carry out an assessment according to the German ordinance on the valuation of property/real estate [ImmoWertV]. Hereby, to the extent possible, market-based valuation parameters have been used as input factors. The market values determined correspond to the fair values according to IFRS 13.

Market values are determined on the basis of discounted earnings models in accordance with the ImmoWertV. The earnings value is comprised of the sum of the land value and the earnings value of the premises while taking special values into consideration.

The determination of the earnings value is dependent upon material, non-observable input factors such as rents, cost of maintenance, current vacancies, residual remaining useful lives, and property yields (discount rates).

In the current fiscal year, the average market rent was EUR 7.32/m<sup>2</sup> per month (previous year: 8.40/m<sup>2</sup> per month) and was in a range of EUR 0.96 to EUR 11.20 (previous year: EUR 8.25 to EUR 8.50). The average market rent was determined based on the space rented as of December 31, 2014. Maintenance costs amounted to 8.02 % of the annual gross income in the current fiscal year (previous year: 3.0 %). The value-based vacancy rate in relation to target rents averaged 14.67 % in the current period (previous year: 38.99 %).

The total rentable space amounted to 352,387 m<sup>2</sup> as of the balance sheet date, of which 60,325 m<sup>2</sup> were vacant. The average vacancy rate based on the rentable space was 17.12 % in the reporting period (previous year: 39.0 %) with a range of 0.00 % to 82.32 % (previous year: 31.8 % to 49.3 %) depending upon the type of space (office buildings, warehouse, etc.).

The calculation of property yields is based on the average market property yield and takes into account the macro and micro conditions, competing properties, tenant's creditworthiness, vacancies, and the remaining term of the lease contract. The average property yield amounted to 5.98 % (previous year: 6.8 %). Depending on the quality, location, and structure of the objects, the applied property yields ranged from 5.00 % to 9.25 % (previous year: 6.5 % to 7.3 %).

The existing rental agreements and the corresponding income totalling EUR 250.2 million have a remaining term of up to 10 years.

The weighted average lease term (WALT) is 6.4 years.

A sensitivity analysis of the material, non-observable input factors yields the following impact on the measurement of investment properties.

An increase in the property yield of 0.5 % reduces the fair value of investment properties by EUR 21,430k; a decrease in property yield of 0.5 % results in a EUR 23,725k higher fair value. A 10 % increase in the future profit from rentals (considering rental income, vacancy rates, administration and maintenance costs) results in a EUR 26,410k higher fair value; a 10 % decrease results in a EUR 26,475k lower fair value.

A significant increase in the cost of maintenance, vacancy rate, or property yield and unchanged assumptions regarding all other input factors would result in a decrease in the property's fair value.

All of the Group's investment properties are rented on the basis of operating lease agreements. The resulting rental income amounted to EUR 3,528k (previous year: EUR 310k). The expenses relating to investment properties amounted to EUR 1,422k (previous year: EUR 102k).

#### 1.4. Investments accounted for using the equity method

Interests in investments accounted for using the equity method (EUR 2,613k; previous year: EUR 4,694k) include interests in associated companies (EUR 1,615k; previous year: EUR 1,741k) and joint ventures (EUR 998k; previous year: EUR 2,953k).

##### 1.4.1 Investments in associated companies

COMPANY	Carrying amount as at 31/12/2014 EURk	Carrying amount as at 31/03/2014 EURk
SQUADRA Immobilien GmbH & Co. KGaA	1,592	1,718
Russian Land AG	23	23
<b>Total</b>	<b>1,615</b>	<b>1,741</b>

DEMIRE's interest in the transferred profit or loss according to the annual or interim financial statements of the associated companies is as follows:

COMPANY	Carrying amount as at 31/12/2014 EURk	Carrying amount as at 31/03/2014 EURk
SQUADRA Immobilien GmbH & Co. KGaA	-126	-108
Russian Land AG	0	23
<b>Total</b>	<b>-126</b>	<b>-85</b>

DEMIRE's relation to the associated companies is of an operational nature. The companies are primarily involved in real estate management.

In the previous year, the increase of the interest in SQUADRA Immobilien GmbH & Co. KGaA from 16.13 % to 24.78 % resulted in an increase in the carrying amount of EUR 1,085k. In addition, an impairment of EUR 363k was recognised on the interest in Russian Land AG (we refer to D.5).

The following table provides a summary of the associated companies' assets, liabilities, revenues, and profit or loss for the period.

#### 1.4.2 Investments in joint ventures

COMPANY	Carrying amount as at 31/12/2014 EURk	Carrying amount as at 31/03/2014 EURk
OXELTON ENTERPRISES Limited	869	2,823
R-QUADRAT Polska Alpha Sp. z o.o.	0	0
Irao MAGNAT 28/2 LLC	129	129
Irao MAGNAT Gudiashvili LLC	0	0
<b>Total</b>	<b>998</b>	<b>2,952</b>

DEMIRE's relation to the associated companies is of an operational nature. The companies are primarily involved in real estate management.

DEMIRE's interest in the transferred profit or loss according to the annual or interim financial statements of the joint ventures is as follows:

COMPANY	Carrying amount as at 31/12/2014 EURk	Carrying amount as at 31/03/2014 EURk
R-QUADRAT Polska Alpha Sp. z o.o.	0	0
Irao MAGNAT 28/2 LLC	0	-9
Irao MAGNAT Gudiashvili LLC	0	0
OXELTON ENTERPRISES Limited	199	-645
<b>Total</b>	<b>199</b>	<b>-654</b>

In the reporting year, impairment losses recognised in profit or loss amounted to EUR 1,087k (previous year: EUR 817k) and mainly concerned the interest in OXELTON ENTERPRISES Limited. Currency translation losses of EUR 1,067k (previous year: EUR 1,007k) were reported in other comprehensive income.

As in the previous year, the debt overhang mainly resulted from R-QUADRAT Polska.

The projects of the Irao MAGNAT 28/2 LLC and the R-QUADRAT Polska Alpha Sp. z o.o. joint ventures are nearly complete. As a result, it is not expected that the DEMIRE Group will be obliged to provide further funds.

Currently, OXELTON ENTERPRISES Limited is not generating operating cash flows from which the operating expenses can be paid. As a result, the Group is providing an adequate amount of funds in proportion to its interest in the joint venture in order to cover the operating expenses which occur.

As a result of Irao MAGNAT Gudiashvili LLC's withdrawal from the "Gudiashvili Square" project, this company is not generating operating cash flows from which the operating expenses can be paid. The Group is providing this joint venture company an adequate amount of funds in order to cover the operating expenses which occur. In the reporting year, no further loans were granted.

#### 1.5. Other financial assets

The carrying amounts of other financial assets amounted to EUR 14k (previous year: EUR 695k). The previous year's amount had included non-current receivables arising from value added tax of EUR 669k.

#### 1.6. Loans to investments accounted for using the equity method

Loans to companies accounted for using the equity method amounted to EUR 2,857k (previous year: EUR 2,490k) and relate to the loan to OXELTON ENTERPRISES Limited. The due date of the loan to OXELTON ENTERPRISES Limited is based upon the occurrence of certain future conditions. The loan yields interest of 10 % p.a. The loan was to be repaid by December 31, 2014 at the latest and has been deferred after the balance sheet date until the conclusion of the contract negotiations. The negotiations had not yet been finalised at the time of preparing these consolidated financial statements.

#### 1.7. Other loans

A significant portion of other loans are due at the end of 2021 and consist of receivables from the partial sale of a property.

### 2. Current assets

#### 2.1 Real estate inventory

The reported real estate inventory of EUR 7,355k (previous year: EUR 7,784k) concerns developed and undeveloped properties that are destined for resale. In the reporting period, write-ups of EUR 407k (previous year: EUR 0k) were made as a result of the reversal of impairments recognised in previous periods concerning real estate inventory of 1. MAGNAT Immobiliengesellschaft mbH. We achieved a significant releasing of the project during the reporting period. Additionally, impairments of EUR 100k (previous year: EUR 1,140k) were recognised and are included under "unrealised fair value adjustments in real estate inventory" in the statement of income. In the reporting period, real estate inventory amounting to EUR 1,173k (previous year: EUR 0k) was recognised as an expense due to its disposal. The expenses are included in the line items "Profit/loss from the sale of real estate companies" and "net assets from real estate companies sold".



The following real estate inventory has been pledged as collateral for liabilities:

COMPANY	Carrying amount 31/12/2014 EURk	Carrying amount 31/03/2014 EURk	Property
Erste MAGNAT Immobiliengesellschaft mbH	2,957	2,536	Worms, Parchim, Halle Peissen
	<b>2,957</b>	<b>2,536</b>	

## 2.2 Trade accounts receivables and other receivables

EURk	31/12/2014 Gross	Impairment	31/12/2014 Net	31/03/2014 Gross	31/03/2014 Net
Receivables from processing value added tax	357	0	357	322	322
Purchase price receivables	1,132	0	1,132	73	73
Trade accounts receivables against third parties	3,535	2,392	1,143	2,254	603
Administrator accounts	72	0	72	95	95
Overpaid purchase prices	3,672	0	3,672	0	0
Others	2,964	52	2,911	1,513	651
	<b>11,732</b>	<b>2,444</b>	<b>9,287</b>	<b>4,257</b>	<b>1,744</b>

All receivables are due on a short-term basis of less than 3 months. Impairment charges of EUR 2,444k (previous year: EUR 2,513k) were recognised. Their development is presented in the following table. None of the receivables are significantly overdue. Expenses for additions to impairment charges are included in "impairment of goodwill and receivables" in the statement of income. The table on the next page illustrates the development of accumulated impairment.

EURk	2014	2013 / 2014
<b>Accumulated impairment at the start of the fiscal year</b>	<b>2,513</b>	<b>2,527</b>
Impairment of the current year	54	0
Realisation of impairments	-104	0
Reversal of impairments	-19	14
<b>Accumulated impairment at the end of the fiscal year</b>	<b>2,444</b>	<b>2,513</b>

If the collection of receivables becomes doubtful, then they are recognised at their lower realisable value. In addition to the individual allowances required for bad debt, identifiable risks relating to general credit risk in the form of fixed-sum allowances have also been taken into account.

### 2.3 Financial receivables and other financial assets

Financial receivables and other financial assets mainly include short-term loans to R-QUADRAT Polska Alpha Sp. z o.o. in the amount of EUR 841k (previous year: EUR 995k). Of the financial receivables and other financial assets after taking the respective impairments into account, there are no receivables overdue. The impairment charges are included in the item impairment of receivables in the statement of income. The gross amount of financial receivables and other financial assets is the sum of the current carrying amount and the accumulated impairment at the end of the fiscal year.

The following table illustrates the development of accumulated impairment.

EURk	2014	2013 / 2014
<b>Accumulated impairment at the start of the fiscal year</b>	<b>3,325</b>	<b>2,127</b>
Reclassifications	0	0
Impairment of the current year	639	1,198
Realisation of impairments	-785	0
Reversal of impairments	0	0
<b>Accumulated impairment at the end of the fiscal year</b>	<b>3,179</b>	<b>3,325</b>

### 2.4 Cash and cash equivalents

Cash and cash equivalents of EUR 4,397k (previous year: EUR 3,955k) are related to cash in hand and bank accounts.

### 3. Investments accounted for using the equity method available for sale

This item includes the interests held in investments accounted for using the equity method available for sales in the following joint ventures.

COMPANY	Carrying amounts as at 31/12/2014 EURk	Carrying amounts as at 31/03/2014 EURk
Hekuba S.à.r.l.	0	3,533
RQ Gamma LLC	0	270
<b>Total</b>	<b>0</b>	<b>3,803</b>

Both companies held in this category in the prior year were sold during the reporting year as planned.

DEMIRE held a stake of 32.44 % in Hekuba S.à.r.l. DEMIRE was originally in a consortium with its project partners, Adama Holding Public Ltd. (lead manager), Bucharest, Romania, and Immoeast AG, Vienna, Austria, and had acquired one of the most extensive real estate portfolios of the Turkish bank Bank Yapı KrediBankası A.S. ("YKB"). This portfolio consisted of around 400 individual interests in properties having various uses and a regional focus on the greater metropolitan region of Istanbul. The development and resale of the individual properties progressed favourably overall and as a result only a small portion of the properties remained. At the end of June 2014, DEMIRE disposed of its interest in Hekuba S.à.r.l. at a purchase price of EUR 3,700k. We refer to Note I.4.

As of February 29, 2012, the 50 % interest in the RQ Gamma LLC joint venture was classified as available for sale due to the intended termination of the joint venture. The Ukrainian Vitaly project is a property with single-family homes in Kryachy in the Vasylkivskyi district in the region of Kiev. As a result of delays in the sales process when providing substantiated proof of rights in properties as part of the planned asset swap and the economic and political situation in the Ukraine, the interest was not yet sold within a one year time period. Together with the subsidiary R-QUADRAT Ukraine Gamma Ltd, Kiev (carrying amount EUR 437k), the interest was disposed of during the reporting year at the carrying amount of EUR 270k.

#### 4. Shareholders' equity

In reference to the explanations in Note A.5, subscribed capital amounted to EUR 14,306k (previous year: EUR 13,895k). Capital reserves contain a EUR 7,425k difference in the subscribed capital of EUR 14,306k and the sum of the subscribed capital of MAGNAT Asset Management GmbH in an amount of EUR 160k as the economic parent company. It also includes the acquisition costs for the acquisition of DEMIRE Deutsche Mittelstand Real Estate AG of EUR 21,160k following the reverse acquisition. As a result of the change in the terms and conditions of the convertible bond with effect from September 30, 2014, at the initial recognition of the new debt instrument, an amount of EUR 490k was recognised directly within capital reserves as an equity component, including corresponding deferred tax liabilities of EUR 177k. A description of the other reserves can be found in Note G.1.

The subscribed capital of the legal parent company, DEMIRE Deutsche Mittelstand Real Estate AG, amounted to EUR 14,306,151.00 (previous year: EUR 13,894,651.00). The increase by 411,500 resulted from the exercise of conversion rights of the 2013/2018 convertible bond. Following this exercise, conversion rights for 10,888,500 new shares were still outstanding. The Company's subscribed capital is divided into no-par value bearer shares with a notional par value of EUR 1.00. All shares are fully paid-in. There are no restrictions concerning voting rights or the transfer of shares. Shares endowed with special rights conferring power of control do not exist.

If there is a capital increase, the profit participation of new shares may deviate from Section 60 para. 2 of the German Stock Corporation Act (AktG).

Shareholders are not entitled to share certificates to the extent this is permitted by law.

<b>NUMBER OF SHARES OUTSTANDING:</b>	<b>31/12/2014</b>	<b>31/03/2014</b>
Number of no-par bearer shares issued	14,306,151	<b>13,894,651</b>
of which fully paid in	14,306,151	<b>13,894,651</b>

The Company's share capital amounts to EUR 14,306,151.00 (previous year: EUR 13,894,651.00) as a result of the issue of shares from the exercise of conversion rights of the 2013/2018 convertible bond. The Company's share capital is divided into 14,306,151 (previous year: EUR 13,894,651) no-par value bearer shares with a notional par value of EUR 1.00. The Group holds 5,000 of its own shares.

By resolution of the Annual General Meeting of October 15, 2014, the Company's share capital was increased against contribution in cash by up to EUR 10,000,000.00 from EUR 14,128,651.00 on October 15, 2014, up to EUR 24,128,651.00 by issuing up to 10,000,000 new no-par value bearer shares, each with a notional interest in the share capital of EUR 1.00.

The new shares will be issued at EUR 1.00 per no-par value share (lowest issue amount). In principle, the new shares carry dividend rights starting with the abbreviated fiscal year from April 1, 2014 to December 31, 2014. However, in contrast to the sentence above, if the new shares are issued after the Annual General Meeting that resolves on the appropriation of the Company's profits for the abbreviated fiscal year ending on December 31, 2014, then the new shares carry dividend rights starting from the fiscal year beginning on January 1, 2015.

The new shares will be offered to shareholders and holders of the 2013/2018 convertible bond by way of an indirect subscription right. The new shares will be subscribed to by one or several banks with the obligation to offer the new shares to the shareholders and holders of the 2013/2018 convertible bond for subscription and to disperse the excess proceeds from the placement (after deduction of appropriate fees and expenses) to the Company.

The authorisation of the Executive Board under Section 6 of the Articles of Association to increase the Company's share capital, with the consent of the Supervisory Board, up to a total of EUR 6,947,325.00 (Authorised Capital I/2013) by issuing up to 6,947,325 new ordinary bearer shares in the form of no-par value shares, each with a notional value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions in partial amounts, initially expired on October 22, 2018.

The Authorised Capital I/2013 totalling EUR 6,947,325.00 and the corresponding provisions under Section 6 of the Articles of Association were cancelled.

The Executive Board is authorised, with the consent of the Supervisory Board, to increase the Company's share capital by up to EUR 7,064,325.00 (Authorised Capital I/2014) until October 14, 2019, by issuing up to 7,064,325 new ordinary bearer shares in the form of no-par value shares, each with a notional value of EUR 1.00 against cash contribution or contribution in kind, once or on several occasions in partial amounts. Shareholders are generally entitled to subscription

rights, but the Executive Board is authorised, with the consent of the Supervisory Board, to exclude shareholder subscription rights in the following instances:

- for fractional shares,
- if the capital increase is against cash contribution and the proportional amount of the share capital attributed to the new shares for which the subscription right is excluded does not exceed 10 % of the share capital existing at the time the new shares are issued, and the issue price of the new shares is not significantly less than the stock market prices of the shares of the same class and entitlements already listed at the time of the final determination of the issue price by the Executive Board according to Section 203 para. 1 and 2 and Section 186 para. 3 Sentence 4 AktG,
- to the extent necessary to grant holders or creditors of the bonds, with option or convertible rights issued by the Company or Group companies, subscription rights to new shares to the extent to which the holders or creditors would be entitled after exercising their option or convertible rights, and
- in the case of capital increases against contribution in kind.

The Executive Board is also authorised, with the consent of the Supervisory Board, to determine the further details of the capital increase and the other conditions of the share issue. The Supervisory Board is authorised to amend the wording of the Articles of Association according to the scope of the capital increases from authorised capital.

The Company has been authorised to purchase up to a total of 10 % of the existing share capital until October 28, 2014. In this context, the shares acquired on the basis of this authorisation, together with other treasury shares that the Company has already acquired or already holds, may not comprise more than 10 % of the Company's existing share capital in each case. The Company has not yet made use of the authorisation, which expired on October 28, 2014. The authorisation was cancelled and replaced by a new authorisation to repurchase shares that is valid up to a maximum of five years.

Under this authorisation, the Company is authorised to acquire up to a total of 10 % of the share capital existing at the time of the passing of the resolution during a period of five years from the day of the resolution, i.e. until October 14, 2019. The shares acquired on the basis of this authorisation, together with the other treasury shares that the Company has already acquired or already holds, may not comprise more than 10 % of the Company's existing share capital in each case.

The item "non-controlling interests" relates to interests of third-party shareholders in the equity and net profit of fully consolidated subsidiaries. The net profit attributable to parent company shareholders represents the difference between the net profit before non-controlling interests and the non-controlling interests reported in the statement of income.

## 5. Non-current liabilities

### 5.1 Deferred tax assets and liabilities

The entire amount of recognised deferred taxes will be due after more than 12 months.

The deferred tax assets and liabilities are composed of temporary differences in the following balance sheet items:

EURk	31/12/2014	31/03/2014
Tax-loss carryforwards	1,345	928
Investment properties	531	0
Others	340	0
<b>Deferred tax assets before offsetting</b>	<b>2,216</b>	<b>928</b>
Offsetting	-1,496	0
<b>Deferred tax assets</b>	<b>720</b>	<b>928</b>
Real estate inventory	84	238
Investment properties	10,916	928
Others	528	44
<b>Deferred tax liabilities before offsetting</b>	<b>11,528</b>	<b>1,210</b>
Offsetting	1,496	0
<b>Deferred tax liabilities</b>	<b>10,032</b>	<b>1,210</b>

The requirements pursuant IAS 12.74 have been fulfilled with regard to deferred tax assets for tax-loss carryforwards of EUR 1,345k (previous year: EUR 928k). According to IAS 12.36, deferred tax assets of EUR 1,345k are recognised to the extent of the amount of deferred tax liabilities.

The changes in deferred taxes and their recognition can be represented as follows:

EURk	31/03/2014	Statement of income	Directly recognised in equity	Other comprehensive income	31/12/2014
Investment properties	-928	-9,457	0	0	-10,385
Real estate inventory	-238	154	0	0	-84
Tax-loss carryforwards	928	417	0	0	1,345
Others	-44	-555	411	0	-188
	<b>-282</b>	<b>-9,441</b>	<b>411</b>	<b>0</b>	<b>-9,312</b>

The item "others" mainly concerns deferred taxes in the context of the convertible bond.

Tax-loss carryforwards and deductible temporary differences, which were not taken into account for determining deferred taxes, amount to EUR 14,891k (previous year: EUR 22,774k). Of this, an amount of EUR 14,714k (previous year: EUR 14,885k) is attributable to Germany, an amount of EUR 145k (previous year: EUR 5,067k) is attributable to Romania, an amount of EUR 3k (previous year: EUR 1,931k) is attributable to the Ukraine, and an amount of EUR 29k (previous year: EUR 0k) is attributable to Georgia. In the reporting year, non-recognised deferred tax assets amount to EUR 4,484k (previous year: EUR 2,661k).

The changes in deferred taxes and their previous year's amount is presented in the following table:

TEUR	31/03/2014	Statement of income	Other comprehensive income	Disposals	31/12/2014
Investment properties	0	-928	0	0	-928
Real estate inventory	0	-238	0	0	-238
Tax-loss carryforwards	0	928	0	0	928
Others	-46	2	0	0	-44
	<b>-46</b>	<b>-236</b>	<b>0</b>	<b>0</b>	<b>-282</b>

## 5.2 Non-current financial debt

The following table summarises the financial debt. Upon initial recognition of the loan, the financial debt of DEMIRE Real Estate München I GmbH was recognised at fair value including all directly incurred and attributable transaction costs. In subsequent periods, the transaction costs have been accounted for by applying the effective interest rate method.

NON-CURRENT PORTION OF FINANCIAL DEBT	Nominal interest rate %	Due	31/12/2014 EURk	31/03/2014 EURk
Corporate bond 2014/2019 of DEMIRE Deutsche Mittelstand Real Estate AG	7.50	16/09/2019	49,138	0
Convertible bond 2013/2018 of DEMIRE Deutsche Mittelstand Real Estate AG Estate AG	6.00	30/12/2018	10,424	10,893
Deutsche Bank promissory note loan for DEMIRE Holding EINS GmbH	5.00	09/12/2019	142,320	0
LBBW loan A for DEMIRE Commercial Real Estate GmbH	2.25	31/01/2019	26,666	0
LBBW loan B for DEMIRE Commercial Real Estate GmbH	variable	31/01/2019	6,792	0
IBB amortising loan for DEMIRE Real Estate München I GmbH	3.00	31/12/2016	8,018	8,248
Hypo Landesbank Vorarlberg amortising loan for Munich ASSET Vermögensverwaltung GmbH	1.75	31/08/2018	4,734	5,000
Other financial liabilities	interest-free	diverse	0	505
			<b>248,092</b>	<b>24,646</b>

The 2014/2019 bond has an effective interest rate of 8.03 % and the Deutsche Bank promissory note loan of 5.08 %. For all other non-current financial debt, the nominal interest rate almost corresponds to the effective interest rate since only marginal transaction costs were incurred.

The nominal value of the non-current financial debt is as follows: 2014/2019 corporate bond of DEMIRE Deutsche Mittelstand Real Estate AG: EUR 50,000k; 2013/2018 convertible bond of DEMIRE Deutsche Mittelstand Real Estate AG Estate AG: EUR 10,889k; Deutsche Bank promissory note loan for DEMIRE Holding EINS GmbH: EUR 147,961k; LBBW loan A for DEMIRE Commercial Real Estate GmbH: EUR 27,500k; LBBW loan B for DEMIRE Commercial Real Estate GmbH: EUR 7,000k; IBB amortising loan for DEMIRE Real Estate München I GmbH: EUR 8,425k; Hypo Landesbank Vorarlberg amortising loan for Munich ASSET Vermögensverwaltung GmbH: EUR 4,891k.

In the 2011/2012 fiscal year, the subsidiary, MAGNAT Capital Markets GmbH, had issued profit participation certificates. These profit participation certificates are composite financial instruments pursuant to IAS 32.28 and include an equity component as well as a debt component. Due to the existing redemption clause available to the holders of these profit participation certificates, the profit



participation capital has been classified as a debt component. However, the entitlement to net profits is classified as an equity component or dividend.

Of the amount of non-current financial debt, EUR 213,225k (previous year: EUR 13,248k) is collateralised by assets. Of this amount, EUR 201,225k has been encumbered with a land charge as a guarantee for third-party liabilities.

Pursuant to the business pledging agreement, Frankfurt/Main, November 13, 2014, DEMIRE Deutsche Mittelstand Real Estate AG pledged all its interests in the subsidiary DEMIRE Condor Properties Management GmbH in an amount of EUR 28k, including all related rights, to guarantee the loan of EUR 12,000k assumed by the subsidiary DEMIRE Condor Properties Management GmbH.

Pursuant to the notarially certified declaration of December 17, 2014, DEMIRE Deutsche Mittelstand Real Estate AG accepted all current, future and conditional claims of bondholders up to a maximum amount of EUR 33,360k of the bearer bond issued by the subsidiary DEMIRE Commercial Real Estate GmbH, Frankfurt/Main. To secure the claims of the above mentioned bearer bond, DEMIRE Deutsche Mittelstand Real Estate AG has pledged all its interests in the subsidiary DEMIRE Commercial Real Estate GmbH in an amount of EUR 25k.

In principle, all loan agreements for the properties financed provide for information requirements that DEMIRE's subsidiaries as debtors have to fulfil to the banks or investors as creditors. Depending on the type and scope of the loan agreement, the information requirements range from providing key financial ratios (e.g. financial statements) to reporting of the compliance with covenants.

Covenants are key financial ratios such as the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and loan to value (LTV) of the respective real estate portfolio. The calculation of the covenants is based on the specifications set by the creditors in the loan agreement. The main financial debt within the DEMIRE Group covered by covenants are the Deutsche Bank promissory note loan for the Condor real estate portfolio with a nominal amount of EUR 148 million, the 2014/2019 corporate bond with a nominal amount of EUR 50 million, the 2013/2018 convertible bond with an issue volume of EUR 11.3 million and the LBBW loan for the Alpha real estate portfolio with a volume of EUR 27.5 million.

The monitoring, compliance and reporting of the covenants specified in the loan agreements for the properties financed is carried out by DEMIRE's management, treasury and asset management. Depending on the agreement, the covenants are reported to the creditors on a quarterly, half-yearly or yearly basis or the underlying economic ratios are provided to the creditors. If DEMIRE fails to comply with the covenants, the creditors are entitled to demand additional guarantees from the debtor. In that case, the loans would be in default. If the default persisted for a longer period of time and could not be permanently resolved, the creditors have a special right of termination.

DEMIRE complied with all covenants for real estate financing as of the balance sheet date and in the course of the new fiscal year. Accordingly, there was no default.

### 2013/18 convertible bond

By resolution of the Annual General Meeting of October 23, 2013, the Executive Board was authorised, with the consent of the Supervisory Board, to issue bearer and/or registered convertible bonds and/or bonds with warrants once or on several occasions until September 30, 2018, for a total nominal amount of up to EUR 50,000,000.00 with or without a limitation on the duration and to offer holders or creditors of bonds option or conversion rights new no-par value bearer shares of the Company with a notional interest in the share capital of up to EUR 25,000,000.00 according to the more detailed specifications of the terms and conditions of the bonds,

In December 2013, DEMIRE Deutsche Mittelstand Real Estate AG issued convertible bonds with a total nominal amount of EUR 11,300,000.00 and a term until December 30, 2018. The convertible bonds are divided into 11,300,000 fractional bonds, each with a nominal amount of EUR 1.00.

The details of the convertible bonds are as follows:

- They are divided into a maximum of 11,300,000 bearer fractional bonds, each with a nominal amount of EUR 1.00 and carrying equal rights.
- During the term of the bond, the holders have the irrevocable right to convert each convertible bond with a nominal amount of EUR 1.00, within the conversion period, initially into one no-par value share of DEMIRE Deutsche Mittelstand Real Estate AG with a notional interest in subscribed capital of EUR 1.00 each.
- In case of the effective exercise of the conversion right, the conversion price will amount to EUR 1.00 per ordinary bearer share, each with a notional interest in the subscribed capital of EUR 1.00. The conversion price may be subject to adjustments due to adjustment provisions included in the terms and conditions of the bonds. This corresponds to a conversion ratio of 1:1. A cash settlement is not provided for.
- The issuance price per convertible bonds is EUR 1.00 and corresponds to the nominal value and initial conversion price.
- The convertible bonds bear a 6.00 % interest per annum. The interest is payable on March 30, June 30, October 30 and December 30 of each year during the term of the convertible bonds.

As a result of the issuance of 411,500 shares due to the exercise of subscription rights from the 2013/18 convertible bond, the Company's share capital totalled EUR 14,306,151.00 (previous year: EUR 13,894,651.00) as at the balance sheet date and is divided into 14,306,151 (previous year: EUR 13,894,651) bearer shares.

As a result of the change in the terms and conditions of the 2013/18 convertible bond on September 30, 2014, the old debt instrument was derecognised and a new debt instrument was recognised. The debt instrument was replaced because the change in the terms and conditions was considered a material change in the contract conditions as defined by IAS 39.40. The old debt instrument was carried at fair value until September 30, 2014, and the new debt instrument was carried at amortised cost from September 30, 2014. According to IAS 32.28, the new debt instrument must be divided into a debt and equity component.

According to IAS 32.31, the division into a debt and equity component must be carried out under the residual value method. A term-equivalent credit spread on the risk-free interest rate was used to measure the debt component at the time of initial recognition at September 30, 2014. The resulting value for the debt component amounted to EUR 10,418k. The difference between the amount of the "new" convertible bond on September 30, 2014 (EUR 10,909k), and the value of the debt component is to be recognised as an equity component totalling EUR 490k. This difference was recognised directly in equity.

With regard to the corresponding effects on the statement of income, we refer to Note D.11.

#### 2014/2019 corporate bond

In the 2014 fiscal year, DEMIRE Deutsche Mittelstand Real Estate AG placed a corporate bond with a total issue volume of EUR 50,000k. The corporate bond has a term of five years and is due on September 16, 2019. The bond bears 7.50 % interest per annum payable semi-annually in arrears to investors. Inclusion of the bond in the trading on the Open Market of the Frankfurt Stock Exchange under ISIN DE000A12T135 took place on September 16, 2014.

## 6. Current liabilities

### 6.1 Provisions

EURk	31/12/2014	31/03/2014
Staff costs	394	283
Others	458	504
	<b>852</b>	<b>787</b>

EURk	31/03/2014	Utilisation	Release	Additions	31/12/2014
Staff costs	283	181	2	294	394
Others	504	454	96	504	458
	<b>787</b>	<b>635</b>	<b>98</b>	<b>798</b>	<b>852</b>

The Company anticipates that provisions will be utilised in the 2015 fiscal year.

Provisions related to staff costs primarily consist of obligations resulting from the performance-related, variable remuneration of the Executive Board. Other provisions primarily include a provision related to asset management services provided to third parties and a warranty provision.

### 6.2 Trade accounts payable and other liabilities

EURk	31/12/2014	31/03/2014
Trade accounts payable	7,009	2,899
Interest liabilities from 2014/2019 bond	1,032	0
Accounting and audit costs	806	463
Purchase price liability from Margaretenhof Schwerin project	730	0
Liabilities from value added taxes	363	162
Invoices outstanding	0	118
Personnel-related expenses	11	92
Supervisory Board compensation	69	48
Others	1,499	475
	<b>11,519</b>	<b>4,257</b>

Of the trade accounts payable and other liabilities, an amount of EUR 11,519k is short-term in nature. Trade accounts payable amounting to EUR 7,009k (EUR 2,899k) are all due to third parties and are short-term in nature.

The liabilities for accounting and audit costs include the costs for the preparation, audit, and publication of the financial statements and the consolidated financial statements.

The liabilities for invoices outstanding are recognised for services received.

### 6.3 Tax liabilities

Current income tax liabilities in the amount of EUR 314k (previous year: EUR 19k) relate to trade taxes (EUR 118k; previous year EUR 12k) and corporate taxes (EUR 196k; previous year: EUR 7k).

### 6.4 Current financial debt

Current financial debt is comprised of DEMIRE Commercial Real Estate GmbH's bond amounting to EUR 25,088k (previous year: EUR 0k), the mezzanine loans amounting to EUR 17,020k (previous year: EUR 6,088k), bank borrowings amounting to EUR 5,418k (previous year: EUR 3,274k) and other financial debt of EUR 81k (previous year: EUR 0k).

Liabilities to companies in which participating interests are held are short-term in nature and primarily relate to liabilities to investments accounted for using the equity method.

As at March 31, 2014, the financial debt related to the DKB annuity loan for 1. MAGNAT Immobilienges. mbH and the mezzanine loan have been recognised under current financial debt for the first time.

<b>CURRENT PORTION BANK BORROWINGS</b>	Nominal interest rate %	Due	31/12/2014 EURk	31/03/2014 EURk
Deutsche Bank promissory note loan for DEMIRE Holding EINS GmbH	5.00	31/12/2015	740	0
LBBW loan A for DEMIRE Commercial Real Estate GmbH	2.25	31/12/2015	834	0
LBBW loan B for DEMIRE Commercial Real Estate GmbH	variable	31/12/2015	208	0
IBB amortising loan for DEMIRE Real Estate München I GmbH	3.00	31/12/2015	200	0
Hypo Landesbank Vorarlberg amortising loan for Munich ASSET Vermögensverwaltung GmbH	1.75	31/12/2015	172	0
DKB loan for 1. MAGNAT Immobilienges. mbH	3.00	30/06/2014	3,183	3,274
Other financial debt			81	
			<b>5,418</b>	<b>3,274</b>

<b>CURRENT PORTION OF LOANS FROM DIVERSE LENDERS</b>	Nominal interest rate %	Due	31/12/2014 EURk	31/03/2014 EURk
Mezzanine loan for DEMIRE Holding EINS GmbH	7.50	variable	12,047	0
Mezzanine loan for Magnat Investment I B. V.	7.00	variable	5,020	6,088
Corporate bond of DEMIRE Commercial Real Estate GmbH	15.00	15/12/2015	25,088	0
			<b>42,155</b>	<b>6,088</b>

As at the balance sheet date, the nominal values were as follows: a mezzanine loan for DEMIRE Holding EINS GmbH of EUR 12,000k, a mezzanine loan for Magnat Investment I B. V. of EUR 6,500k, a corporate bond of DEMIRE Commercial Real Estate GmbH of EUR 27,800k and a DKB loan for 1. MAGNAT Immobilienges. mbH of EUR 3,183k.

The nominal interest rate nearly corresponds with the effective interest rate as only minimal transaction costs were incurred.

## 7. Operating leases – The Group as lessor

The minimum lease payments consist of the net rents payable until the agreed end of the contract or until the earliest possible termination date available to the lessee (tenant), regardless of whether a termination or non-utilisation of an extension option should actually be expected. Rent agreements are usually concluded over fixed minimum terms of up to ten years. In some cases, tenants are entitled to extension options. In these cases, contractual rent escalation clauses effectively reduce the market risk of a long-term commitment. In the case of unlimited tenancies, a remaining term of the rental period of five years was assumed after five years.

Fixed future claims for minimum lease payments from long-term operating leases of rented commercial real estate amount to EUR 227,408k (previous year: EUR 6,933k). Of this, an amount of EUR 23,960k (previous year: EUR 1,886k) is due within one year, an amount of EUR 117,694k (previous year: EUR 4,547k) is due between one and five years and an amount of EUR 85,754k (previous year: EUR 500k) is due after more than five years. Thereof, future claims for minimum lease payments directly from investment properties: EUR 223,453k (previous year: EUR 15,870k), of which an amount of EUR 23,713k (previous year: EUR 1,587k) is due within one year; an amount of EUR 116,458k (previous year: EUR 6,348k) is due between one and five years and an amount of EUR 83,282k (previous year: EUR 7,935k) is due after more than five years.

In the reporting period, the following amounts were recognised as lease income (excluding revenues from ancillary rental costs):

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Rental income (from investment properties)	3,154	311
Rental income (from real estate inventory)	221	247
<b>Total</b>	<b>3,375</b>	<b>558</b>

## 8. Contingent liabilities

As at December 31, 2014, contingent liabilities include land charges of EUR 754,455k pursuant to Section 1191 BGB relating primarily to properties acquired in the 2014 abbreviated fiscal year. The maximum liability amount related to these properties is limited to the carrying amount of EUR 324,839k recognised as at the balance sheet date. Since the beginning of the 2015 fiscal year, land charges totalling EUR 516,000k were deregistered from the land charge register.

Pursuant to the notarially certified declaration of December 17, 2014, the Company accepted all current, future and conditional claims of bondholders up to a maximum amount of EUR 33,360k of the bearer bond issued by the subsidiary DEMIRE Commercial Real Estate GmbH, Frankfurt/Main, with a term until December 15, 2015. To secure the claims of the aforementioned bearer bond, DEMIRE Deutsche Mittelstand Real Estate AG has pledged all its interests in the subsidiary DEMIRE Commercial Real Estate GmbH in an amount of EUR 25k.

Pursuant to the business pledging agreement relating to the mezzanine loan (see Note E. 6.4) dated November 13, 2014, the Company pledged all its interests in the subsidiary DEMIRE Condor Properties Management GmbH in an amount of EUR 28k, including all related rights, to guarantee the loan assumed by the subsidiary DEMIRE Condor Properties Management GmbH.

In the 2014 fiscal year, the Company assumed a payment obligation of EUR 1.5 million with a debt-discharging effect for MAGNAT Investment I B.V. In addition, the Company assumed a guarantee to be liable for an additional amount totalling EUR 3.0 million with a debt-discharging effect for MAGNAT Investment I B.V., if certain contractually agreement conditions occur. As at the balance sheet date, the probability of utilising this guarantee was considered to be low.

**9. Other financial obligations**

Zum Bilanzstichtag bestehen die folgenden sonstigen finanziellen Verpflichtungen:

<b>RENT AND LEASING OBLIGATIONS FOR CARS (EURK)</b>	<b>31/12/2014</b>	<b>31/03/2014</b>
Due within 1 year	37	29
Due within 1 and 5 years	42	42
<b>Total</b>	<b>79</b>	<b>71</b>

<b>RENT AND LEASING OBLIGATIONS FOR OFFICE SPACE (EURK)</b>	<b>31/12/2014</b>	<b>31/03/2014</b>
Due within 1 year	67	60
Due within 1 and 5 years	268	241
<b>Total</b>	<b>335</b>	<b>301</b>

The obligations from rent and leasing contracts mainly result from the rent of office space under open-ended operating leases without purchase options.

The following amounts were recognised as expense from leases in the reporting period:

<b>EURk</b>	<b>01/04/2014– 31/12/2014</b>	<b>01/04/2013– 31/03/2014</b>
Cars	27	44
Office space	65	55
<b>Total</b>	<b>92</b>	<b>99</b>



## F. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flow from operating activities is calculated using the indirect method. Cash flows from investing and financing activities are calculated on a payment-related basis.

### Cash flow from operating activities

In the abbreviated 2014 fiscal year, DEMIRE's cash flow from operating activities amounted to EUR -3,986k after EUR -1,900k in the 2013/2014 fiscal year. Thus, cash flow from operating activities remained at the prior year's level as a result of further expanding business operations.

Interest paid totalled EUR 1,607k in the abbreviated 2014 fiscal year and EUR 363k in 2013/2014 fiscal year. The continuous rise in interest payments corresponds to the Group's scope of indebtedness.

The change in trade accounts receivable and other receivables amounted to EUR -7,543k in the abbreviated 2014 fiscal year resulting from the expansion of the rental business and the increase in receivables from vendor loans relating to the sale of real estate companies. In the 2013/2014 fiscal year, the change in trade accounts receivables and other receivables had amounted to EUR 1,612k.

The change in deferred tax assets was EUR -208k in the abbreviated 2014 fiscal year after EUR -928k in the 2013/2014 fiscal year. The decline resulted from offsetting deferred tax assets with deferred tax liabilities.

The change in financial receivables and other financial assets totalled EUR 470k in the abbreviated 2014 fiscal year and EUR -830k in the 2013/2014 fiscal year.

The change in trade payables and other liabilities totalled EUR 7,558k in the abbreviated 2014 fiscal year and EUR 3,192k in the 2013/2014 fiscal year. The year-on-year change mainly resulted from the expansion of business operations and the related services for the Group. The change in deferred tax liabilities was EUR 8,821k in the abbreviated 2014 fiscal year after EUR 1,165k in the 2013/2014 fiscal year. Deferred tax liabilities were recognised on contribution gains as quasi-permanent differences according to IAS 40.

In the abbreviated 2014 fiscal year, the contribution gains according to IAS 40 totalled EUR 63,608k after EUR 2,905k in the 2013/2014 fiscal year. The increase was largely due to fair value adjustments of real estate portfolios acquired during the abbreviated fiscal year.

Gains from the sale of real estate companies totalled EUR 69k in the abbreviated 2014 fiscal year and EUR 386k in the 2013/2014 fiscal year. The gains in the abbreviated fiscal year concern the sale of the holdings in Turkey, R-QUADRAT Ukraine Gamma, MAGNAT Asset Management Ukraine Ltd. and Zetatrade. The gains in the 2013/2014 fiscal year concern the sale of the co-proprietor's building schemes in Austria, MAGNAT Immobilien GmbH & Co. Schumannngasse 16 KG, MAGNAT Asset Management GmbH & Co. Kastnergasse 16 KG and of MAGNAT Immobilien GmbH & Co. Brünner Straße 261-263 KG. Impairments on real estate inventory amounted to EUR 307k in the abbreviated 2014 fiscal year and to EUR 1,140k in the 2013/2014 fiscal year.

Other non-cash items in the abbreviated fiscal year mainly included the result of investments accounted for using the equity method of EUR 1,014k (2013/2014 fiscal year: EUR 1,688k) and changes in currency translation reserves and other reserves of EUR 2,290k (2013/2014 fiscal year: EUR -565k).

#### **Cash flow from investing activities**

In the abbreviated 2014 fiscal year, DEMIRE's cash flow from investing activities amounted to EUR -255,206k after EUR -18,715k in the 2013/2014 fiscal year.

In the abbreviated 2014 fiscal year, cash flow from investing activities included payments for investments in property, plant and equipment of EUR 11,356k (2013/2014 fiscal year: EUR 221k). The investments in the abbreviated fiscal year mainly concern prepayments for a project in Leverkusen.

In the abbreviated fiscal year ending on December 31, 2014, cash flow for the purchase of investment properties totalled EUR -248,726k compared to EUR -17,621k in the 2013/2014 fiscal year. The year-on-year increase reflects DEMIRE's growth through the acquisition of properties for the core portfolio.

Payments for the acquisition of interests and for increasing the capital reserve of investments accounted for using the equity method and other investments amounted to EUR 0k in the abbreviated 2014 fiscal year and to EUR 1,085k in the 2013/2014 fiscal year resulting from a capital increase at SQUADRA. These payments were compensated for by proceeds from the capital reduction of investments accounted for using the equity method and other investments of EUR 0k in the abbreviated 2014 fiscal year (2013/2014 fiscal year: EUR 363k).

Proceeds from the disposal of interests in investments accounted for using the equity method and other investments of EUR 3,700k in the abbreviated 2014 fiscal year concern the sale of the holdings in Turkey.

In the abbreviated 2014 fiscal year, payments for granting loans to investments accounted for using the equity method and to other investments were EUR 0k (2013/2014 fiscal year: EUR 104k). These were offset by proceeds from the repayment of loans from investments accounted for using the equity method and other investments of EUR 101k in the abbreviated fiscal year (2013/2014 fiscal year: EUR 0k).

Payments for the acquisition of subsidiaries and for the purchase of real estate inventory (net of cash acquired) amounted to EUR 0k in the abbreviated 2014 fiscal year and to EUR 2k in the 2013/2014 fiscal year. Proceeds from the disposal of subsidiaries (Zetatrade and RQ Ukraine Gamma), net of cash sold, totalled EUR 1,075k in the abbreviated 2014 fiscal year after payments of EUR 75k in the 2013/2014 fiscal year.

### **Cash flow from financing activities**

In the abbreviated 2014 fiscal year, DEMIRE's cash flow from financing activities amounted to EUR 259,634k after EUR 22,239k in the 2013/2014 fiscal year. The increase resulted from the Company's financing needs for the acquired real estate portfolios.

The change in financial debt resulting from the purchase of properties for the core portfolio totalled EUR 0k in the abbreviated 2014 fiscal year. In the 2013/2014 fiscal year, the amount of debt assumed through the acquisition of real estate was EUR 13,248k.

Proceeds from the issuance of convertible bonds totalled EUR 0k in the abbreviated 2014 fiscal year after EUR 11,300k in the 2013/2014 fiscal year and relate to the issuance of the 2013/2018 convertible bond in December 2013.

Proceeds from the issuance of financial debt were EUR 261,738k in the abbreviated 2014 fiscal year, consisting mainly of EUR 49,200k from the issuance of the 2014/2019 corporate bond and of EUR 148,000k from a promissory note loan from Deutsche Bank, taking transaction costs into account. This compares to a mere EUR 67k in the 2013/2014 fiscal year.

In the abbreviated 2014 fiscal year, interest payments on financial debt totalled EUR 1,607k (2013/2014 fiscal year: EUR 363k). The year-on-year increase resulted from the first-time payment of interest for the convertible bond of EUR 664k on March 31, 2014, and the interest payments on the promissory note loan of EUR 385k, the LBBW loan of EUR 137k and the IBB loan of EUR 254k. The first-time payment of interest for the 2014/2019 corporate bond is scheduled for March 16, 2015.

### **Change in cash and cash equivalents**

At the beginning of the abbreviated 2014 fiscal year, cash and cash equivalents totalled EUR 3,955k. The net change in cash and cash equivalents amounted to EUR 442k. Including the change in cash and cash equivalents due to currency translation effects of EUR 0k, cash and cash equivalents at the end of the abbreviated fiscal year ending on December 31, 2014, totalled EUR 4,397k.

In the 2013/2014 fiscal year, the net change in cash and cash equivalents amounted to EUR 1,624k. The level of cash and cash equivalents at the beginning of the period was EUR 2,333k. The change in cash and cash equivalents due to currency translation effects was EUR -2k. Cash and cash equivalents at the end of the 2013/2014 fiscal year totalled EUR 3,955k.

## G. NOTES TO THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### 1. Notes to the consolidated statement of changes in equity for the period from April 1, 2014 to December 31, 2014

**Subscribed capital** increase by EUR 411k in the reporting year as a result of the exercise of 2013/2018 convertible bonds. We refer to Note E. 4.

**Capital reserves** represent the amount that was received through a capital increase against contribution in kind and the difference in subscribed capital to the sum of the share capital of the economic parent company and the acquisition cost for the acquisition of DEMIRE Deutsche Mittelstand Real Estate AG (see A.5). As a result of the change in the terms and conditions of the convertible bond with effect from September 30, 2014, at the initial recognition of the new debt instrument, an amount of EUR 493k was recognised directly within capital reserves as an equity component, including corresponding deferred tax liabilities of EUR 177k. In addition, an amount of EUR 111k was recognised within capital reserves, representing the difference between the nominal value and carrying amount of convertible bonds.

**Retained earnings including consolidated net profit/loss** contain the accumulated results. In addition, retained earnings also include the earnings-neutral impact from the increase in the share of interest in the subsidiary MAGNAT Investment I B.V in prior periods.

**The reserves for treasury shares** resulted from the reverse acquisition (see Note A.5).

**The currency translation reserves** include currency differences from fully consolidated companies and of companies accounted for using the equity method whose functional currency is not the euro.

#### Capital transactions with shareholders

There were no distributions to shareholders either in the year under review or in the subsequent year up until the date of the preparation of these financial statements.

#### Changes in equity recognised in other comprehensive income

Additional changes in other comprehensive income of in total EUR 642k resulted from negative currency translation differences and the transfer of earnings-neutral changes in equity from investments accounted for using the equity method.

#### Net profit/loss for the period

The net profit for the period attributable to parent company shareholders amounted to EUR 43,302k. An amount of EUR 2,405k is attributable to non-controlling shareholders.

## **2. Notes to the consolidated statement of changes in equity for the period from April 1, 2013 to March 31, 2014**

**Capital reserves** represent the amount that was received through a capital increase against contribution in kind and the difference in subscribed capital to the sum of the share capital of the economic parent company and the acquisition cost for the acquisition of DEMIRE Deutsche Mittelstand Real Estate AG (see A.5).

**Retained earnings including consolidated net profit/loss** contain the accumulated results and other components of equity, which are accounted for on a proportionate basis from companies accounted for using the equity method. In addition, retained earnings also include the earnings neutral impact from the increase in the share of interest in the subsidiary MAGNAT Investment I B.V in prior periods. In the reporting year, **other reserves** are reported together with **retained earnings including consolidated net profit/loss**. In the previous year, other reserves had been reported separately. The **currency translation** reserves include currency differences from fully consolidated companies and of companies accounted for using the equity method whose functional currency is not the euro. The **reserves for treasury shares** resulted from the reverse acquisition (see A.5).

### **Capital transactions with shareholders**

There were no distributions to shareholders either in the year under review or in the subsequent year up until the date of the preparation of these financial statements.

### **Changes in equity recognised in other comprehensive income**

Additional changes in other comprehensive income of in total EUR 564k resulted from positive currency translation differences and the transfer of earnings-neutral changes in equity from investments accounted for using the equity method.

### **Net profit/loss for the period**

The net loss for the period attributable to parent company shareholders amounted to EUR 5,935k. A negative amount of EUR 51k is attributable to non-controlling shareholders.

## H. GROUP SEGMENT REPORTING

The segmentation of the data in the annual financial statements is based on the internal alignment according to strategic business segments and geographic considerations pursuant to IFRS 8 "Operating Segments". In accordance with the management approach, the segment information provided represents the information to be reported to DEMIRE's Executive Board.

The Group is divided into the business segments Investments, Asset Management, Core Portfolio, and Central Functions. The Investments segment contains all information relating to non-current assets as well as the business areas of revitalisation, project development, and land banking. The Investments segment also includes the activities of the respective project holdings. The Asset Management segment represents the asset management activities including the co-proprietor's building schemes and participation schemes. The Asset Management segment, which provided services to third parties until September 2013, is only presented in the 2014 abbreviated fiscal year for comparable purposes. The segment will no longer be reported separately as of 2015. The Core Portfolio segment includes domestic subsidiaries focusing on commercial real estate for entrepreneurial medium-sized companies in Germany. The Central Functions segment mainly contains DEMIRE Deutsche Mittelstand Real Estate AG's activities in its function as the Group holding and does not represent an independent business segment.

APRIL 1, 2014 - DECEMBER 31, 2014	SEGMENTS BY BUSINESS AREAS				
	Investments	Asset Management	Core Portfolio	Central Functions	Group
<b>EURk</b>					
Revenues	1,290	0	3,527	3,714	8,531
Profit/loss from fair value adjustments in investment properties	0	0	63,608	0	63,608
Other income	359	0	187	191	737
Profits from investments accounted for using the equity method	199	0	0	0	199
<b>Segment revenues</b>	<b>1,848</b>	<b>0</b>	<b>67,322</b>	<b>3,905</b>	<b>73,075</b>
Net assets from sold real estate companies	-1,180	0	0	-3,533	-4,713
Expenses on real estate sales	0	0	0	0	0
Other expenses	-5,513	-393	-3,419	610	-8,715
Losses from investments accounted for using the equity method	-1,087	0	0	-126	-1,213
<b>Segment expenses</b>	<b>-7,780</b>	<b>-393</b>	<b>-3,419</b>	<b>-3,049</b>	<b>-14,641</b>
<b>EBIT</b>	<b>-5,932</b>	<b>-393</b>	<b>63,903</b>	<b>856</b>	<b>58,434</b>
Financial income	282	6	0	6,667	6,955
Financial expenses	-562	-2	-1,190	-8,139	-9,893
Income taxes	-70	0	-9,482	-238	-9,789
<b>Net profit/loss for the period</b>	<b>-6,282</b>	<b>-389</b>	<b>53,321</b>	<b>-854</b>	<b>45,707</b>
<b>Significant non-cash items</b>	<b>1,390</b>	<b>0</b>	<b>73,397</b>	<b>-2,144</b>	<b>72,643</b>
<b>Impairment losses in net profit/loss for the period</b>	<b>257</b>	<b>0</b>	<b>436</b>	<b>0</b>	<b>693</b>
<b>ADDITIONAL INFORMATION</b>					
<b>Segment assets</b>	<b>15,454</b>	<b>1,185</b>	<b>353,897</b>	<b>2,476</b>	<b>373,012</b>
of which investments accounted for using the equity method	2,469	0	0	144	2,613
of which loans to investments accounted for using the equity method	2,857	0	0	0	2,857
of which financial receivables and other financial assets	64	4	0	853	921
of which tax refund claims	3	18	82	22	125
of which assets available for sales in investments accounted for using the equity method	0	0	0	0	0
<b>Segment liabilities</b>	<b>8,719</b>	<b>1,056</b>	<b>244,137</b>	<b>64,471</b>	<b>318,383</b>
of which non-current financial debt	20	0	190,773	57,299	248,092
of which current financial debt	8,278	0	36,271	3,024	47,573
of which tax liabilities	0	0	105	209	314

APRIL 1, 2014 - DECEMBER 31, 2014	GEOGRAPHIC SEGMENTS			
	D / A / NL <sup>1</sup>	CEE / SEE <sup>1</sup>	CIS <sup>1</sup>	Group
<b>EURk</b>				
Revenues	8,206	0	325	8,531 <sup>2</sup>
Other income	825	13	-101	737
Profits from investments accounted for using the equity method	199	0	0	199
Profit/loss from fair value adjustments in investment properties	63,608	0	0	63,608
<b>Segment revenues</b>	<b>72,838</b>	<b>13</b>	<b>224</b>	<b>73,075</b>
<b>ADDITIONAL INFORMATION</b>				
<b>Segment assets</b>	<b>367,941</b>	<b>1,626</b>	<b>3,445</b>	<b>373,012</b>
of which investments accounted for using the equity method	2,613	0	0	2,613
of which loans to investments accounted for using the equity method	2,857	0	0	2,857
of which financial receivables and other financial assets	892	0	29	921
of which tax refund claims	123	0	3	126
of which assets available for sales in investments accounted for using the equity method	0	0	0	0
<b>Total liabilities</b>	<b>306,231</b>	<b>8,470</b>	<b>3,682</b>	<b>318,383</b>
of which non-current financial debt	248,072	0	20	248,092

<sup>1</sup> CEE = Central & Eastern Europe; SEE = South - Eastern Europe;

CIS = Commonwealth of Independent States; D / A / NL = Germany, Austria and the Netherlands

<sup>2</sup> Revenue is comprised of rental income and revenue from the sale of real estate companies



APRIL 1, 2013 - MARCH 31, 2014  EURk	SEGMENTS BY BUSINESS AREAS				
	Investments	Asset Management	Core Portfolio	Central Functions	Group
Revenues	338	486	310	0	1,134
Profit/loss from fair value adjust- ments in investment properties	0	0	2,905	0	2,905
Other income	735	228	17	538	1,518
Profits from investments accounted for using the equity method	23	0	0	0	23
<b>Segment revenues</b>	<b>1,096</b>	<b>714</b>	<b>3,232</b>	<b>538</b>	<b>5,580</b>
Net assets from sold real estate companies	0	-17	0	0	-17
Expenses on real estate sales	0	0	0	0	0
Other expenses	-3,163	-1,357	-531	-4,354	-9,405
Losses from investments accounted for using the equity method	-1,711	0	0	0	-1,711
<b>Segment expenses</b>	<b>-4,874</b>	<b>-1,374</b>	<b>-531</b>	<b>-4,354</b>	<b>-11,133</b>
<b>EBIT</b>	<b>-3,778</b>	<b>-660</b>	<b>2,701</b>	<b>-3,816</b>	<b>-5,553</b>
Financial income	357	4	0	774	1,135
Financial expenses	-928	-28	-98	-263	-1,317
Income taxes	-244	-3	-949	946	-250
<b>Net profit/loss for the period</b>	<b>-4,593</b>	<b>-687</b>	<b>1,654</b>	<b>-2,359</b>	<b>-5,985</b>
<b>Significant non-cash items</b>	<b>1,671</b>	<b>-31</b>	<b>25</b>	<b>1,018</b>	<b>2,683</b>
<b>Impairment losses in net profit/ loss for the period</b>	<b>3,027</b>	<b>274</b>	<b>0</b>	<b>0</b>	<b>3,301</b>
<b>ADDITIONAL INFORMATION</b>					
<b>Segment assets</b>	<b>20,151</b>	<b>1,866</b>	<b>21,509</b>	<b>4,874</b>	<b>48,400</b>
of which investments ac- counted for using the equity method	4,694	0	0	0	4,694
of which loans to investments accounted for using the equity method	2,490	0	0	0	2,490
of which financial receivables and other financial assets	101	478	0	570	1,149
of which tax refund claims	1	22	20	28	71
of which assets available for sales in investments accounted for using the equity method	3,970	0	0	0	3,970
<b>Segment liabilities</b>	<b>10,449</b>	<b>1,090</b>	<b>16,863</b>	<b>12,296</b>	<b>40,698</b>
of which non-current financial debt	0	505	13,247	10,893	24,645
of which current financial debt	9,398	1	0	380	9,779
of which tax liabilities	0	1	18	0	19

APRIL 1, 2013 - MARCH 31, 2014	GEOGRAPHIC SEGMENTS			
	D / A / NL <sup>1</sup>	CEE / SEE <sup>1</sup>	CIS <sup>1</sup>	Group
<b>EURk</b>				
Revenues	1,134	0	0	1,134
Other income	841	6	671	1,518
Profits from investments accounted for using the equity method	0	0	23	23
Profit/loss from fair value adjustments in investment properties	2,905	0	0	2,905
<b>Segment revenues</b>	<b>4,880</b>	<b>6</b>	<b>694</b>	<b>5,580</b>
<b>ADDITIONAL INFORMATION</b>				
<b>Segment assets</b>	<b>33,024</b>	<b>5,157</b>	<b>10,219</b>	<b>48,400</b>
of which investments accounted for using the equity method	1,718	0	2,976	4,694
of which loans to investments accounted for using the equity method	20	0	2,471	2,491
of which financial receivables and other financial assets	1,051	0	98	1,149
of which tax refund claims	71	0	0	71
of which assets available for sales in investments accounted for using the equity method	0	3,533	270	3,803
<b>Total liabilities</b>	<b>39,902</b>	<b>10</b>	<b>786</b>	<b>40,698</b>
of which non-current financial debt	24,646	0	0	24,646

<sup>1</sup> CEE = Central & Eastern Europe; SEE = South - Eastern Europe;  
CIS = Commonwealth of Independent States; D / A / NL = Germany, Austria and the Netherlands

APRIL 1, 2014 - DECEMBER 31, 2014 EURk	GEOGRAPHIC SEGMENTS - ADDITIONAL INFORMATION ABOUT GERMANY <sup>1</sup> D
Revenues	7,463
Other income	759
Profit/loss from fair value adjustments in investment properties	63,608
Profits from investments accounted for using the equity method	0
<b>Segment revenues</b>	<b>71,830</b>
<b>Additional information</b>	
<b>Segment assets</b>	<b>363,149</b>
of which investments accounted for using the equity method	144
of which loans to investments accounted for using the equity method	853
of which tax refund claims	105
<b>Total liabilities</b>	<b>311,920</b>
of which non-current financial debt	248,072

<sup>1</sup> Allocation by location of property

APRIL 1, 2013 - MARCH 31, 2014 EURk	GEOGRAPHIC SEGMENTS - ADDITIONAL INFORMATION ABOUT GERMANY D
Revenues	649
Other income	595
Profit/loss from fair value adjustments in investment properties	2,905
Profits from investments accounted for using the equity method	0
<b>Segment revenues</b>	<b>4,149</b>
<b>Additional information</b>	
<b>Segment assets</b>	<b>30,931</b>
of which investments accounted for using the equity method	1,718
of which loans to investments accounted for using the equity method	0
of which financial receivables and other financial assets	570
of which tax refund claims	49
<b>Total liabilities</b>	<b>32,634</b>
of which non-current financial debt	24,141

Revenues for the fiscal year resulted from the rental of real estate companies which were generated in the **Investments** and **Core Portfolio** segments. Revenue was also generated from the sale of real estate companies which occurred in the **Investments** and in the **Asset Management** (in the previous year) segments and from **revenues from asset management** (in the previous year).

One individual customer in the Core Portfolio accounted for more than 10 % of total revenues, amounting to EUR 424k in the abbreviated fiscal year.

The **Core Portfolio** segment contains investment properties and serves to develop domestic real estate projects. The focus of the respective properties is on sustainable management. Hence, these properties are held for the generation of rental income and/or for the purpose of value appreciation.

The activities of the companies in the non-operating areas of **Central Functions** are largely limited to the activities of DEMIRE Deutsche Mittelstand Real Estate AG.

The carrying amounts of the companies accounted for using the equity method (EUR 2,613k; previous year: EUR 4,694k) are allocated to the Investments segment (EUR 2,469k) and Central Functions (EUR 144k).

The carrying amounts of the companies accounted for using the equity method of EUR 2,613k (previous year: EUR 4,694k) are divided into the following regional segments: Germany/Austria/Netherlands: EUR 2,613k (previous year: EUR 1,718k) and the CIS region: EUR 0k (previous year: EUR 2,976k).

The investments available for sale accounted for using the equity method were sold during the abbreviated fiscal year. In the prior year, they were allocated to the Investments segment in their entirety and were divided into the following regional segments: the CEE/SEE region: EUR 3,533k and the CIS region: EUR 270k.

In the Core Portfolio segment, non-cash items mainly include fair value adjustments in investment properties of EUR 63,608k (previous year: EUR 2,908k) and income taxes of EUR 9,789k (previous year: EUR 251k). In the investments segment, non-cash items include profits from the sale of real estate companies of EUR 69k (previous year: EUR 386k), the result of companies accounted for using the equity method of EUR 1,014k (previous year: EUR 1,688k) and value adjustments in real estate inventory of EUR 307k (previous year: EUR 1,140k). The Core Portfolio segment also contains changes in provisions of EUR 2,290k (previous year: EUR 565k) and other non-cash items of EUR 146k (previous year: EUR 73k).

Of the total of Group revenues of EUR 8,531k (previous year: EUR 1,134k), EUR 7,463k (previous year: EUR 649k) is attributable to Germany. These revenues result from rental income (EUR 3,749k) and revenues from the sale of real estate (EUR 3,714k).

The geographical allocation of revenues is based on the location of the rented property for rental income, the location of the object sold for the sale of real estate and the location where the services were performed for asset management services.

Transactions among segments are carried out on the basis of comparable external conditions.

## I. OTHER NOTES

### 1. Financial instruments

Interest rate risk to cash flows relates to cash held in deposit accounts and also relates to variable interest rates on debt. The Company does not anticipate significant negative interest rate effects over the long term since the level of liquid funds on the balance sheet date are only available until investments are made and will be subsequently tied up in projects according to plan. For the amount of EUR 4,397k (previous year: EUR 3,955k) deposited as at the balance sheet date, a decline in the interest rate of 0.5 % p.a. would result in a decrease in the yearly interest income of EUR 22k (previous year: EUR 20k). We refer to the sections titled "Interest rate risk" and "foreign currency risk" for additional sensitivity analyses.

Generally, reference is made to the risk report in DEMIRE's group management report.

### Financial risk management

The Executive Board regularly monitors and actively manages the credit risks which are inherent in the Group's operating activities and the risks related to the Group's financing activities. As a result of these measures, the consolidated financial statements were prepared on the assumption of a going concern.

For the 2015 fiscal year, DEMIRE plans to achieve an EBIT at the previous year's level, which was influenced by positive valuation adjustments. The further development of our core portfolio will mainly include a significant increase in our rental income. The proceeds generated from this increase will contribute to the Group's achievement of a balanced cash flow. We will also strive for a strong improvement in our net asset value. In particular, we intend to take advantage of the current favourable market environment to expand the Group. Therefore, our immediate priority – ahead of our achievement of earnings targets – is growth, measured by our portfolio volume in Germany. Above all, our primary objective is to secure a sufficient level of liquidity at all times. The growth strategy will be financed through the assumption of debt and additional equity. Thus, DEMIRE is dependent upon the receipt of debt at conditions adequate for refinancing current business operations or for making planned acquisitions. A renewed resurgence of the international financial market crisis as in 2008 could impede DEMIRE's debt financing and lead to liquidity problems. The risk of impairment of our Ukrainian investments is of particular significance due to the current political situation in the Ukraine. In the reporting year, we experienced impairments here which resulted in a reduction in the total carrying amounts from EUR 6.0 million in the previous year to around EUR 3.0 million in the year under review. The carrying amounts also represent the level of risk for the Group.

The Group's financial assets mainly consist of interests and loans to companies accounted for using the equity method, other loans, trade accounts receivables and other receivables, financial receivables and other financial assets, as well as bank deposits. A large proportion of trade accounts receivables consists of receivables from rent and asset management. Potential defaults in this context are taken into consideration.

The Group's financial liabilities are comprised mainly of bonds, bank loans, loans assumed, overdrafts and trade payables. The main purpose of this financial debt is to finance the Group's business activities.

The Group is exposed to various financial risks as a result of its business activities: foreign currency risk, interest rate risk, credit risk, and liquidity risk. The overlying risk management system concentrates on the ongoing identification of typical business risks and their proactive management. Risks within a certain range are accepted if they are offset by corresponding return opportunities. The goal is to limit the exposure to peak risks so that the continuance of the Company is not jeopardised.

The Executive Board identifies, evaluates, and hedges financial risks in close collaboration with the asset manager and in coordination with the Group's Supervisory Board.

The Group has loan agreements that include financial covenants stipulated by the banks. Non-compliance with these financial covenants could lead to extraordinary terminations of these agreements by the banks. Financial covenants are key financial ratios such as the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and loan to value (LTV) of the respective real estate portfolio. The calculation of the covenants is based on the specifications set by the creditors in the loan agreement. The monitoring, compliance and reporting of the covenants specified in the loan agreements for the properties financed is carried out by DEMIRE's management, treasury and asset management. Depending on the agreement, the covenants are reported to the creditors on a quarterly, half-yearly or yearly basis or the underlying economic ratios are provided to the creditors. If DEMIRE fails to comply with the covenants, the creditors are entitled to demand additional guarantees from the debtor. In that case, the loans would be in default. If the default persisted for a longer period of time and could not permanently be resolved, the creditors have a special right of termination. DEMIRE complied with all covenants for real estate financing as of the balance sheet date. Accordingly, there was no default.

#### Foreign currency risk

DEMIRE is also active in markets outside of the eurozone and, consequently, is also exposed to the corresponding currency exchange rate risks. Projects are processed in the local currency (e.g. local currency debt financing of construction costs) when possible and practicable. Any change in the project's existing assets and liabilities has its effects within the currency translation reserve of other comprehensive income found in the statement of comprehensive income. There is the risk that when foreign assets are disposed the accumulated translation differences within the currency translation reserves, which have been recognised thus far under other comprehensive income, will need to be recognised in profit or loss in the period of the assets' disposal. When the Group's liabilities or receivables are held in a foreign currency, this has an effect on the consolidated statement of income.

The remaining exchange rate risk, which is mostly limited to invested equity and the potential profit, is only partially hedged. Generally, preference is given to hedging on an aggregated basis rather than on the basis of individual project-related risks. Hedging is only considered when certain fluctuation ranges have been exceeded for certain currencies and are limited to the equity invested (and not for the potential profit). This approach is based on a cost-benefit analysis in the knowledge that foreign exchange rate risk as a whole cannot be isolated entirely, but rather many additional interdependencies beyond pure exchange rate fluctuations play a role. In summary, the management of foreign exchange rate risks is geared toward accepting currency risk within a certain range. Hedging is only used to cap peak risks on an aggregated basis and is only sought for certain currencies in order to counteract developments that could jeopardise the continuance of the Company. The foreign currency hedging strategy is determined in close coordination with the Supervisory Board.

The following table shows the breakdown of assets and liabilities by currency (in EURk):

<b>APRIL 1, 2014 - DECEMBER 31, 2014</b>	<b>EURk</b>	<b>Others</b>	<b>Total</b>
Investments accounted for using the equity method	2,613	0	2,613
Investment properties	333,070	0	333,070
Loans to investments accounted for using the equity method	2,857	0	2,857
Trade accounts receivables and other receivables	9,161	126	9,287
Financial receivables and other financial assets	892	29	921
Cash and cash equivalents	4,379	18	4,397
Other assets	14,969	4,898	19,867
	<b>367,941</b>	<b>5,071</b>	<b>373,012</b>
Non-current financial debt	248,072	20	248,092
Current financial debt	47,499	74	47,573
Other liabilities	19,117	3,600	22,717
	<b>314,688</b>	<b>3,694</b>	<b>318,382</b>

<b>APRIL 1, 2013 - MARCH 31, 2014</b>	<b>EURk</b>	<b>Others</b>	<b>Total</b>
Investments accounted for using the equity method	1,963	3,701	5,664
Investment properties	20,526	0	20,526
Loans to investments accounted for using the equity method	20	2,471	2,491
Trade accounts receivables and other receivables	1,680	64	1,744
Financial receivables and other financial assets	2	0	2
Cash and cash equivalents	3,915	39	3,954
Investments available for sale accounted for using the equity method	4	0	4
Other assets	5,121	6,036	11,157
	<b>33,231</b>	<b>12,311</b>	<b>45,542</b>
Non-current financial debt	24,646	0	24,646
Current financial debt	9,744	35	9,779
Other liabilities	5,425	526	5,951
	<b>39,815</b>	<b>561</b>	<b>40,376</b>

A change in the exchange rate of +/- 10 % has the following impact on the value of the assets and liabilities:

	<b>31/12/2014 + 10 %</b>	<b>31/12/2014 - 10 %</b>	<b>31/03/2014 + 10 %</b>	<b>31/03/2014 - 10 %</b>
<b>RON (Romania) in EURk</b>				
Assets	-115	141	-115	141
Liabilities	0	0	0	0
<b>GEL (Georgia) in EURk</b>				
Assets	-123	150	-82	101
Liabilities	-28	34	-24	29
<b>UAH (Ukraine) in EURk</b>				
Assets	-190	232	-319	389
Liabilities	-300	367	-26	31
<b>BGN (Bulgaria) in EURk</b>				
Assets	-32	40	0	0
Liabilities	-7	9	0	0



### Interest rate risk

The DEMIRE Group utilises debt to finance its real estate projects. Some of its debt has variable interest rates. As a consequence, the DEMIRE Group is exposed to interest rate risk since increases in the interest rate level increases its financing costs. The following table assumes an increase in the interest rate level of +100 and -100 basis points. Assuming all other parameters remained unchanged, an increase or decrease of the Company's interest expenses would lead to the following interest expenses:

<b>INTEREST RATE SENSITIVITY ANALYSIS EURk</b>	<b>31/12/2014</b>	<b>31/03/2014</b>
Interest expense from loans with variable interest rates	316	88
Increase in interest expenses assuming a fictitious increase in variable interest rates by 100 basis points	464	50
Decrease in interest expenses assuming a fictitious decrease in variable interest rates by 100 basis points	135	13

In this fictitious presentation, a change in interest expenses would have a direct effect on the Group's net profit and equity, net of related income tax effects.

The Executive Board evaluates its interest rate policy on a regular basis and in close collaboration with the Supervisory Board.

### Credit risk

The reported financial instruments represent the maximum credit and default risk. In the context of uniform risk management standards across the Group, the counterparty risk is assessed and supervised on a uniform basis. The aim is to minimise default risk. No insurance is taken out for counterparty risk. There is generally no significant concentration of credit risk within the Group. An analysis of impaired receivables is provided in the following table:

<b>EURk 31/12/2014</b>	<b>Gross receivables</b>	<b>Impair- ment</b>	<b>Total</b>
Trade accounts receivables and other receivables	11,731	-2,444	9,287
Financial receivables and other financial assets	4,100	-3,179	921
	<b>15,831</b>	<b>-5,623</b>	<b>10,208</b>

<b>EURk 31/03/2014</b>	<b>Gross receivables</b>	<b>Impair- ment</b>	<b>Total</b>
Trade accounts receivables and other receivables	2,740	-2,293	447
Financial receivables and other financial assets	4,325	-3,325	1,000
	<b>7,065</b>	<b>-5,618</b>	<b>1,447</b>

### Liquidity risk

During the Company's initial phase, liquidity risk was primarily managed by keeping liquidity reserves in the form of bank deposits available at all times and, to a limited degree, credit lines that could be drawn down. Today, the liquidity position is significantly more dependent upon proceeds from disposals and the planned prolongation of loans as they come due. The liquidity position is also affected by additional contributions for the continued financing of projects. Generally, there are no significant concentrations of liquidity risk.

Further information on risk management and on financial risks are provided in the risk report of the management report.

### Capital management

The overriding objective of the Group's capital management is to secure the capability of future debt repayment and to preserve the Group's financial net worth. The Group's capital structure is managed according to economic and regulatory guidelines. On the part of DEMIRE, capital management is carried out by way of dividend payments and/or financing. DEMIRE strives to maintain a capital structure that is suitable for the risk inherent in its business and also subjects itself to the minimum capital requirements prescribed by the German Stock Corporation Act. The Executive Board of DEMIRE is monitoring its compliance. These requirements were met both in the reporting year and in the previous year. DEMIRE also strives to have a balanced maturity structure for its outstanding liabilities. The intention of the Executive Board is to obtain a sufficiently strong equity base and to maintain the confidence of investors and the market. Whereas the equity commitment in Germany stands at 20 to 30 % of the investment volume, significantly higher equity commitments must be allowed for in the CEE/SEE/CIS countries, especially during the early stages.

The Group monitors its capital through its equity ratio, which is also an important key ratio for investors, analysts, and banks. Components of this ratio are the total assets in the consolidated balance sheet and the shareholders' equity reported in the consolidated balance sheet that is attributable to both the parent company shareholders and non-controlling shareholders. DEMIRE intends to utilise the available equity as a means of possible leverage but will continue to maintain a solid equity ratio. As of December 31, 2014, the equity ratio stood at 14.6 % (March 31, 2014: 15.9 %). DEMIRE continues to strive for an equity ratio of more than 40 %. This goal will be achieved through different processes. Disposals should be carried out at least at the higher of the carrying amount and market value. Strict cost control and cost reduction measures should lead to an optimised cost structure.

### Additional information about financial instruments

Due to the short-term maturity of cash and cash equivalents, trade accounts receivable and payable, and other current receivables and liabilities, it is assumed that their respective fair values correspond to the carrying amounts.

DECEMBER 31, 2014			IAS 39 measurement			Value
EURk	Measurement category	Carrying amount	Fair value through profit/loss	Fair value directly in equity	Amortised cost	Fair value
Interests in investments accounted for using the equity method	n/a	2,613	0	0	2,613	4,001
Other financial assets	LaR	14	0	0	14	14
Loans to investments accounted for using the equity method	LaR	2,857	0	0	2,857	4,050
Other loans	LaR	322	0	0	322	322
Trade accounts receivables and other receivables	LaR	9,287	0	0	9,287	9,287
Financial receivables and other financial assets	LaR	921	0	0	921	1,246
Cash and cash equivalents	LaR	4,397	0	0	4,397	4,397
Convertible bond	AmC	8,173	0	0	8,173	15,244
Bonds	AmC	49,138	0	0	49,138	50,100
Other non-current financial debt	AmC	188,530	0	0	188,530	193,330
Trade payables	AmC	11,519	0	0	11,519	11,519
Current financial debt	AmC	47,573	0	0	47,573	47,573
Value per measurement category						
	LaR	17,798	0	0	17,798	19,316
	AmC	304,933	0	0	304,933	317,766

Afs: Available-for-Sale Financial Assets;

LaR: Loans and Receivables;

AmC: Amortised Cost (financial liabilities recognised at amortised cost); n/a.: not applicable.

MARCH 31, 2014 TEUR	IAS 39 measurement					Value
	Measu- rement category	Carrying amount	Fair-Value erfolgs- wirksam	Fair value through profit/loss	Fair value directly in equity	Fair-Value
Interests in investments accounted for using the equity method	n/a	4,694	0	0	4,694	8,721
Other financial assets	LaR	695	0	0	695	695
Loans to investments accounted for using the equity method	LaR	2,490	0	0	2,490	3,683
Other loans	LaR	351	0	0	351	351
Trade accounts receivables and other receivables	LaR	1,744	0	0	1,744	1,744
Financial receivables and other financial assets	LaR	1,149	0	0	1,149	1,474
Cash and cash equivalents	LaR	3,955	0	0	3,955	3,955
Non-current financial debt	AmC	13,247	0	0	13,247	10,637
Convertible bond	AtFVtPL	10,893	10,893	0	11,300	10,893
Trade payables	AmC	3,473	0	0	3,473	3,473
Current financial debt	AmC	9,779	0	0	9,779	9,779
Value per measurement category						
	LaR	10,384	0	0	10,384	11,207
	AmC	26,499	0	0	26,499	23,889
	AtFVtPL	10,893	10,893	0	11,300	10,893

Afs: Available-for-Sale Financial Asset;

LaR: Loans and Receivable);

AmC: Amortised Cost (financial liabilities recognised at amortised cost);

AtFVtPL: At Fair Value through Profit or Loss; n/a.: not applicable.

Due to the short-term maturity of trade accounts receivable and other receivables, other current financial assets and liabilities as well as cash and cash equivalents, it is assumed that their respective fair value corresponds to the carrying amounts.

The following table presents the measurement hierarchy, measurement procedure and material input factors for the fair values of each category of financial assets and liabilities.

Type	Hierarchy	Measurement procedure and material input factors
Investment properties	Stufe 3	Expected future free cash flows of a project by applying a market-based, property-specific discount rate
Interests in investments accounted for using the equity method	Stufe 3	Discounted cash flows from the continued use of an asset on the basis of yield curves observable on the market at the reporting date
Loans to investments accounted for using the equity method (fixed-rate)	Stufe 3	Discounted cash flows on the basis of yield curves observable on the market at the reporting date
Financial receivables and other financial assets	Stufe 3	Discounted cash flows on the basis of yield curves observable on the market at the reporting date
Non-current financial debt	Stufe 3	Discounted cash flows on the basis of yield curves observable on the market at the reporting date
Quoted 2013/2018 convertible bond	Stufe 1	Quoted bid prices on active markets
Quoted 2014/2019 corporate bond	Stufe 1	Quoted bid prices on active markets

According to IFRS 7.29 it is assumed for all current financial instruments that their carrying amounts correspond to their fair value. Since the predominant portion of non-current loans was drawn down shortly before the balance sheet date, it is assumed that the fair values do not materially differ from the carrying amounts.

The carrying amounts of the financial instruments represent the maximum default risk:

EURk	31/12/2014	31/03/2014
Loans and Receivables	13,387	7,840
Cash and cash equivalents	4,397	3,955
Other financial assets	14	695
<b>Total</b>	<b>17,798</b>	<b>12,490</b>

The maximum default risk of loans and receivables is divided according to regional considerations as follows:

EURk	31/12/2014	31/03/2014
Germany, Austria, and Netherlands	7,658	2,188
Poland	1,737	2,198
Ukraine	1,125	726
Georgia	12	66
Other countries	2,855	2,662
<b>Total</b>	<b>13,387</b>	<b>7,840</b>

The Group's cash and cash equivalents are divided according to regional considerations as follows:

EURk	31/12/2014	31/03/2014
Cash and cash equivalents in euro countries	4,378	3,915
Cash and cash equivalents in other countries	19	40
<b>Total</b>	<b>4,397</b>	<b>3,955</b>

As of December 31, 2014, there were no overdue loans and receivables taking impairments into consideration. In the prior year, there were no overdue loans and receivables.

NET GAINS AND LOSSES (EURk)	from interest	From subsequent measurement				Net gain/ loss
		at fair value profit or loss	Currency difference	Impair- ment	Reversal of impair- ment	
<b>01/04/2014 - 31/12/2014</b>						
Loans and Receivables	555			-693		-138
AmC	-520					-520
<b>Total</b>	<b>35</b>	<b>0</b>	<b>0</b>	<b>-693</b>	<b>0</b>	<b>-658</b>

NET GAINS AND LOSSES (EURk)	from interest	From subsequent measurement				Net gain/ loss
		at fair value profit or loss	Currency difference	Impair- ment	Reversal of impair- ment	
<b>01/04/2013 - 31/03/2014</b>						
Loans and Receivables	702		3	-1,253		-548
AmC	-927					-927
<b>Total</b>	<b>-225</b>	<b>0</b>	<b>3</b>	<b>-1,253</b>	<b>0</b>	<b>-1,475</b>

Overdue receivables are subject to impairment based on the status of information available. It is assumed that those receivables that are not overdue or impaired have retained their value and are consequently collectable. This assumption is subject to constant monitoring.

Impairment losses during the reporting period are distributed among the classes of financial instruments as follows:

EURk	31/12/2014	31/03/2014
Loans and Receivables	693	1,253
<b>Total</b>	<b>693</b>	<b>1,253</b>

Future outgoing payments related to financial debt are presented in the following table:

EURk	2015	2016	2017	2018	2019	After 31/12/2019
<b>2014/2019 bond DEMIRE Deutsche Mittelstand Real Estate AG</b>						
Interest	3,750	3,750	3,750	3,750	3,750	
Repayment					50,000	
<b>2013/2018 convertible bond DEMIRE Deutsche Mittelstand Real Estate AG</b>						
Interest	651	651	651	488		
Repayment				10,852		
<b>Mezzanine loan for DEMIRE CONDOR Properties Management GmbH</b>						
Interest	900					
Repayment	12,000					

TEUR	2015	2016	2017	2018	2019	After 31/12/2019
<b>Promissory note loan Deutsche Bank for DEMIRE Holding EINS GmbH</b>						
Interest	7,384	7,367	7,311	7,274	7,238	
Repayment	738	737	731	727	144,304	
<b>LBBW loan for A DEMIRE Commercial Real Estate GmbH</b>						
Interest	610	591	572	552	45	
Repayment	834	853	872	892	23,975	
<b>LBBW loan for B DEMIRE Commercial Real Estate GmbH</b>						
Interest	137	133	129	125	31	
Repayment	208	201	196	190	6,159	
<b>Mezzanine loan for DEMIRE Commercial Real Estate GmbH</b>						
Interest	2,800					
Repayment	25,000					
<b>IBB annuity loan for DEMIRE Real Estate München I GmbH</b>						
Interest	251	243				
Repayment	200	300	7,925			
<b>Hypo Landesbank Vorarlberg annuity loan for Munich ASSET Vermögensverwaltung GmbH</b>						
Interest	84	81	78	50		
Repayment	172	176	179	4,244		
<b>DKB loan for 1. MAGNAT Immobilien g. mbH</b>						
Interest	95	92	23			
Repayment	81	81	3,002			
<b>Mezzanine loan for Magnat Investment I B.V.</b>						
Interest						
Repayment	5,020					
<b>Trade payables and other liabilities</b>	10,943					505
<b>Total</b>	<b>71,858</b>	<b>15,256</b>	<b>25,419</b>	<b>29,144</b>	<b>235,502</b>	<b>505</b>

For the 2013/2018 convertible bond, it is assumed that no conversion will take place until maturity.



## 2. Related party disclosures

In the fiscal year under review, transactions with related parties were exclusively carried out at customary market conditions.

The transactions, revenues and rendering of services between the parent company and its subsidiaries were settled as would apply between unrelated parties.

With regard to Executive Board remuneration, please refer to Note I.5.

The following balances exist with respect to associated companies:

EURk	31/12/2014	31/03/2014
Financial receivables and other financial assets	48	48
Trade accounts receivables and other receivables	146	139
Current financial debt	12	243

The balance of trade accounts receivables and other receivables is based on the offsetting of asset management services. Regarding financial receivables and other financial assets, reference is made to Note E.2.3. Trade payables and other liabilities are related to the leasing of office space. Current financial debt is based on other financial liabilities.

The following balances exist with respect to joint ventures:

EURk	31/12/2014	31/03/2014
Loans to investments accounted for using the equity method	2,857	2,490
Financial receivables and other financial assets	921	2,293
Current financial debt	385	172

Regarding loans to investments accounted for using the equity method, reference is made to Note E.1.6. Regarding financial receivables and other financial assets, reference is made to Note E.2.3. The balance of current financial debt is based on other financial liabilities.

There are no collaterals for receivables due from associated companies and joint ventures.

## Volume of business transactions with associated companies:

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Trade accounts receivables and other receivables	0	41
Financial receivables and other financial assets	51	245
Trade payables and other liabilities	10	101
Current financial debt	21	12

## Volume of business transactions with joint ventures:

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Loans to investments accounted for using the equity method	308	420
Financial receivables and other financial assets	98	426
Current financial debt	0	1

Transactions underlying financial receivables and other financial assets result from the repayment of loans granted. Loans to investments accounted for using the equity method resulted from interest expenses for loans granted. Trade payables and other liabilities are based on the leasing of office space. The item current financial debt includes other financial debt.

**3. Auditor's fee**

The auditor's fee for Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt charged in the fiscal year can be divided as follows (amounts including value-added taxes):

EURk	01/04/2014– 31/12/2014	01/04/2013– 31/03/2014
Auditing services	444	303
	<b>444</b>	<b>303</b>

Of the fees for auditing services recognised in the 2014 abbreviated fiscal year, an amount of EUR 74k relates to fees for auditing services for the 2013/2014 fiscal year.

#### 4. Events subsequent to the balance sheet date

The following significant events occurred subsequent to the end of the fiscal year:

By resolution of DEMIRE's Executive Board and Supervisory Board of December 23, 2014, the Company increased its share capital from authorised capital by EUR 5,633,710 from EUR 14,306,151 to EUR 19,939,861 against contribution in kind under the exclusion of the subscription rights of shareholders. Alpine Real Estate GmbH has been admitted to subscribe to the new shares and in return will provide DEMIRE with a contribution in kind consisting of 94.9 % of Alpine's interest in Hanse-Center Objektgesellschaft mbH, 94.9 % of the interest in Glockenhofcenter Objektgesellschaft mbH and a receivable against Hanse-Center Objektgesellschaft mbH. The increase in share capital was entered into the commercial register on January 22, 2015. Both of the project companies possess a commercial real estate portfolio comprising a total of nearly 42,000 m<sup>2</sup> in Bremen, Berlin and Stralsund, among others. In the context of the capital increase, each new DEMIRE share was assigned a value of EUR 1.75.

The Extraordinary General Meeting on March 6, 2015, resolved a stock option programme for which conditional capital was created in the amount of EUR 1,000,000. With the consent of the Supervisory Board, the Executive Board is authorised until December 31, 2015, ("Issue Period") as detailed in the following provisions under the 2015 stock option plan to issue up to 1,000,000 stock options with subscription rights for shares of DEMIRE Deutsche Mittelstand Real Estate AG with a vesting period of four years and an exercise period of another five years ("the exercise period") provided that each stock option entitles its holder to subscribe for one share of the Company. A maximum of up to 800,000 stock options (80 %) can be issued to members of DEMIRE's Executive Board and a total of up to 200,000 stock options (20 %) can be issued to selected employees of the Company or directors or employees of Group companies. This option was fully utilised for the Executive Board members and partially utilised for the employees.

With the consent of the Supervisory Board, the Executive Board is authorised by resolution of the Extraordinary General Meeting of March 6, 2015, to increase the Company's share capital until March 5, 2020 by issuing up to 8,552,290 new bearer shares in the form of no-par value shares with a notional par value of EUR 1.00 each against contribution in cash and/or in kind once or several times in partial amounts by up to EUR 8,552,290.00 (Authorised Capital I/2015).

Based on the resolution of the Extraordinary General Meeting of March 6, 2015, the Company's share capital is also conditionally increased by up to EUR 2,434,105.00 divided in up to 2,434,105 no-par value bearer shares (Conditional Capital 2015/I). The conditional capital increase serves to grant subscription and/or conversion rights to the holders of bonds with warrants and/or convertible bonds.

On March 24, 2015, with the consent of the Supervisory Board, DEMIRE's Executive Board resolved to increase its 2014/2019 corporate bond issued in September 2014 by an additional EUR 50 million to a total of EUR 100 million by way of a private placement. On March 26, 2015, the issue price for the new tranche in the Open Market of the Frankfurt Stock Exchange was at 100 %. The bond has a coupon of 7.50 % per annum to be paid in semi-annual interest instalments. DEMIRE intends to use the net proceeds from the bond increase to finance additional portfolio acquisitions and to strengthen its financial position.

On April 2, 2015, with the approval of the Supervisory Board, DEMIRE's Executive Board resolved to increase the Company's share capital from authorised capital approved by DEMIRE's Annual General Meeting on March 6, 2015 once by EUR 2,182,567.00 from EUR 20,017,811.00 to EUR 22,200,378.00 against contribution in kind under the exclusion of the subscription rights of shareholders. The Authorised Capital I/2015 resolved by DEMIRE's Extraordinary General Meeting on March 6, 2015, was entered into the commercial register on April 6, 2015. Ketom AG, Switzerland, was admitted to subscribe to the new shares in return for providing a contribution in kind consisting of a 94 % interest in the project company Sihlegg Investments Holding GmbH, Switzerland, as well as all claims from a shareholder loan granted to the project company by Ketom AG. The determination of the amount of the capital increase and the number of new DEMIRE shares to be issued was based on a value of EUR 4.028 per DEMIRE AG share. The project company owns the office and retail property Gutenberg-Galerie in Leipzig with a rentable space of approximately 20,750 m<sup>2</sup>. The increase in share capital by a total of EUR 2,182,567.00 to EUR 22,200,378.00 was entered into the commercial register on May 27, 2015.

On March 18, 2015, Erste MAGNAT Immobiliengesellschaft mbH in Frankfurt/Main sold the Parchim property that contained a residential and office building, plot 24, land parcel 88/15 with an area of 2,464 m<sup>2</sup> and buildings and open space for a price of EUR 650k.

On May 13, 2015, the Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved to issue a mandatory convertible bond with a volume of EUR 15 million against contribution in kind and by excluding shareholders' subscription rights. As part of the transaction, an investor in the 2014/2019 corporate bond will subscribe to new mandatory convertible bond to be issued with a term of three years (bullet bond maturing 2018) by contributing fractional bonds from the 2014/2019 corporate bond. The bonds carry an interest coupon of 2.75 % per annum starting from the date of issue and may be converted into shares at an initial conversion price of EUR 5.00 per share, subject to adjustments, as of September 1, 2015. The mandatory convertible bond carries a conversion obligation of the respective creditor at the maturity of the bond.

With the approval of the Supervisory Board on May 19, 2015, the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG resolved on May 13, 2015, to increase the Company's share capital from authorised capital once by EUR 2,541,149.00 against a mixed contribution in kind with the exclusion of shareholders' subscription rights.

M1 Beteiligungs GmbH, Berlin, has been admitted to subscribe to the new shares in return for contributing a 94 % interest in Logistikpark Leipzig GmbH. Logistics Park Leipzig GmbH is the sole owner of a logistics property in Leipzig (Logistics Park Leipzig). The determination of the amount of the capital increase and the number of new DEMIRE shares to be issued was based on a value of EUR 5.84 per DEMIRE share. In addition to the shares, M1 Beteiligungs GmbH is to receive a cash payment of approximately EUR 19 million. The contribution, purchase and assignment agreement governing the contribution in kind is subject, among others, to the approval of the bank financing Logistikpark Leipzig GmbH. Following the execution of this capital increase and taking into account the capital increase against contribution in kind to purchase Gutenberg-Galerie, which was resolved by the Executive Board on April 2, 2015, M1 Beteiligungs GmbH will hold an interest of around 10.25 % in DEMIRE's share capital.

Mr. Günther Walcher, who is also a member of DEMIRE's Supervisory Board, holds an indirect interest of 100 % in M1 Beteiligungs GmbH. The conclusion of the contribution, purchase and assignment agreement was preceded by a structured bidding process in which DEMIRE prevailed. The former logistics complex of Quelle (constructed in 1994) has total rentable space of around 184,000 m<sup>2</sup> and is located on property of roughly 330,000 m<sup>2</sup> situated approximately 10 km north of Leipzig's city centre. The property consists of around 164,000 m<sup>2</sup> of warehouse space, almost 20,000 m<sup>2</sup> of office space, at least 35,000 m<sup>2</sup> of surrounding area as well as two areas for expansion totalling about 38,000 m<sup>2</sup> that already have building permits. The logistics complex has a current occupancy rate of roughly 60 % and annual net rental income excluding utilities of approximately EUR 3.60 million. Based on its excellent location near the trade fair centre and the BMW plant and due to the high demand for logistics properties in Leipzig, the complex offers substantial potential.

On May 27, 2015, DEMIRE Deutsche Mittelstand Real Estate AG announced that it acquired a 51 % interest in the asset management company Panacea Property GmbH and a 51 % interest in the facility management company Praedia Haus & Gartenservice GmbH. The real estate group also increased its stake in the property management platform, DEMIRE Immobilien Management GmbH, from 51 % to 100 %. The parties to the transaction have agreed not to disclose the purchase prices. With the purchase of these interests, DEMIRE has completed its expansion for the internal representation of all core competencies. These three new companies allow the real estate group to represent the entire value chain of property management internally and further optimise the administration of its commercial real estate portfolio in Germany.

In the period of early January 2015 until end of May 2015, a total of 163,125 convertible bonds were converted into no-par value shares of DEMIRE Deutsche Mittelstand Real Estate AG with a notional share of approximately 0.7 % in the share capital as of May 31, 2015.

## 5. Board, Supervisory Board and employees

### a. Executive Board

In accordance with the Articles of Association, the Executive Board conducts business under its own responsibility.

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

- Hon.-Prof. Andreas Steyer, CEO,
- Markus Drews, COO, from December 1, 2014.

In the 2014 abbreviated fiscal year, DEMIRE Deutsche Mittelstand Real Estate AG recognised variable remuneration of EUR 27k (previous year: EUR 0k) and fixed remuneration of EUR 196k (previous year: EUR 1,064k) for the members of the Executive Board. Remuneration is divided as follows (amounts in EURk):

EURk	2014	2013/2014
Hon.-Prof. Andreas Steyer	205	221
Markus Drews	18	0
Dr. Marc-Milo Lube	0	548
Jürgen Georg Faè	0	295
	<b>223</b>	<b>1.064</b>

Hon.-Prof. Andreas Steyer receives a time-proportionate entitlement to a multi-year bonus if the performance period for the determination of the multi-year bonus has persisted for twenty-four months.

## b. Supervisory Board

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

Name	Function	Profession	Term	Remu- neration (in EURk) 2014*	Remunera- tion (in EURk) 2013/2014*
Prof. Dr. Werner Schaffer	Chairman	Tax consultant in his own practice	until Octo- ber 23, 2013	0	12
Dr. Carsten Strohdeicher	Deputy Chairman	Independent management consultant	until Octo- ber 23, 2013	0	8
Prof. Dr. Hermann Anton Wagner	Chairman	Tax consultant and auditor in his own practice	since April 17, 2013	30	14
Dr. Dirk Hoffmann	Deputy Chairman	Lawyer in his own practice	since Octo- ber 23, 2013	23	3
Günther Walcher		Entrepreneur	since Octo- ber 23, 2013	10	3
Dr. Peter Maser	Deputy Chairman	Lawyer	since Janu- ary 12, 2015	0	0
				<b>63</b>	<b>56</b>

\* Remuneration excluding reimbursement of expenses and value-added tax

In addition, Supervisory Board members were reimbursed for travel costs amounting to EUR 5k (previous year: EUR 10k).

## c. Employees

In addition to the two Executive Board members, the number of employees as at the balance sheet date was as follows:

	31/12/2014	31/03/2014
Permanent employees	7	4
	<b>7</b>	<b>4</b>

The average number of employees in the 2014 fiscal year was 6 (previous year: 4).

#### **6. Statement regarding the “German Corporate Governance Code”**

The statement required under Section 161 AktG on the German Corporate Governance Code is submitted by the Company to the shareholders once per calendar year. The Declaration of Compliance with the German Corporate Governance Code was made permanently available to shareholders on DEMIRE’s website under the section titled “Company” (<http://www.demire.ag/de/company/governance.php>).

#### **7. Release for publication**

These consolidated financial statements were prepared by the Executive Board on June 2, 2015, and have been released for publication.

Frankfurt/Main, June 2, 2015

DEMIRE Deutsche Mittelstand Real Estate AG



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



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



## Appendix 1: Scope of consolidation

GROUP COMPANY			Group's interest in capital	Date of foundation /acqui- sition	Acquisi- tion cost EURk	Fiscal year
Directly held interests:						
<b>GERMANY</b>						
DEMIRE Deutsche Mittel- stand Real Estate AG, Frankfurt/Main	Subsidiary	acquired	100.00 %	29/10/2009	21,160	01/01/2014 – 31/12/2014
DEMIRE Commercial Real Estate GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 %	21/10/2008	25	01/01/2014 – 31/12/2014
DEMIRE Commercial Real Estate ZWEI GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 %	20/08/2014	25	01/01/2014 – 31/12/2014
DEMIRE CONDOR Properties Management GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 %	17/10/2014	28	01/01/2014 – 31/12/2014
<b>FOREIGN COUNTRIES</b>						
MAGNAT Capital Markets GmbH, Vienna, Austria	Subsidiary	acquired	100.00 %	05/05/2009	35	01/01/2014 – 31/12/2014

GROUP COMPANY			Group's interest in capital	Date of foundation /acquisition	Acquisition cost EURk	Fiscal year
Indirectly held interests:						
<b>GERMANY</b>						
Erste MAGNAT Immobilien-gesellschaft mbH, Frankfurt/Main	Subsidiary	acquired	99.64 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
Zweite MAGNAT Immo-biliengesellschaft mbH, Frankfurt/Main	Subsidiary	acquired	99.64 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
SQUADRA Immobilien GmbH & Co. KGaA, Frankfurt/Main	Associated company	acquired	24.78 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/03/2015 <sup>5</sup>
DEMIRE Real Estate Mün-chen I GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	27/11/2013	27	01/01/2014 – 31/12/2014
MUNICH ASSET Vermögens-verwaltung GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	05/02/2014	26	01/01/2014 – 31/12/2014
CAM Commercial Asset Management EINS GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	31/12/2014	26.625	01/01/2014 – 31/12/2014
CAM Commercial Asset Management ZWEI GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	31/12/2014	7.663	01/01/2014 – 31/12/2014
CAM Commercial Asset Management DREI GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	31/12/2014	9.830	01/01/2014 – 31/12/2014
CAM Commercial Asset Management VIER GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	31/12/2014	8.139	01/01/2014 – 31/12/2014
Schwerin Margaretenhof 18 GmbH, Berlin	Subsidiary	acquired	100.00 % <sup>1</sup>	31/12/2014	1.599	01/01/2014 – 31/12/2014
DEMIRE Holding EINS GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	20/08/2014	25	01/01/2014 – 31/12/2014
Condor Real Estate Ma-nagement EINS GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	20/08/2014	25	01/01/2014 – 31/12/2014
Condor Real Estate Ma-nagement ZWEI GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	20/08/2014	25	01/01/2014 – 31/12/2014
Condor Real Estate Ma-nagement DREI GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 % <sup>1</sup>	20/08/2014	25	01/01/2014 – 31/12/2014
Condor Objektgesellschaft Eschborn GmbH, Frankfurt/Main	Subsidiary	acquired	94.00 %	15/12/2014	1.550	01/01/2014 – 31/12/2014

GROUP COMPANY			Group's interest in capital	Date of foundation /acqui- sition	Acquisi- tion cost EURk	Fiscal year
Indirectly held interests:						
<b>GERMANY</b>						
Condor Objektgesellschaft Bad Kreuznach GmbH, Frankfurt/Main	Subsidiary	acquired	94.00 %	15/12/2014	113	01/01/2014 – 31/12/2014
Condor Real Estate Ma- nagement FÜNF GmbH, Frankfurt/Main	Subsidiary	acquired	100.00 %	05/06/2014	25	01/01/2014 – 31/12/2014
Condor Objektgesellschaft Düsseldorf GmbH, Frankfurt/Main	Subsidiary	acquired	94.00 %	15/12/2014	793	01/01/2014 – 31/12/2014
Condor Objektgesellschaft Bad Oeynhausen GmbH, Frankfurt/Main	Subsidiary	acquired	94.00 %	30/09/2014	160	01/01/2014 – 31/12/2014
Condor Objektgesellschaft Rendsburg GmbH, Frankfurt/Main	Subsidiary	acquired	94.00 %	30/09/2014	152	01/01/2014 – 31/12/2014
Condor Objektgesellschaft YELLOW GmbH, Frankfurt/Main	Subsidiary	acquired	94.00 %	30/09/2014	1,387	01/01/2014 – 31/12/2014
Condor Objektgesellschaft Lichtenfels GmbH, Frankfurt/Main	Subsidiary	acquired	94.00 %	30/09/2014	194	01/01/2014 – 31/12/2014
<b>FOREIGN COUNTRIES</b>						
MAGNAT Investment I B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	99.64 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Investment II B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Investment IV B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
R-QUADRAT Polska Alpha Sp. z o.o., Warsaw, Poland	Joint venture	acquired	50.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
Russian Land AG, Vienna, Austria	Associated company	acquired	40.34 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
Lumpsum Eastern Euro- pean Participations C.V., Osterhout, Netherlands	Subsidiary	formed	94.00 % <sup>1</sup>	29/01/2012	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Real Estate UA X B.V., Hardinxveld Giessen- dam, Netherlands	Subsidiary	acquired	99.64 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014

GROUP COMPANY			Group's interest in capital	Date of foundation /acquisition	Acquisition cost EURk	Fiscal year
Indirectly held interests:						
<b>FOREIGN COUNTRIES</b>						
MAGNAT Real Estate UA XI B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	99.64 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Real Estate UA I B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Real Estate Project Sadko, Hardinxveld Giessendam, Netherlands B.V.	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Real Estate UA V B.V., Hardinxveld Giessendam, Netherlands	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Real Estate New Project Sadko B.V., Hardinxveld Giessendam, Netherlands B.V.	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
MAGNAT Real Estate UA XII B.V., Hardinxveld Giessendam, Netherlands B.V.	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/04/2014 – 31/12/2014
SC VICTORY Consulting International s.r.l., Bucharest, Romania	Subsidiary	acquired	99.64 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
OOO Sadko Holding, Moscow, Russia	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
OOO New Sadko Holding, Moscow, Russia	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
R-Quadrat Bulgaria EOOD, Sofia, Bulgaria	Subsidiary	acquired	99.64 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
OXELTON ENTERPRISES Limited, Limassol, Cyprus	Joint venture	acquired	59.78 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
IRAO MAGNAT DIGOMI LLC, Tbilisi, Georgia	Subsidiary	acquired	74.73 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
IRAO MAGNAT 28/2 LLC, Tbilisi, Georgia	Joint venture	acquired	50.00 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
IRAO MAGNAT Tbilisi Office 1 LLC, Tbilisi, Georgia	Subsidiary	acquired	99.64 % <sup>2</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014

GROUP COMPANY			Group's interest in capital	Date of foundation /acqui- sition	Acquisi- tion cost EURk	Fiscal year
Indirectly held interests:						
<b>FOREIGN COUNTRIES</b>						
MAGNAT Tbilisi Residential 1 LLC, Tbilisi, Georgia	Subsidiary	acquired	100.00 % <sup>1</sup>	29/10/2009	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
IRAO MAGNAT Gudiasvili LLC, Tbilisi, Georgia	Joint venture	formed	50.00 % <sup>3</sup>	04/04/2011	N/A <sup>4</sup>	01/01/2013 – 31/12/2013
Kapptrade Ltd., Kiev, Ukraine	Subsidiary	acquired	99.64 % <sup>2</sup>	19/10/2010	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
Polartrade Ltd., Kiev, Ukraine	Subsidiary	acquired	99.64 % <sup>2</sup>	19/10/2010	N/A <sup>4</sup>	01/01/2014 – 31/12/2014
Denston Investments Ltd. Cyprus Cyan Bayreuth, Nicosia, Cyprus	Subsidiary	acquired	94.00 %	11/12/2014	83	01/01/2014 – 31/12/2014
Blue Ringed S.à.r.l. Luxembourg Pink Darmstadt, Luxembourg	Subsidiary	acquired	94.00 %	11/12/2014	118	01/12/2013 – 30/11/2014
Briarius S.à.r.l. Luxembourg Pink Kempten, Luxembourg	Subsidiary	acquired	94.00 %	11/12/2014	90	01/12/2013 – 30/11/2014
Armstripe S.à.r.l. Luxembourg Pink Ulm, Luxembourg	Subsidiary	acquired	94.00 %	11/12/2014	408	01/12/2013 – 30/11/2014
Reubescens S.à.r.l. Luxembourg Magenta Various, Luxembourg	Subsidiary	acquired	94.00 %	11/12/2014	89	01/12/2013 – 30/11/2014
GO Leonberg ApS Denmark Cyan Leonberg, Copenhagen, Denmark	Subsidiary	acquired	94.00 %	11/12/2014	59	01/01/2014 – 31/12/2014
GO Ludwigsburg ApS Denmark Cyan Ludwigsberg, Copenhagen, Denmark	Subsidiary	acquired	94.00 %	11/12/2014	45	01/01/2014 – 31/12/2014
GO Bremen ApS Denmark Cyan Bremen, Copenhagen, Denmark	Subsidiary	acquired	94.00 %	11/12/2014	221	01/01/2014 – 31/12/2014

<sup>1</sup> Interests are held indirectly through DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main.

<sup>2</sup> Interests are held indirectly through MAGNAT Investment I B.V., Hardinxveld Giessendam, Netherlands, and Lumpsum Eastern European Participations C.V., Osterhout, Netherlands. The Group holds a total of 50% in Irao Magnat 28/2 LLC through numerous group companies.

<sup>3</sup> Interests are held indirectly through MAGNAT Investment IV B.V., Hardinxveld Giessendam, Netherlands.

<sup>4</sup> No disclosure was made because the relevant companies were acquired indirectly as part of the reverse acquisition.

<sup>5</sup> Included on the basis of the interim report as at December 31, 2014.

## Appendix 2: Schedule of shareholdings pursuant to Section 313 para. 2 HGB

COMPANY	Type	Head office	Fiscal year	Equity in EURk	Interest in equity in % <sup>1</sup>	Profit/loss of last fiscal year
DEMIRE Deutsche Mittelstand Real Estate AG	Group parent company	Germany, Frankfurt/Main	01/04/2014 – 31/12/2014	9.959		-1.131
DEMIRE Commercial Real Estate GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	56	100	-18
DEMIRE Real Estate München I GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	21	100	-4
Munich ASSET Vermögensverwaltung GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	317	100	251
CAM Commercial Asset Management EINS GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	-860	100	-885
CAM Commercial Asset Management ZWEI GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	-273	100	-298
CAM Commercial Asset Management DREI GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	-351	100	-376
CAM Commercial Asset Management VIER GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	-294	100	-319
Schwerin Margaretenhof 18 GmbH	Subsidiary	Germany, Berlin	01/01/2014 – 31/12/2014	-285	100	-310
DEMIRE Commercial Real Estate ZWEI GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	25	100	0
DEMIRE CONDOR Properties Management GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	20	100	-5
DEMIRE Holding EINS GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	-5	100	-5,042
Condor Real Estate Management EINS GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	25	100	0

» Appendix 2: Schedule of shareholdings pursuant to Section 313 para. 2 HGB

COMPANY	Type	Head office	Fiscal year	Equity in EURk	Interest in equity in % <sup>1</sup>	Profit/loss of last fiscal year
GO Leonberg ApS Denmark Cyan Leonberg	Subsidiary	Denmark, Copenha- gen	01/01/2014 – 31/12/2014	-3,595	94	-79
GO Ludwigsburg ApS Denmark Cyan Ludwigsberg	Subsidiary	Denmark, Copenha- gen	01/01/2014 – 31/12/2014	-2,748	94	-71
GO Bremen ApS Denmark Cyan Bremen	Subsidiary	Denmark, Copenha- gen	01/01/2014 – 31/12/2014	-16,955	94	129
Condor Real Estate Management ZWEI GmbH	Subsidiary	Germany, Frankfurt/ Main	01/01/2014 – 31/12/2014	25	100	0
Blue Ringed S.à.r.l. Luxemburg Pink Darmstadt	Subsidiary	Luxembourg, Luxembourg	01/12/2013 – 30/11/2014	-2,191	94	-232
Briarius S.à.r.l. Luxemburg Pink Kempten	Subsidiary	Luxembourg, Luxembourg	01/12/2013 – 30/11/2014	-2,070	94	-229
Armstripe S.à.r.l. Luxemburg Pink Ulm	Subsidiary	Luxembourg, Luxembourg	01/12/2013 – 30/11/2014	-8,418	94	-301
Reubescens S.à.r.l. Luxem- bourg Magenta Various	Subsidiary	Luxembourg, Luxembourg	01/12/2013 – 30/11/2014	-3,350	94	-251
Condor Real Estate Management DREI GmbH	Subsidiary	Germany, Frankfurt/ Main	01/01/2014 – 31/12/2014	25	100	0
Denston Investments Ltd. Cyprus Cyan Bayreuth	Subsidiary	Cyprus, Nicosia	01/01/2014 – 31/12/2014	-1,721	94	-70
CONDOR Objektgesellschaft Eschborn GmbH	Subsidiary	Germany, Frankfurt/ Main	01/01/2014 – 31/12/2014	248	94	295
CONDOR Objektgesellschaft Bad Kreuznach GmbH	Subsidiary	Germany, Frankfurt/ Main	01/01/2014 – 31/12/2014	25	94	13
Condor Real Estate Management FÜNF GmbH	Subsidiary	Germany, Frankfurt/ Main	01/01/2014 – 31/12/2014	25	100	0

COMPANY	Type	Head office	Fiscal year	Equity in EURk	Interest in equity in % <sup>1</sup>	Profit/loss of last fiscal year
CONDOR Objektgesellschaft Düsseldorf GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	18	94	-421
CONDOR Objektgesellschaft Bad Oeynhausen GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	25	94	-36
CONDOR Objektgesellschaft Rendsburg GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	25	94	-26
CONDOR Objektgesellschaft YELLOW GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	25	94	-316
CONDOR Objektgesellschaft Lichtenfels GmbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	25	94	-62
MAGNAT AM GmbH	Subsidiary	Austria, Vienna	01/01/2014 – 31/12/2014	1,272	100	-9
MAGNAT Asset Management GmbH	Subsidiary <sup>5</sup>	Austria, Vienna	01/01/2014 – 31/12/2014	3,631	100	-339
MAGNAT Capital Markets GmbH	Subsidiary	Austria, Vienna	01/01/2014 – 31/12/2014	379	100	13
Prunus Sp. z o.o. i.L.	Joint venture <sup>2</sup>	Poland, Warsaw	N/A	N/A	50	
Lygos Sp. z o.o. i.L.	Joint venture <sup>2</sup>	Poland, Warsaw	N/A	N/A	50	
Lumpsum Eastern European Participations C.V.	Subsidiary	Netherlands, Osterhout	01/04/2014 – 31/12/2014	-6	94	-2
MAGNAT Investment I B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	50,945	94	801



» Appendix 2: Schedule of shareholdings pursuant to Section 313 para. 2 HGB

COMPANY	Type	Head office	Fiscal year	Equity in EURk	Interest in equity in % <sup>1</sup>	Profit/loss of last fiscal year
Erste MAGNAT Immobiliengesellschaft mbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	4	100	-71
Zweite MAGNAT Immobiliengesellschaft mbH	Subsidiary	Germany, Frankfurt/Main	01/01/2014 – 31/12/2014	3,446	100	6
MAGNAT Real Estate UA X B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	-140	100	-37
MAGNAT Real Estate UA XI B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	-22	100	-21
R Quadrat Bulgaria EOOD	Subsidiary	Bulgaria, Sofia	01/01/2014 – 31/12/2014	268	100	-3
SC Victory International Consulting S.r.l.	Subsidiary	Romania, Bucharest	01/01/2014 – 31/12/2014	1,068	100	-13
OXELTON ENTERPRISES Limited	Joint venture <sup>3</sup>	Cyprus, Limassol	01/01/2014 – 31/12/2014	230	60	-881
Karmen Trading LLC	Joint venture <sup>6</sup>	Ukraine, Kiev	01/04/2013 – 31/03/2014	0	60	0
Vlemegona Holdings Ltd.	Joint venture <sup>2,4</sup>	Cyprus, Limassol	01/01/2012 – 31/12/2012	23	60	0
OOO Sadko Holding	Subsidiary	Russia, Moscow	01/01/2014 – 31/12/2014	35	100	0
OOO New Sadko Holding	Subsidiary	Russia, Moscow	01/01/2014 – 31/12/2014	15	100	0
IRAO MAGNAT Digomi LLC	Subsidiary	Georgia, Tbilisi	01/01/2014 – 31/12/2014	-1,186	75	-145
IRAO MAGNAT 28/2 LLC	Joint venture	Georgia, Tbilisi	01/01/2013 – 31/12/2013	265	50	-9
IRAO MAGNAT Gudiashvili LLC	Joint venture	Georgia, Tbilisi	01/01/2014 – 31/12/2014	60	50	-8
MAGNAT Tbilisi Office 1 LLC	Subsidiary	Georgia, Tbilisi	01/01/2014 – 31/12/2014	51	100	-1
MAGNAT Tbilisi Residential 1 LLC	Subsidiary	Georgia, Tbilisi	01/01/2014 – 31/12/2014	-1	100	-1

COMPANY	Type	Head office	Fiscal year	Equity in EURk	Interest in equity in % <sup>1</sup>	Profit/loss of last fiscal year
MAGNAT Investment II B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	5,782	100	-264
MAGNAT Real Estate UA I B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	507	100	-852
MAGNAT Real Estate Project Sadko B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	46	100	0
MAGNAT Real Estate UA V B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	259	100	-1,168
Kappatrade Ltd.	Subsidiary	Ukraine, Kiev	01/01/2014 – 31/12/2014	-2,138	100	-1,529
Polartrade Ltd.	Subsidiary	Ukraine, Kiev	01/01/2014 – 31/12/2014	-1,548	100	-1,096
MAGNAT Real Estate New Project Sadko B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	467	100	0
MAGNAT Real Estate UA XII B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	-196	100	-9
SQUADRA Immobilien GmbH & Co. KGaA	Associated company <sup>3</sup>	Germany, Frankfurt/Main	01/04/2014 – 31/03/2015	0	24.78	0
MAGNAT Investment III B.V.	<sup>2</sup>	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	-7	50	-3

» Appendix 2: Schedule of shareholdings pursuant to Section 313 para. 2 HGB

COMPANY	Type	Head office	Fiscal year	Equity in EURk	Interest in equity in % <sup>1</sup>	Profit/loss of last fiscal year
MAGNAT Investment IV B.V.	Subsidiary	Netherlands, Hardinxveld Giessendam	01/04/2014 – 31/12/2014	334	100	-6
R-Quadrat Polska Alpha Sp. z o.o.	Joint venture	Poland, Warsaw	01/01/2014 – 31/12/2014	11,300	50	1,151
Russian Land AG	Associated company	Austria, Vienna	01/01/2014 – 31/12/2014		40.34	

<sup>1</sup> The share in the equity corresponds to the control relationship before taking into account any non-controlling interests within the Group.

<sup>2</sup> Joint venture, not accounted for using the equity method.

<sup>3</sup> Based on internal subgroup financial statements underlying these consolidated financial statements.

<sup>4</sup> Stated amounts are based on the financial statements as of 31/12/2011 and 31/03/2011.

<sup>5</sup> Indirect investment through Magnat AM GmbH (AT).

<sup>6</sup> Held in trust (beneficial ownership). No information provided in the schedule of shareholdings as they are already included in the consolidated subgroup financial statements of the parent company OXELTON ENTERPRISES Limited.

## Balance sheet oath

As the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, we hereby confirm to the best of our knowledge, and in accordance with the applicable reporting principles, that the consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, and furthermore that the Group management report includes a fair review of the development of the business including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt/Main, June 3, 2015



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



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

## Auditor's report

We have audited the consolidated financial statements prepared by DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt/Main, comprising the consolidated balance sheet, consolidated statement of income, statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, and the notes to the consolidated financial statements as well as the management report for the Group and the Company for the fiscal year from April 1, 2014 to December 31, 2014. It is the responsibility of the governing bodies of the Company to prepare the consolidated financial statements and the management report for the Group and the Company in accordance with IFRS, as applicable in the EU, and with the supplementary provisions of the German commercial law applicable pursuant to Section 315a para. 1 HGB. Our task is to deliver a judgment on the consolidated financial statements and the management report for the Group and the Company on the basis of the audit we have undertaken.

We have conducted our audit of the consolidated financial statements in accordance with Section 317 HGB in consideration of the German auditing standards defined by the Institut der Wirtschaftsprüfer (IDW). These require the audit to be planned and conducted in such a manner as to detect, with adequate certainty, any inaccuracies or infringements which may have a significant impact on the impression of the net assets, financial position, and results of operations, as conveyed by the consolidated financial statements in consideration of the applicable accounting standards, and by the management report for the Group and the Company. In determining the actions to be taken as part of the auditing procedure, consideration was given to the knowledge of the business activities of the Group and its economic and legal environment, as well as to the possible errors likely to be encountered. In the course of the audit, the effectiveness of the internal accounting-related control system and proof of the information contained in the consolidated financial statements and the management report for the Group and the Company were assessed on the basis of random samples. The audit encompasses a review of the financial statements of the companies included in the consolidated financial statements, the scope of consolidation, the accounting and consolidation principles applied, and the principal assessments made by the governing bodies, as well as an evaluation of the overall presentation of the consolidated financial statements and of the management report for the Group and the Company. We are of the opinion that our audit forms an adequately secure foundation on which to base our judgment.

Our audit has caused us to raise no objections.

In our judgment based on the findings of our audit, the consolidated financial statements comply with IFRS as applicable in the EU and with the supplementary provisions of German commercial law applicable pursuant to Section 315a para. 1 HGB, and in consideration of the principles of proper accounting convey an image of the Group's net assets, financial position, and results of operations which concurs with the true circumstances. The management report for the Group and the Company is consistent with the consolidated financial statements and overall presents an accurate image of the position of the Group and the opportunities and risks of future development.

Eschborn / Frankfurt/Main, June 3, 2015

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

**Schmitt**  
Auditor

**Kresin**  
Auditor

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**STATUS: June 2015**





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