DEMIRE

2020 ANNUAL REPORT

PROFILE

87.5

EUR million in rental income, +7.0% from EUR 81.8 million in 2019

39.2

EUR million
FFO I (after taxes, before minorities), +13.5% from EUR 34.5 million in 2019

50.0

in per cent
NET LOAN-TO-VALUE RATIO (NET LTV)

DEMIRE Deutsche Mittelstand Real Estate AG acquires and holds commercial real estate in medium-sized cities and up-and-coming regions bordering metropolitan areas across Germany. We focus on office properties, with retail, hotel and logistics properties also featured in our portfolio. As at 31 December, we managed 75 properties with lettable floor space of around 1 million m^2 and a total market value of more than EUR 1.4 billion.

We offer our international and regional tenants state-of-the-art, functional properties for long-term use. Our shareholders benefit from an attractive risk-return structure in a stable asset class. This is reflected in our stable performance.

KEY INDICATORS

in EUR millions	2019	2020
KEY EARNINGS FIGURES		
Profit/loss from the rental of real estate	65.5	70.2
Profit/loss from the sale of real estate	16.8	– 1.0
EBIT	155.2	27.7
FFO I (after taxes, before minorities)	34.5	39.2
KEY BALANCE SHEET FIGURES (31 DEC.)		
Total assets	1,677.4	1,625.3
Equity ratio (in %)	39.4%	36.8%
Net LTV (in %)	46.7%	50.0%
Average interest costs as at the reporting date, p.a.	1.86%	1.71%
Net asset value	613.4	558.0
KEY PORTFOLIO INDICATORS (31 DEC.)		
Market value of the portfolio	1,488.4	1,441.5
Annualised contractual rents	90.0	85.6
Rental yield (in %)	6.0%	5.9%
WALT (in years)	4.8	4.8
FURTHER INDICATORS (31 DEC.)		
NAV (basic)	684.1	625.3
NAV per share (basic)	6.35	5.91
EPRA vacancy rate	9.4%	6.9%*

* Excl. real estate held for sale

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FOREWORD BY THE EXECUTIVE BOARD

Dear Readers,

2020 is set to go down in modern German history as a truly unprecedented year. No one could have predicted at the start of the year what an incisive impact the SARS-CoV-2 virus would have on people and economies around the world. After nearly a year in pandemic mode, it is clear to see that the German real estate industry has also been hard hit. Lockdowns and restrictions on business operations have made their mark on the German retail and hotel property markets in particular.

In these times of economic uncertainty, DEMIRE, with its diversified portfolio, represents stability and reliability. Despite the pandemic, we have not only maintained stable levels of rental income but also built on them to achieve the record result of around EUR 87.5 million. As at the reporting date, only just over three percent of rental payments were still outstanding as a result of coronavirus. FFO I (after taxes, before minorities) have also reached record levels at EUR 39.2 million and, like rental income, are slightly higher than the most recently published forecasts.

One major success factor in managing the challenges presented by the pandemic was the consistent implementation of our “REALize Potential” strategy. All four

“The investment in Cielo allows the company’s growth to continue in 2021.”

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

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"The year is testimony to the fact that our strategic business approach, focusing on up-and-coming locations in both primary and secondary locations in Germany, is robust."

INGO HARTLIEF (FRICS), CEO

pillars (Acquisition, Management, Financials, Processes) made a contribution towards stabilising our portfolio and improving key operating and portfolio-related indicators.

This positive development was significantly aided by intensive discussions with our tenants affected by the pandemic, a forward-looking tenant management strategy and high letting performance within our active asset management strategy. Thanks to successful repositioning and leases being concluded with highly solvent tenants in Leipzig, Düsseldorf and Bad Vilbel (near Frankfurt am Main), for example, vacancy rates were permanently reduced. Overall, the previous year's letting performance record of 172,000 m² was beaten with a figure of around 177,000 m². At the portfolio level, we made some further adjustments and divested ourselves of properties that did not reflect our long-term strategy. The resulting liquidity will be used to acquire new assets that boost the profitability and resilience of our portfolio, for example.

DEMIRE's financial results clearly demonstrate a second major success. Our efforts to achieve ongoing improvements were exceptionally successful. By refinancing several assets, we were able to lower the average nominal financing costs from 3.0% p.a. in late 2018 to 1.85% in late 2019, and 1.71% at the end of 2020. This corresponds to a reduction in interest burden of several million euros a year, which now flow directly into the FFO. The positive financial situation at DEMIRE and the measures taken to improve the financing structure are also reflected in our rating: both Standard & Poor's and Moody's confirmed their BB/Ba2 rating for DEMIRE.

We were also able to decrease current administrative costs slightly despite the challenges of the pandemic and the growing portfolio, and now find ourselves at a positive level compared to the rest of the industry.

These, and many other improvements besides, all contributed to making this a record year for DEMIRE and underscore the robust nature of our strategy with its focus on secondary locations in Germany. We depend on the decentralised structure of the German economy and are convinced that it is exactly this structure that will safeguard the long-term success of Germany as a business location and thus also the long-term viability of DEMIRE.

We would like to extend our thanks to all of DEMIRE's employees for everything that has been achieved. Their exceptional commitment is the foundation for our success. We would also like to thank our investors for their loyalty and support in this highly unusual year. Distributing our first dividend marked the achievement of a major milestone that we had set ourselves. Our aim is to ensure that we can continue to be able to distribute dividends into the future, while boosting DEMIRE's profitability over the long term. As such, we will be recommending the distribution of a

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> "Despite the current uncertainties, we are positive about our business development going forward."

TIM BRÜCKNER, CFO

dividend of EUR 0.62 per share to the Annual General Meeting, which will take place virtually once again on 28 April 2021. This enables you, our esteemed shareholders, to participate in the strong business development of DEMIRE.

We will also be adding the area of ESG to the four pillars of our "REALize Potential" strategy. As a member of the Institute for Corporate Governance, we also uphold standards relating to transparency and professionalism through audits and certification. As a result, we will be striving to publish our first sustainability report. In doing so, we address the regulatory, but above all, the social developments in this area.

Within the context of the positive developments in 2020 and the successful streamlining of our portfolio, the Executive Board expects to see rental income of between EUR 80.0 and 82.0 million and FFO I (after taxes, before minorities) of between EUR 34.5 and EUR 36.5 million for 2021. Due to the many sales in 2020 and despite the successful letting performance, this would result in values slightly below those of the previous year. However, these figures do not include the positive effects of acquisitions on the planned portfolio expansion, which we have slated for 2021. In the first quarter of 2021, a significant contribution to growth was made with the investment in the Cielo office property in Frankfurt, which has a total value of over EUR 270 million. However, these figures do not include further positive effects of acquisitions on the planned portfolio expansion, which we have slated for 2021. As soon as new acquisitions have been secured, we will adjust the forecast accordingly.

Even if no one is able to say with any degree of certainty what the near future will bring, we remain optimistic. The vaccination campaign is already underway, bringing the promise of a return to normality and of economic recovery. We are grateful for the loyalty and trust of all of our shareholders, employees, friends and partners, who are accompanying DEMIRE on its path towards growth.

Langen, 16 March 2021

The DEMIRE AG Executive Board

Ingo Hartlief (FRICS)
CEO

Tim Brückner
CFO

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EXECUTIVE BOARD AND SUPERVISORY BOARD

EXECUTIVE BOARD

INGO HARTLIEF (FRICS) (CEO)

CEO since 20 December 2018
Appointed until 31 December 2021

Ingo Hartlief (born 1965) has been the Chairman of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG in Langen since 20 December 2018. Mr Hartlief was the Chairman of the Executive Board (CEO) of Fair Value REIT-AG from 15 January until 20 May 2019 and has been Vice Chairman of the Supervisory Board since then. The business administration graduate was previously the director of CORPUS SIREO Real Estate GmbH in Cologne. From 2002 until 2010, Mr Hartlief was the managing director of Union Investment Real Estate GmbH in Hamburg. From 1996 until 2002, he a head of division at Viterra AG (now Vonovia SE) in Essen/Bochum as well as director of Viterra Gewerbeimmobilien GmbH. From 1991 until 1996, Mr Hartlief worked for VEBA AG in Dusseldorf in the Group Development Division. Ingo Hartlief is a fellow of the Royal Institution of Chartered Surveyors (FRICS).

TIM BRÜCKNER (CFO)

CFO since 1 February 2019
Appointed until 31 December 2021

Tim Brückner (born 1977) has been the Chief Financial Officer of DEMIRE Deutsche Mittelstand Real Estate AG in Langen since 1 February 2019. He was also appointed as the CEO of Fair Value REIT-AG with effect from 20 May 2019. From 2012 until 2019, the trained bank clerk held various positions at Corpus Sireo Real Estate, including Managing Director of the subsidiary in Luxembourg and Head of Portfolio Management. From 2007 until 2012, Mr Brückner worked at Rothschild GmbH, his last position there being that of Vice President. From 2005 until 2007, he worked in the Global Advisory Division at HSBC in London. From 2000 until 2005, Mr Brückner completed a bachelor's degree in Business Administration, Banking and Finance, and a master's degree in Banking and Finance, at the Hochschule für Bankwirtschaft (today's Frankfurt School of Finance & Management). During his studies, he worked as an analyst at BHF Bank AG and NG Investment Banking.

SUPERVISORY BOARD

PROF. DR ALEXANDER GOEPFERT (CHAIRMAN OF THE SUPERVISORY BOARD)

Chairman of the Supervisory Board since 27 June 2018

Main activities outside the Company and other activities as a member of governing bodies of comparable domestic and foreign business enterprises:

- Member of the Supervisory Board of PROXIMUS Real Estate AG, Cologne
- Chairman of the Supervisory Board of AGROB Immobilien AG
- Member of the Advisory Board of shareDnC GmbH, Cologne
- Chairman of the Board of Trustees of EBS Real Estate Management Institut, Wiesbaden
- Vice President of iddiw Institut der Deutschen Immobilienwirtschaft e. V., Frankfurt

Prof. Dr Alexander Goepfert (born 1956) holds a doctorate in law and, as an honorary professor at the EBS University of Business and Law in Wiesbaden/Oestrich-Winkel, he heads the Competence Center for Real Estate Law there. In 2019, he joined Apollo Global Management, one of the world's leading private equity investors, as a senior advisor. Since 2011, Mr Goepfert has been a partner at the law firm Noerr LLP, where he heads the international Noerr Real Estate Investment Group. Prior to that, Prof. Dr Alexander Goepfert worked for many years as a partner at Freshfields Bruckhaus Deringer LLP and its predecessor firm Bruckhaus Westrick Stegemann in Dusseldorf. For many years, he has been considered one of the most important advisors to the German real estate industry, specialising in structuring complex real estate transactions with particular emphasis on financial, tax and planning aspects. Some of his prominent mandates of recent years include, in particular, advising Vonovia SE (formerly Deutsche Annington SE), Lone Star and SIGNA.

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FRANK HÖLZLE (VICE CHAIRMAN OF THE SUPERVISORY BOARD)
Vice Chairman of the Supervisory Board since 14 February 2017

Main activities outside the Company and other activities as a member of governing bodies of comparable domestic and foreign business enterprises:

— CEO of Care4 AG, Basel/Switzerland
— Chairman of the Advisory Board of clickworker GmbH, Essen
— Chairman of the Advisory Board of Mindlab Solutions GmbH, Stuttgart
— Chairman of the Supervisory Board of mobileObjects AG, Büren
— Chairman of the Advisory Board of rankingCoach international GmbH, Cologne
— Member of the Board of Directors of SIC Invent AG, Basel/Switzerland
— Member of the Advisory Board ofreBuy reCommerce GmbH, BerlinreBuy reCommerce GmbH, Berlin
— Member of the Advisory Board of sevDesk GmbH, Offenburg
— Member of the Board of Directors of GreySky Properties AG, Basel
— Chairman of the Supervisory Board of Fair Value REIT-AG, Munich

Frank Hölzle (born 1968) is an economics graduate and has been the CEO of Care4 AG, a single family office located in Basel, Switzerland, since 2015. He has worked at Care4AG since 2010. From 2003 until 2010, Mr Hölzle was a member of the Executive Board and partner of eCapital entrepreneurial Partners AG, a venture capital company located in Munster. In 2002, Mr Hölzle became the managing director of HvM-Consulting GmbH in Dusseldorf, after having held positions from 1998 until 2002 in Marl and Frankfurt am Main as an authorised representative and director of a listed investment company.

PROF. DR KERSTIN HENNIG (MEMBER OF THE SUPERVISORY BOARD)
Member of the Supervisory Board since 29 May 2019

Main activities outside the Company and other activities as a member of governing bodies of comparable domestic and foreign business enterprises:

— Member of the Supervisory Board of DWS Grundbesitz GmbH, Frankfurt
— Member of the Executive Committee of the Urban Land Institute (ULI), Washington D.C.
— Member of the Executive Board of Real Estate Brand Club, Berlin
— Member of the Advisory Board of Institutionelle Investoren Hotel, Frankfurt
— Member of the Executive Committee of iddiw Institut der Deutschen Immobilienwirtschaft e. V., Frankfurt

Prof. Dr Kerstin Hennig (born 1964) is a doctor of political sciences, an honorary professor of real estate management and has headed the EBS Real Estate Management Institute (REMI) at the EBS University of Business and Law since 2018. She teaches and carries out research in the field of real estate economics, focussing on real estate innovation & entrepreneurship and leadership, real estate major future trends and real estate management. In recent years, Prof. Dr Kerstin Hennig has also been involved in the real estate sector, focussing on the areas of real estate management and investment. The companies where she previously held position include debis Immobilienmanagement, Tishman Speyer Properties, UBS AG, IVG Immobilien AG and Groß & Partner. In parallel, Kerstin Hennig has regularly held positions as a lecturer and adjunct lecturer at various universities and institutes.

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REPORT OF THE SUPERVISORY BOARD

Dear readers, dear shareholders,

In the 2020 financial year, the Supervisory Board continued to perform the tasks and exercise the responsibilities incumbent upon it pursuant to the law, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and its Rules of Procedure.

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

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

The Executive Board explained in detail deviations in business from the previously adopted plans and targets, as well as appropriate measures to counteract these deviations or to communicate them to the capital market. This was then checked by the Supervisory Board. After careful examination and consultation, the Supervisory Board members approved the reports and resolution proposals of the Executive Board to the extent required by the provisions of the law, the Articles of Association and the Rules of Procedure.

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

There were no consulting or other service relationships between members of the Supervisory Board and the Company in 2020. Since 2019, a grant agreement has existed with the non-profit EBS Universität für Wirtschaft und Recht gGmbH. Prof. Dr Kerstin Hennig is Head of EBS Real Estate Management Institute. Conflicts of interest on the part of the members of the Executive Board or Supervisory Board that would require immediate disclosure to the Supervisory Board and information of the Annual General Meeting did not exist in the reporting year.

Composition of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD IN THE 2020 FINANCIAL YEAR

Prof. Dr Alexander Goepfert (Chairman)
Frank Hölzle (Vice Chairman)
Prof. Dr Kerstin Hennig (Member)

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SUPERVISORY BOARD COMMITTEES

The Supervisory Board consisted of three members in 2020. Committees were not formed due to the low number of members on the Supervisory Board.

WORK OF THE PLENUM IN THE REPORTING YEAR

In the 2020 financial year, the Supervisory Board convened for two face-to-face meetings on 11 February and following the Annual General Meeting on 22 September 2020. The Board also discussed current topics in 22 telephone and video conferences, particularly in connection with holding the Annual General Meeting, launching a share buyback programme and also various purchase and sale transactions. All of the Supervisory Board members participated in each one of the 24 physical, virtual and telephone-based Supervisory Board meetings.

Q1 2020

In the first quarter of 2020, the Supervisory Board convened in one physical meeting and five telephone conference calls.

On 11 February 2020 together with the Executive Board, the Supervisory Board adopted the Declaration of Conformity of DEMIRE Deutsche Mittelstand Real Estate AG as well as the Corporate Governance Report and the Corporate Governance Statement.

In the subsequent meetings, the Supervisory Board comprehensively discussed the annual and consolidated financial statements for the 2019 financial year, including the combined management report for the Company and the Group, by which it was adopted. In addition, the current business performance was elaborated on in separate meetings and the corporate planning and guidance for 2020 was discussed, as was the risk management of DEMIRE AG, particularly against the backdrop of the coronavirus pandemic. Furthermore, the Supervisory Board addressed various purchase and sales transactions presented by the Executive Board.

Q2 2020

In a conference call and numerous video conferences, the Supervisory Board was provided with prompt and in-depth information about the current business performance and particularly about the effects of the coronavirus pandemic on the Company's portfolio. In addition, the Supervisory Board resolved with the Executive Board that the Annual General Meeting of DEMIRE AG should be held as a virtual Annual General Meeting without the physical presence of the shareholders or their authorised representatives. Accordingly, it was decided to not hold the Annual General Meeting of DEMIRE AG on 25 June 2020, but rather on a later date of the 2020 financial year. The Supervisory Board also discussed various sales opportunities with the Executive Board in order to further improve the Company's liquidity and approved the conclusion of two property financing transactions. Negotiations with a retail tenant subject to shield proceedings were also on the agenda at several meetings.

On 24 June 2020, the Supervisory Board also resolved, following detailed and in-depth discussion, to issue a share buyback offer. Furthermore, the Executive Board informed the Supervisory Board about the opportunity to purchase around 700,000 shares in Fair Value REIT-AG. The Supervisory Board agreed to this purchase.

Q3 2020

On 22 September, the Annual General Meeting of DEMIRE AG was held virtually for the first time and without the physical presence of the shareholders. The agenda items proposed by the management, including the first-time disbursement of a dividend, were all passed by the shareholders with a large majority.

Furthermore, in the third quarter, the Supervisory Board was also extensively informed by the Executive Board in one face-to-face meeting and three video conferences about the current status of ongoing business processes, and was briefed on significant business transactions.

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Q4 2020

The Supervisory Board convened again for three video conferences in the fourth quarter. In addition to discussing the resolution on another public share buyback programme, the Supervisory Board was informed about current business performance.

Dependency Report Pursuant To Section 312 (1) Aktg

In the 2020 financial year, DEMIRE Deutsche Mittelstand Real Estate AG – via Apollo Global Management, LLC – was a dependent company of BRH Holdings GP, Ltd, as defined by Section 312 AktG. The Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG has therefore prepared an Executive Board report on the relationships with affiliated companies ("Dependency Report") in accordance with Section 312 (1) AktG, which contains the following concluding declaration:

"In the legal transactions listed in the report on relationships with affiliated companies, our Company received appropriate consideration for each legal transaction according to the circumstances known to us at the time when the legal transactions were carried out. Our company neither took nor omitted any reportable measures as defined by Section 312 AktG in the year under review."

The Supervisory Board received and examined the Dependency Report in a timely manner. The auditor attended the relevant meeting, reported on the main findings of the audit and was available to provide additional information. On 16 March 2021, the auditor issued the following unqualified audit opinion on the Company's Dependency Report:

"Under the terms of our mandate, we have audited the report of the Executive Board pursuant to Section 312 AktG on relationships with affiliated companies pursuant to Section 313 AktG for the reporting period from 1 January to 31 December 2020. As the final results of our audit did not give rise to any objections, we issue the following audit opinion in accordance with Section 313 (3) sentence 1 AktG:

Following our audit and assessment in accordance with professional standards, we confirm that

1. the factual statements in this report are correct, and
2. the consideration paid by the Company for the legal transactions listed in the report was not unreasonably high."

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

A WORD OF THANKS FROM THE SUPERVISORY BOARD

The Supervisory Board would like to thank the Group's staff for their tremendous dedication during this special year. In addition to the highly favourable result despite the coronavirus pandemic, the Supervisory Board particularly highlights the performance within the scope of preparing the financial statements, asset management and transactions, undertaking financing and capital market activities and the overall valuable cooperation in the 2020 financial year.

This report was discussed in detail and adopted by the Supervisory Board in its conference call on 16 March 2021.

Frankfurt am Main, March 2021

Prof. Dr Alexander Goepfert
Chairman of the Supervisory Board

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DEMIRE ON THE CAPITAL MARKET

An overview of DEMIRE shares

The share capital of DEMIRE Deutsche Mittelstand Real Estate AG consists of a total of roughly 107.78 million no-par value bearer shares that are admitted for trading on the Frankfurt Stock Exchange and the XETRA electronic trading platform.

Demire Key Share Data

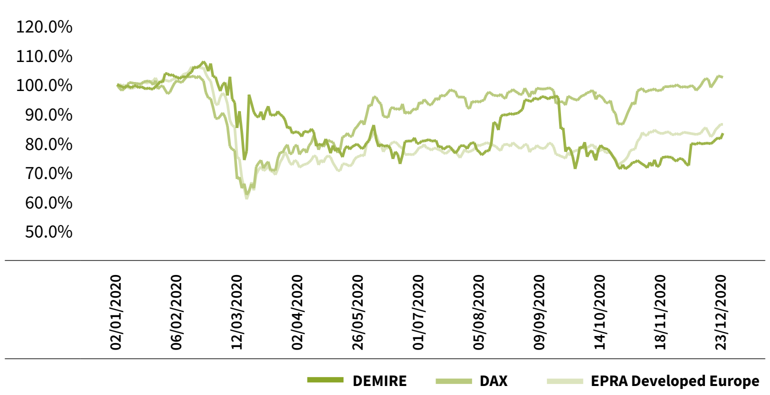
Share	31/12/2019	31/12/2020
ISIN	DE000A0XFSF0	DE000A0XFSF0
Symbol ticker	DMRE	DMRE
Stock exchange	Frankfurt Stock Exchange (FSE); XETRA Open markets in Stuttgart, Berlin, Düsseldorf	Frankfurt Stock Exchange (FSE); XETRA Open markets in Stuttgart, Berlin, Düsseldorf
Market segment	Regulated market (Prime Standard)	Regulated market (Prime Standard)
Designated sponsors	BaaderBank, Pareto Securities AS	BaaderBank, Pareto Securities AS
Share capital	EUR 107,777,324	EUR 107,777,324
Number of shares	107,777,324	107,777,324
Closing price 31/12 (XETRA)	EUR 5.36	EUR 4.51
Avg. daily trading volume 01/01 – 31/12	10,853	10,625
Market capitalisation	EUR 577 million	EUR 486 million
Free float < 3%	11.43%	7.39%

Development of the stock market and DEMIRE shares

The stock market year 2020 was a volatile one for the capital markets and was largely characterised by the coronavirus pandemic. After the consequences of the virus outbreak for the economy became apparent, the world's stock markets plummeted, in some cases significantly. By the end of 2020, the vast majority of indices had recovered and reached the level of the beginning of the year. Recovery was driven by companies that could benefit from the consequences and effects of the pandemic. But hopes for an end to the pandemic in the course of vaccine development also significantly helped to lift the mood on the stock markets.

The performance of the leading German index DAX was slightly positive, closing the year at 13,719 points. This is an increase of 2.5% compared to the end of 2019.

SHARE PRICE DEVELOPMENT 2020



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The DEMIRE share price performed largely in line with the EPRA Developed Europe index of European real estate shares, ending the year down 15.9% at EUR 4.51.

Dividends

In September 2020, DEMIRE disbursed a dividend of EUR 0.54 per share to its shareholders for the financial year in accordance with the resolution of the Annual General Meeting. The dividend yield was thus significantly higher than that of other real estate stocks.

Development of DEMIRE bonds

The prices in the European bond markets were also highly volatile in 2020. In view of the persistently ongoing low-interest policy of the central banks, demand on the bond market was strong at the beginning of the year, as reflected in the price increases and falling yields. At the beginning of the year, the DEMIRE bond was trading at 101.5%, which corresponded to a yield of 1.53%. As with the overall market volatility, the DEMIRE bond also fluctuated during the rest of the year. On 20 March, the bond was trading at a minimum of 84.9%, which corresponded to a yield of 5.76%. At the end of the year, the bond closed at 97.5% or a yield of 2.59%.

CORPORATE BONDS 2019/2024

Name	DEMIRE corporate bond 2019 / 2024
Issuer	DEMIRE Deutsche Mittelstand Real Estate AG
Rating	Ba2 (Moody's), BB+ (S&P)
Stock exchange listing	Open market of the Luxembourg Stock Exchange (Euro MTF)
Applicable law	German law
ISIN code	DE000A2YPAK1
WKN	A2YPA
Issue volume	EUR 600,000,000
Denomination	EUR 100,000
Coupon	1.875%
Interest payments	On 15 April and 15 October, starting on 15 April 2020
Maturity date	15 October 2024
Repayment	Non Call Life (incl. 3-month option for early repayment)
Distribution	Regulation S, excl. registration rights
Change of control	101% plus accrued and not yet paid interest
Closing price 31/12/2020	97.453%

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Ratings From S & P And Moody’s

With the rating assessments, DEMIRE strengthens transparency and supports the independent assessment of its business activities. In the medium term, DEMIRE aims to position its risk profile in the “investment grade” range. Among other things, this should enable the financing of planned growth and the refinancing of the existing bond at even more favourable conditions.

In July and August 2020, S & P and Moody’s carried out their regular review of the rating assessments, which led to a confirmation of the current rating – for both the corporate bond and for DEMIRE's corporate rating. Even during the lockdowns in Germany, DEMIRE was in regular contact with the ratings agencies and provided information about the Company’s performance during this special period in a proactive and timely manner.

The detailed rating and the update on the the bond are available on the websites of Standard & Poor’s at www.standardandpoors.com and Moody’s at www.moodys.com as well as on DEMIRE’s website.

DEMIRE RATING – AS AT 31/12/2020

	Company		Bonds
RATING Agency	RATING	OUTLOOK	RATING
Standard & Poor’s	BB	negative	BB+
Moody’s	Ba2	stable	Ba2

Annual general meeting

On 22 September 2020, DEMIRE’S Annual General Meeting took place virtually due to the special circumstances. All the agenda items proposed by the assembly were resolved by a large majority, including the first-time disbursement of a dividend for the financial year 2019.

Shareholder structure

The DEMIRE shareholder structure slightly changed in the 2020 financial year. The two major shareholders Apollo and the Wecken Group slightly increased their holdings in DEMIRE. In addition, DEMIRE took advantage of the low share price in summer 2020 to buy back treasury shares with a value of EUR 2.0 million, which decreased the year-on-year free float from 11.4% to 7.4%.

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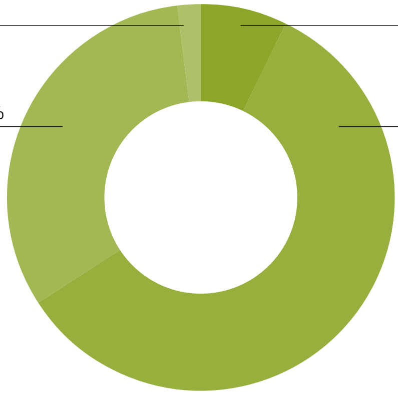
SHAREHOLDER STRUCTURE AS AT 31 DECEMBER 2019



[1] Including subsidiaries;
[2] Acting in concert
Sources: Notifications from WpHG (German Securities Trading Act) and own calculations

IR activities

The Investor Relations department is responsible for approaching investors and analysts and communicating with debt specialists in a professional manner. Thus, the department handles communication for all capital market activities and is responsible for the reporting requirements for equity and bond investors as well as for the rating agencies.

DEMIRE took part in various German and international equity and debt capital market conferences during the 2020 financial year, the majority of which were held virtually. It also regularly presented the Company's current development to existing and potential equity and bond investors and rating agencies.

DEMIRE keeps its stakeholders up to date regularly and comprehensively. This includes publishing its results as at the reporting date and organising telephone conferences for interested investors, analysts and the media, and reporting in detail on the results as at the most recent reporting date.

On the capital market, DEMIRE relies on an active and transparent dialogue in its communication with all current and potential investors. With the support of existing shareholders and further growth, DEMIRE's market capitalisation and visibility on the capital market are expected to continue to rise in the future. With the perspective goal of inclusion in the DAX family of indices, awareness among domestic and international investors should increase.

In the Investor Relations section on DEMIRE's website, all investors, analysts and the media have access to a wide range of documents such as all published annual reports, half-year reports and quarterly statements. There are also summary presentations of these, as well as recordings of conference calls, current company presentations and further information. DEMIRE is committed to treating bond investors and analysts as well as equity investors and analysts equally.

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Analyst coverage

DEMIRE's shares are currently covered and valued by three financial analysts.

RATING OF DEMIRE – AS AT MARCH 2021

BANK BROKER	ANALYST	CURRENT RATING	CURRENT PRICE TARGET in EUR
Hauck & Aufhäuser	Christian Glowa/ Julius Stinauer	Buy	6.25
Pareto Securities	Katharina Schmenge/ Dr Philipp Häßler	Hold	5.00
Baader Bank	Andre Remke	Reduce	4.20

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CORPORATE GOVERNANCE

2020 Corporate Governance Statement pursuant to Sections 315d and 289f of the German Commercial Code (HGB) including the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG)

DEMIRE Deutsche Mittelstand Real Estate AG submits a Statement on Corporate Governance pursuant to Sections 315d and 289f HGB. The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG, which is contained in this statement, is also available to shareholders on the Company's website under the section entitled "Company".

The governing bodies of DEMIRE Deutsche Mittelstand Real Estate AG are committed to the responsible and value-enhancing management and monitoring of the Company and the Group. Ensuring that the Company's management principles and development are transparent is intended 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 and faithfully together for the Company's benefit and to ensure that the Company is managed and controlled responsibly through good corporate governance.

ORGANISATION AND MANAGEMENT

DEMIRE Deutsche Mittelstand Real Estate AG (together with its subsidiaries and associates "the DEMIRE Group") is headquartered in Germany. The registered offices of the subsidiaries/associated companies correspond to the location of their real estate holdings in Germany or other countries in which they conduct a majority of their activities.

The management of the "Core Portfolio" is the responsibility of the Group's internal asset and portfolio management, which also manages and controls the external property and facility management. The centralised divisions also assume the risk management, compliance, finance and controlling, financing, legal, human resources, IT and administrative tasks.

The Executive Board manages the individual real estate investments based on defined, individual cash-flow-oriented budgets and steers the Group according to an overall plan derived from the individual budgets of the portfolio and property companies and other Group subsidiaries. The development of the individual budgets versus their budget targets is a component of the Executive Board's routine strategy and reporting discussions with the relevant operating managers.

COMPOSITION AND WORKING PRACTICES OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

As a listed German stock corporation, the Company's management is governed by the German Stock Corporation Act, other legal provisions of corporate and commercial law and the requirements of the German Corporate Governance Code in its current version. German stock corporations are required by law to employ a dual management system. This creates a strict separation of the Executive Board as the managing body of the Company and the Supervisory Board as the supervisory body, whereby the Executive Board and Supervisory Board work together closely and faithfully in the Company's best interest. As the Supervisory Board only has a few members, it does not establish any committees.

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MANAGEMENT AND CONTROL STRUCTURE

EXECUTIVE BOARD

The Executive Board is solely responsible for managing the Company and represents the Company in dealings with third parties. It defines the strategy in coordination with the Supervisory Board and implements this strategy keeping the goal of sustainable value creation in mind. Executive Board members are responsible for individual areas independent of their joint responsibility for the Group. They cooperate and inform each other of important events and activities in their areas of responsibility. The Executive Board has adopted Rules of Procedure with the approval of the Supervisory Board. The Executive Board shall obtain the Supervisory Board's approval in cases specified by law. In addition, DEMIRE Deutsche Mittelstand Real Estate AG's Articles of Association and the Executive Board's Rules of Procedure list extraordinary transactions that also require Supervisory Board approval.

The Executive Board informs and reports to the Supervisory Board regularly, timely and comprehensively on all Company-relevant strategy, planning, business developments and issues concerning risk. Other important events must be reported by the Executive Board to the Chairman of the Supervisory Board. The Supervisory Board's Chairman is also routinely and continually informed of business developments. The Executive Board relies on the risk management system applicable throughout the DEMIRE group of companies to conduct reporting.

MANDATES OF SUPERVISORY BOARD MEMBERS IN SUPERVISORY BOARDS OF OTHER COMPANIES OR COMPARABLE SUPERVISORY BODIES

Mr Ingo Hartlief (FRICS) is the Chairman of the Supervisory Board of Fair Value REIT-AG.

Mr Tim Brückner did not hold an office in any statutory supervisory boards or comparable supervisory bodies or in any comparable domestic or foreign supervisory bodies of commercial enterprises.

The remuneration of the members of the Executive Board is explained in the Remuneration Report chapter of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

SUPERVISORY BOARD

The Supervisory Board appoints the members of the Executive Board, determines their total compensation and oversees their management activities. It also advises the Executive Board on the management of the 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 to be elected by the Annual General Meeting of DEMIRE Deutsche Mittelstand Real Estate AG. The Supervisory Board does not include any former members of the Executive Board. It is composed in such a way that its members as a whole have the necessary knowledge, skills and professional experience to perform their duties properly. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board. The Supervisory Board has not formed any committees.

No changes were made to the composition of the Supervisory Board in the 2020 financial year.

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MANDATES OF SUPERVISORY BOARD MEMBERS IN SUPERVISORY BOARDS OF OTHER COMPANIES OR COMPARABLE SUPERVISORY BODIES

NAME	COMPANY	POSITION
Prof. Dr Alexander Goepfert (Chairman of the Supervisory Board) (since 27 June 2018)	AGROB Immobilien AG, Ismaning	Chairman of the Supervisory Board Chairman of the Personnel Committee
	shareDnC GmbH, Cologne	Ordinary Member of the Advisory Board
	EBS Real Estate Management Institute, Wiesbaden	Chairman of the Board of Trustees
	PROXIMUS Real Estate AG, Cologne	Member of the Supervisory Board
	Institut der Deutschen Immobilienwirtschaft e. V. (iddiw), Frankfurt	Vice President
Frank Hölzle (Vice Chairman of the Supervisory Board) (since 14 February 2017)	Grey Sky Properites AG, Basel	Member of the Board of Directors
	clickworker GmbH, Essen	Chairman of the Advisory Board
	Mindlab Solutions GmbH, Stuttgart	Chairman of the Advisory Board
	mobileObjects AG, Büren	Chairman of the Supervisory Board
	rankingCoach GmbH, Cologne	Chairman of the Advisory Board
	SIC Invent AG, Basel Switzerland	Member of the Board of Directors
	reBuy reCommerce GmbH, Berlin	Member of the Advisory Board
	sevDesk GmbH, Offenburg	Member of the Advisory Board
	Fair Value REIT-AG, Frankfurt	Chairman of the Supervisory Board
Prof. Dr Kerstin Hennig (since 29 May 2019)	DWS Grundbesitz GmbH, Frankfurt	Ordinary Member of the Supervisory Board
	Urban Land Institute (ULI), Washington D.C.	Member of the Executive Committee
	Real Estate Brand Club, Berlin	Member of the Management Board
	Institutionelle Investoren Hotel, Frankfurt	Member of the Advisory Board
	Institut der deutschen Immobilienwirtschaft e.V. (iddiw), Frankfurt	Member of the Executive Committee

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The Supervisory Board reports on its activities during the 2020 financial year in its report to the Annual General Meeting on pages 11 to 12 of this Annual Report. The remuneration of the members of the Supervisory Board is explained in the Remuneration Report chapter of the combined group management report and management report of DEMIRE Deutsche Mittelstand Real Estate AG.

SHARES OF DEMIRE DEUTSCHE MITTELSTAND REAL ESTATE AG OWNED BY MEMBERS OF GOVERNING BODIES AND MAJOR SHAREHOLDERS

DEMIRE Deutsche Mittelstand Real Estate AG had 107,777,324 shares outstanding as at 31 December 2020.

Mr Frank Hölzle holds 1,400 shares in the Company, equivalent to an interest of 0.002% of the Company's outstanding shares.

Members of the Executive Board and Supervisory Board are legally obliged under Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on Market Abuse (Market Abuse Regulation) of 16 April 2014 to disclose any manager's transactions in shares or debt instruments of DEMIRE Deutsche Mittelstand Real Estate AG or related derivatives or other related financial instruments to the extent that the total amount of transactions effected by the member and persons closely associated with him or her reaches or exceeds the sum of EUR 5,000 within a calendar year. DEMIRE Deutsche Mittelstand Real Estate AG's business dealings of the previous year were published on time on the Company's website.

Shares owned by major shareholders at the end of the 2020 financial year: Based on the information available to the Company, Apollo (AEPF III 15 S.à r.l.) held 58.61% of the Company's outstanding shares, and Wecken & Cie. held 32.14% of the Company's outstanding shares.

Of the remaining 9.25%, 2.10 were held by the Company as treasury shares, and 7.15% were held by institutional and private investors. None of these shareholders held an interest over or equal to 3%. This information is based on information provided by members of the Company's governing bodies.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The shareholders of DEMIRE Deutsche Mittelstand Real Estate AG exercise their administrative and control rights at the Annual General Meeting. The Annual General Meeting executes all of its duties assigned by law in its meeting, which takes place in the first eight months of each financial year. Since the realignment in 2014, DEMIRE Deutsche Mittelstand Real Estate AG's financial year ends on 31 December. The Chairman of the Supervisory Board presides over the Annual General Meeting. Each shareholder is entitled to attend the Annual General Meeting, address the agenda items and demand information about Company matters to the extent necessary for a proper assessment of any agenda item of the Annual General Meeting.

All of the outstanding shares of DEMIRE Deutsche Mittelstand Real Estate AG are no-par value bearer shares with identical rights and obligations. Each share grants one vote at the Annual General Meeting, and there are no special voting rights or limits on the number of voting rights per shareholder. Resolutions of the Annual General Meeting usually require a simple majority of the votes cast. To the extent that the law prescribes a majority of the capital represented for resolutions, the Articles of Association provide for a simple majority of the capital represented as long as a larger majority is not required by law.

ACCOUNTING AND AUDITING OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. DEMIRE Deutsche Mittelstand Real Estate AG regularly informs shareholders and third parties during the financial year through its publication of the consolidated financial statements, the half-year financial report and the interim statements for the first and third quarters.

The Executive Board shall prepare the financial statements (balance sheet, statement of income and notes) and the Company's management report within the first three months of each financial year and immediately provide it to the auditor. After the auditor has performed the audit, the Executive Board shall submit the financial statements including the audit report along with the Board's proposal for the

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appropriation of retained earnings to the Supervisory Board. The Supervisory Board reviews the financial statements, management report and the Executive Board's proposal for the appropriation of retained earnings. The Supervisory Board forwards its own report on these issues to the Executive Board within one month of receiving the Executive Board's documents and the auditor's report on the audit of the financial statements.

The Annual General Meeting elects the auditor for DEMIRE Deutsche Mittelstand Real Estate AG and the Group as well as for the audit review of interim financial reports and statements. The Supervisory Board awards the mandate for the audit following the election by the Annual General Meeting and concludes the fee agreement with the auditor. The auditing firm PricewaterhouseCoopers GmbH, Frankfurt am Main, was elected as the auditor and Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG for the 2020 financial year, as well as the auditor for a possible audit review of condensed financial statements and interim statements. The declaration on independence required under the German Corporate Governance Code was obtained from this auditing firm.

The following arrangements have been agreed with the auditor:

- The Chairman of the Supervisory Board shall be notified immediately when potential grounds for exclusion or bias arise during the audit and these issues cannot be resolved immediately.

- The auditor reports on all findings and occurrences that arise during the audit, and which are of importance for the tasks of the Supervisory Board.

- If during the audit the auditor discovers inaccuracies in the Declaration of Conformity with the German Corporate Governance Code that was submitted by the Executive Board and the Supervisory Board, the auditor is to make a note of this in the audit report and inform the Chairman of the Supervisory Board.

COMMUNICATION AND TRANSPARENCY

At DEMIRE Deutsche Mittelstand Real Estate AG, timely, consistent and comprehensive information is a top priority. Transparent corporate governance and good communication with shareholders and the public contribute to strengthening the confidence of investors and of the public. When disclosing information to the public, the Executive Board considers the principles of transparency, promptness, openness, clarity and the equal treatment of shareholders. Therefore, as part of its investor relations activities, DEMIRE Deutsche Mittelstand Real Estate AG provides comprehensive information on the Company's development. Reports on the Group's situation, development and especially its financial results are included in the annual report, three-month and nine-month interim statements and half-year financial report. The Group also informs the public through press releases and ad hoc announcements pursuant to Article 17 (1) of the Market Abuse Regulation (MAR). In addition, the Executive Board communicates extensively on financial issues with the relevant capital market participants in Germany and abroad. All financial publications, announcements, and presentations that are created for reporting purposes are available on DEMIRE's website. The Company's financial calendar is also available on the website and lists the scheduled financial reporting dates and key publication dates as well as the date for the Annual General Meeting. The Articles of Association, all declarations of conformity and documentation for corporate governance are also available on DEMIRE Deutsche Mittelstand Real Estate AG's website at website.

DEMIRE Deutsche Mittelstand Real Estate AG maintains a list of insiders pursuant to the provisions of Article 18 MAR. Persons affected are informed of their statutory duties and penalties.

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INFORMATION ON CORPORATE PRACTICES

Good corporate governance is a top priority at DEMIRE Deutsche Mittelstand Real Estate AG and also includes the application of corporate practices that extend beyond the statutory requirements and allow for the hands-on implementation of the German Corporate Governance Code. Good corporate governance also includes taking a responsible approach to risks so as not to jeopardise the Comany as a going concern. As a result, the Executive Board has established an appropriate risk management system which is constantly evolving in line with the development of the DEMIRE Group, and ensures compliance with the law.

Responsible and sustainable management is part of DEMIRE Deutsche Mittelstand Real Estate AG's corporate culture and everyday business. Living up to our ethical and legal responsibilities as a company is a top priority for us. This is the only way in which we can be seen as a partner that stands for integrity and reliability in the real estate industry, by tenants, business partners, authorities and the general public. Consequently, we have put a compliance programme in place within our Company and have prepared a Code of Conduct that all employees make a commitment to when they start working for us.

Information on corporate governance at DEMIRE Deutsche Mittelstand Real Estate AG is also publicly available on the Company's website under Company > Corporate Governance.

TARGETS FOR THE PROPORTION OF WOMEN ON THE SUPERVISORY BOARD, EXECUTIVE BOARD AND TWO MANAGEMENT LEVELS BELOW THE EXECUTIVE BOARD

As a listed company that is not subject to co-determination, DEMIRE Deutsche Mittelstand Real Estate AG is legally obliged to set targets for the proportion of women on the Supervisory Board, the Executive Board and – if applicable – the two management levels below the Executive Board.

In June 2017, the targets for the proportion of women on the Supervisory Board, the Executive Board and at the first level of management below the Executive Board were set for the period from 1 July 2017 to 30 June 2022. For the Supervisory Board and the Executive Board, the target is zero. Women make up 33.3% of the Supervisory Board and 0% of the Executive Board. At the first management level below the Executive Board, a target of 25% was set. The proportion of women at the first management level below the Executive Board was 37.5% as at 31 December 2020. This means that the target was achieved in the reporting period. Due to the flat hierarchies in the Company, a target figure was not set for the second management level below the Executive Board.

DIVERSITY

DEMIRE Deutsche Mittelstand Real Estate AG does not have a written diversity plan. Nevertheless, the Supervisory Board and the Executive Board pay attention to the issue of diversity within the Company and consider it a matter of course. This is also expressed in DEMIRE Deutsche Mittelstand Real Estate AG's Code of Conduct, which enshrines both protection against discrimination and the fundamental principle of mutual respect. The Company believes that providing extensive protection against discrimination is an appropriate way of sufficiently promoting diversity within the Company.

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DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 AKTG

The Executive Board and Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG monitor compliance with the German Corporate Governance Code.

Due to the amendment made to the Corporate Governance Code in 2019/20 (amendment adopted in the plenary session on 16 December 2019 and publication of the amended version in the Federal Gazette (Bundesanzeiger) on 20 March 2020), the disclosures from the previous year (in this case for 2019), which refer to the German Corporate Governance Code as amended on 7 February 2017, also have to be made.

As a result, the Executive Board and the Supervisory Board declared on 4 March 2020 that DEMIRE Deutsche Mittelstand Real Estate AG complied with the recommendations of the “Government Commission German Corporate Governance Code” in the version of the Code dated 7 February 2017 announced by the Federal Ministry of Justice in the official section of the Federal Gazette with the following exceptions:

Item 3.8: The Code recommends that a D&O insurance policy for members of the Executive and Supervisory Boards provides for a deductible of at least 10% of the loss up to one and a half times the level of the fixed annual remuneration. For the Executive Board, a deductible for the D&O insurance has been agreed but is not agreed for the Supervisory Board. In the Company’s view, agreeing to such a deductible for members of the Supervisory Board would not enhance the attractiveness of a Supervisory Board position at the Company and not increase the motivation or responsibility and would, therefore, adversely affect the chances of attracting suitable candidates for the work on the Company’s Supervisory Board.

Item 4.1.3: In accordance with the Code, the Executive Board must ensure compliance with the statutory provisions and the Company’s internal guidelines and make certain that these provisions and guidelines are observed by the Group companies (compliance). The Executive Board has set up an appropriate compliance management system, which is being developed further on an ongoing basis. Information from employees and third parties can be given confidentially to the Compliance Officer. The contact details for the Compliance Officer are published on the Company’s website. An anonymous whistleblowing system for third parties is currently not available on the website.

Item 4.1.5: The Code recommends that diversity is taken into account – with a particular focus on women – when hiring for executive positions. The Executive Board does take diversity into account when filling executive positions and gives consideration to female candidates. The Executive Board intends to continue to do this in the future. At the same time, the Executive Board believes that the deciding factor for filling executive positions should always be the personal and professional qualifications of the candidate. The code also recommends that the Executive Board sets targets for the proportion of women in the two management levels below the Executive Board. Due to the flat hierarchies in the Company, a target figure was not set for the second management level below the Executive Board.

Item 4.2.1: According to the Code, the Executive Board should consist of several people, as well as a chairperson or spokesperson. Following the dismissal of Mr Kind as Executive Board member on 3 January 2019, Mr Hartlief (FRICS) served as the sole Executive Board member for a short period of time until 1 February 2019. Since that date, the Executive Board has consisted of two persons.

Items 5.3.1 – 5.3.3: According to the Code, the Supervisory Board shall form committees with professional qualifications depending on the Company’s specific circumstances and the number of its members. The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG does not form any

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committees as it consists of only three members. As a result, the Supervisory Board performs all of the duties that would normally be performed by an audit committee and, particularly, oversees financial reporting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal auditing system, auditing and compliance. Notwithstanding Item 5.3.3 of the Code, a nomination committee was not formed and will not be formed in the future due to the number of members on the Supervisory Board.

Items 5.4.1: According to the Code, the Supervisory Board should define concrete goals for its composition and develop a skills profile for the entire body. The setting of concrete goals for the composition or a change to the composition of the whole body, including a skills profile, are not considered necessary based on the current situation. The Code recommends that the members of the Supervisory Board should be subject to an age limit and a standard limit on the length of their membership on the Supervisory Board. For the members of the Supervisory Board, neither an age limit nor a standard limit for the length of membership on the Supervisory Board has been established. In the opinion of the Company, age is not an appropriate criterion to elect a member of the Supervisory Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can rely on the long-standing expertise of individual members of the Supervisory Board. In the absence of a standard limit for the length of service, the factor is not a consideration in the election nominations of the Supervisory Board to the Annual General Meeting or in its publication on the status of implementation.

The Code recommends that the Supervisory Board submits curricula vitae of the candidates proposed for nomination as new members that include the candidates' relevant knowledge, skills and experience; this is to be supplemented by an overview of the candidates' main activities outside of a Supervisory Board mandate and updated annually for all Supervisory Board members on the Company's website. To date, no curricula vitae or significant activities of the members of the Supervisory Board have been published on the website under "Company / People". However, they are available as documents for the Annual General Meeting at which the respective member was elected to the Supervisory Board.

Item 5.6: According to the Code, the Supervisory Board should perform a routine review of the efficiency of its activities. In light of the period of time it has cooperated in this role, an efficiency review has not been carried out by a third party to date. The critical scrutiny of the activity in this Item is carried out by Supervisory Board members on an ongoing basis.

Item 7.1.2: The Code recommends that the consolidated financial statements and the group management report be made publicly available within 90 days of the end of the financial year and that the mandatory interim financial information be made available within 45 days after the end of the reporting period. For the time being, the Company follows the statutory publication deadlines.

The Executive Board and the Supervisory Board also declared on 4 March 2021 that DEMIRE Deutsche Mittelstand Real Estate AG complies with the recommendations of the "Government Commission German Corporate Governance Code" in the version of the Code dated 16 December 2019 announced by the Federal Ministry of Justice in the official section of the Federal Gazette with the following exceptions:

The Executive Board and Supervisory Board hereby declare that DEMIRE Deutsche Mittelstand Real Estate AG has been complying with and will continue to comply with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated 16 December 2019, with the following exceptions:

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B. B.2: "Together with the Executive Board, the Supervisory Board shall ensure long-term succession planning and the procedure for this shall be described in the Corporate Governance Statement."

There is currently no written concept for succession planning. Discussions on an extension are held between the Executive Board and the Supervisory Board in good time before the Executive Board employment contract concerned ends. If the talks do not result in further cooperation, the Supervisory Board is of the view that it will be able to ensure succession with sufficient advance notice without the need for a written concept.

B. B.5: "An age limit shall be set for members of the Executive Board, and this shall be specified in the Corporate Governance Statement."

DEMIRE currently has no age limit for members of the Executive Board. It is the Company's view that age alone is not an appropriate exclusion criterion for appointing members to the Executive Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can also rely on the long-standing expertise of individual members of the Executive Board.

C. I. C.1: "The Supervisory Board shall define concrete goals for its composition and develop a skills profile for the entire body. The Supervisory Board shall pay attention to diversity when doing so. Proposals of the Supervisory Board to the Annual General Meeting shall take these goals into account while striving to complete the skills profile of the entire body at the same time. The implementation status shall be published in the Corporate Governance Statement. It shall also provide information on what the shareholder representatives in the Supervisory Board consider as the appropriate number of independent shareholder representatives as well as the names of these members."

The Supervisory Board has not created any concrete goals in writing and nor has it developed a skills profile for the entire body. Diversity and neutrality were already taken into account when filling the current positions of the Supervisory Board. In the case of changes in personnel, the Supervisory Board shall work out the specific required skills for the proposal of a new member of the Supervisory Board, ensuring that the new member complements the entire body in the best possible way.

C. I. C.2: "An age limit shall be set for members of the Supervisory Board, and this shall be specified in the Corporate Governance Statement."

No age limit has been set for members of the Supervisory Board of DEMIRE. In the opinion of the Company, age is not an appropriate criterion for electing a member of the Supervisory Board. The Supervisory Board is of the opinion that it serves the Company's interest better in certain cases when it can rely on the long-standing expertise of individual members of the Supervisory Board.

D. II. 2: Supervisory Board Committees

Recommendations D.2 to D.5 address the formation of committees.

The Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG does not form any committees as it consists of only three members. As a result, the Supervisory Board performs all of the duties that would normally be performed by an audit committee and, particularly, oversees financial reporting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal auditing system, auditing and compliance. Likewise, due to the number of members of the Supervisory Board, no nominations committee has been formed.

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D. IV. D.12: "The company shall provide an appropriate level of support for the members of the Supervisory Board when they take up their roles and also through further training and education. This shall be described in the Supervisory Board's report."

The members of the Company's Supervisory Board already undergo training as a result of their full-time professional activities. The Company provides appropriate support in this regard. As it is not always possible to clearly assign the activities, they are not listed in the Supervisory Board's report.

G. I. 2. G.3: "To assess the appropriateness of the specific remuneration of the members of the Executive Board in comparison with other companies, the Supervisory Board shall involve a peer group of other companies and disclose its composition. The peer group comparison shall be used with caution to prevent an automatic upward trend."

The Supervisory Board did not make use of a peer group when determining the remuneration of the Executive Board. In the opinion of the Supervisory Board, there is no representative peer group due to the special characteristics of the Company.

This declaration was published immediately and made available to shareholders on the website. The Declaration of Conformity with the Code of Fair Value REIT-AG, which is included in the consolidated financial statements, dated 5 March 2021, can be found on Fair Value REIT-AG's website.

Frankfurt am Main, 4 March 2021

The Executive Board of DEMIRE

Deutsche Mittelstand Real Estate AG

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

On behalf of the Supervisory Board of DEMIRE Deutsche Mittelstand Real Estate AG

Prof. Dr Alexander Goepfert
(Chairman of the Supervisory Board)

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SUSTAINABILITY AT DEMIRE

Society and the capital market leading a new way

In recent years, awareness of the issue of sustainability has increased considerably both among policymakers and within society at large: with its Sustainable Development Goals (SDGs), the United Nations had already defined the framework for future action back in 2012. The European Union has also launched directives for a more sustainable world with its Green Deal. And the topic is now established as a highly relevant issue on the capital markets, too: when making their investment decisions, more and more investors are now also looking at whether companies are following sustainable standards in their decisions and processes.

DEMIRE is currently addressing this very topic and is preparing to publish its first sustainability report. The Company will use the report to take stock of its environmental, social and governance (ESG) activities and define steps to further develop the issue over the coming years.

Collection of environmental data as a key next step for DEMIRE

In an environment of mounting interest in the capital market, DEMIRE will begin collecting environmental portfolio data on a step-by-step basis over the next few months. The aim is to apply the Sustainability Best Practices Recommendations (SBPR) of the European Public Real Estate Association (EPRA), as the interest group representing Europe's listed real estate companies. In addition, DEMIRE will generally be taking the requirements of the Global Reporting Initiative (GRI), the GRI standards, as a basis. The first few topics the Company will look at will include energy consumption and CO_2 emissions from our portfolio and business operations.

Supporting and developing employees as our key top performers

The corporate culture at DEMIRE is characterised by **flat hierarchies** and a strong focus on employees. Responsibility for the employees lies directly with the Executive Board. Management is convinced that employees are at the heart of the Company's success, as well as being an essential component in allowing it to achieve its medium to long-term corporate goals.

In order to retain employees and attract qualified new staff members, the Company offers them a variety of responsible tasks, attractive areas of activity and performance-related pay. In order to attract the attention of up-and-coming new talents to DEMIRE as a potential employer, the Company also organises booths at university careers fairs.

Lean decision-making processes and direct, open communication between all levels also promote constructive cooperation. To foster employee satisfaction and a positive working atmosphere, DEMIRE organises group events (summer party and Christmas party), offers food and beverage options (participation in the "Lunchit" luncheon voucher scheme, free drinks, fruit and muesli) and provides attractive office premises.

DEMIRE attaches a great deal of importance to enabling its employees to develop both professionally and personally. With this goal in mind, the Company earmarks an annual budget for further training that employees can use at any time. Further training sessions are organised based on individual agreements and are tailored to reflect personal needs. DEMIRE also enables young high potentials to finance their degree, another reason for its sponsorship of EBS Universität für Wirtschaft und Recht. These development measures serve to help ensure that our employees enjoy their work and that we as a company can meet growing market demands.

DEMIRE promotes an inclusive **work environment** and an open work culture in which individual differences are respected, valued and encouraged. The Company

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is committed to having a diverse team in which each and every individual can fully develop and utilise their individual potential and strengths. We assign positions and tasks based on merit as a general principle. Job advertisements are worded openly and employees can also opt to work part-time. Diversity is something that we actively put into practice at DEMIRE. DEMIRE had a total of 34 employees at the end of the financial year, 50% of whom were female. The Executive Board currently consists of two male members. At the second level of management, the proportion of women comes to 37.5%.

DEMIRE paid particular attention to the issues of **health and safety** last year. The Company followed the German government's recommendations during the COVID-19 pandemic and took extensive measures to ensure the safety of its employees (working from home, masks, hand and surface sanitisers).

But even aside from the COVID-19 crisis, DEMIRE ensures that its employees' ability to perform is maintained in the long term and that any health problems are prevented. To support the health and fitness of its employees, DEMIRE pays subsidies towards the costs of gym contracts. Offers such as mobile working and the option to work part-time take into account the individual life circumstances of our employees. DEMIRE collaborates with the occupational health and safety service provider MediTüV on everyday health issues. Health protection is also a topic that is regularly covered at weekly all-staff meetings.

Commitment to responsible corporate governance

DEMIRE understands **corporate governance** as the responsible management and control of the Company, geared to long-term value creation. Alongside adherence to compliance principles, this forms the basis for the trust that our shareholders, customers, employees, business partners and also the general public place in the Company. The Executive Board and Supervisory Board are committed to good corporate governance and communicate this understanding throughout the organisation on a day-to-day basis. They systematically focus their corporate management and supervision on national and international principles, as well as on stringent internal regulations and guidelines.

DEMIRE is committed to complying with the principles set out in the German Corporate Governance Code (GCGC). These principles serve as the benchmark and guide for all employees in everyday management and business life. The Executive Board and Supervisory Board underscore the significance of these principles every year by issuing the **Corporate Governance Statement** pursuant to Sections 315d and 289f of the German Commercial Code (HGB) and the Declaration of Conformity with the GCGC pursuant to Section 161 of the German Stock Corporation Act (AktG). Both declarations are published on our Company's website.

DEMIRE's **Code of Conduct** sets out how the Company's employees fulfil their ethical and legal responsibilities as company representatives. At the same time, it sets out the Company's values, which place particular emphasis on fairness, both among colleagues and in cooperation with investors, customers and business partners. Newly hired employees joining the Company are familiarised with the Code of Conduct when they take up their position. Subsequent regular training ensures that their knowledge is always kept up-to-date. The Company is planning to develop a Business Partner Code in the current financial year.

Compliance with laws and regulations

A **compliance management system** is in place to ensure compliance with all laws and internal regulations by DEMIRE's employees. The system encompasses the tasks of preventing, identifying and sanctioning breaches of laws and regulations, and is certified by the German Institute for Corporate Governance (Institut für Corporate Governance), which DEMIRE has been a member of since 2020. The Executive Board is responsible for adherence to the compliance standards.

The Company also has a compliance officer, who is responsible for firmly establishing the topic of compliance in day-to-day business life and for familiarising employees with compliance issues in annual training sessions. Employees can contact the

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compliance officer at any time if they have any questions or concerns regarding compliance. The Executive Board can also be approached at any time. Anyone wanting to report a suspicious case can also do so using an anonymised reporting address. DEMIRE systematically follows up on all reports and suspicious cases. The internal procedure provides for the involvement of the Executive Board, the Audit department and the Legal department.

The Supervisory Board is provided with regular, timely and comprehensive information on compliance within the Company by the Executive Board. If breaches are identified, the Company looks into the option of taking employment law measures or, if necessary, criminal law measures, and imposes appropriate sanctions. If necessary, external legal experts are also consulted to coordinate the action to be taken. No compliance breaches were reported in the reporting period.

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THE FACTORS BEHIND OUR STRONG PORTFOLIO

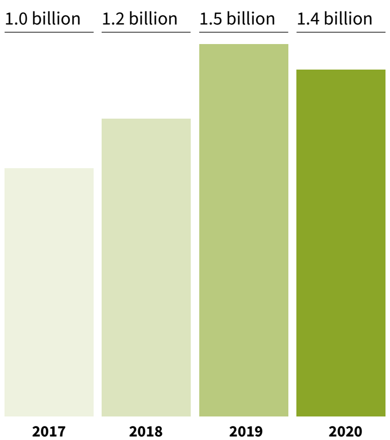
In line with our buy-and-hold strategy, we focus on commercial properties that we expect to still be happy to have in our portfolio in 15 years' time. Our top priority is location, location, location. In addition to the micro and macro-location, we also take a very close look at the location's long-term prospects. To be confident in our decisions, we seek support from experts with industry expertise and local knowledge.

We seek to achieve optimum results in the long term as opposed to aiming simply for the maximum results. This philosophy is reflected in our **ABBA strategy**. Based on this strategy, we primarily look for properties in up-and-coming **secondary locations**. ABBA stands for A locations in B cities and B locations in A cities. We also add a targeted selection of properties in prime locations to our portfolio.

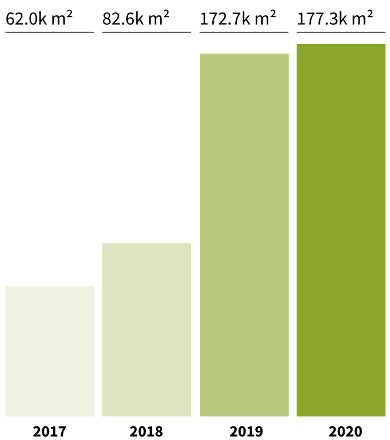
Metropolitan regions and large catchment areas / regional centres with good economic credentials also attract the commercial tenants that we make our properties available to on a long-term basis. They have good credit ratings and prefer to develop their business from a multi-tenant context, because they know only too well that a good combination of use types promotes the overall environment in the location and supports day-to-day business.

"Core+" with the addition of "Core": this classification system for our properties sends an important message to both our investors and our tenants: DEMIRE provides them with a stable foundation for the development of their interests – one that allows promising prospects to emerge. To ensure that the portfolio remains firmly on this path, we use professional asset and property management services to support it.

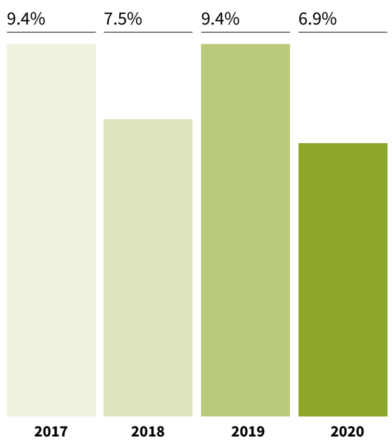
MARKET VALUE



LETTING PERFORMANCE



EPRA VACANCY RATE [1]



[1] excluding real estate held for sale

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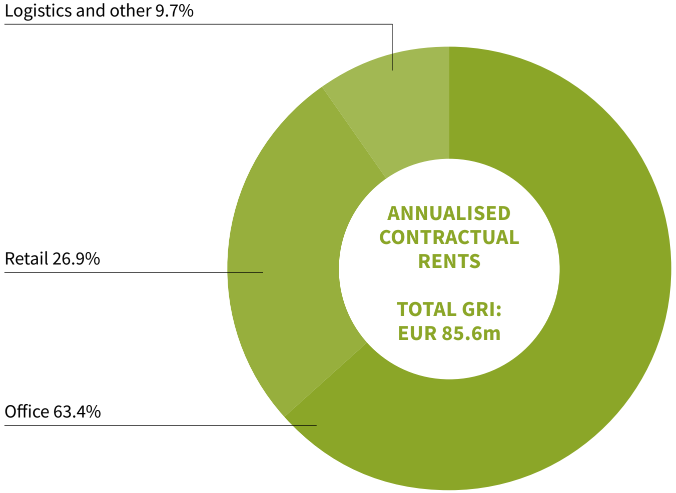
TWO FORMS OF DIVERSIFICATION

Our broad-based real estate expertise means that we are familiar with different types of commercial use. This allows us to cover a wide range of asset classes in our search for suitable properties. Our extensive experience also helps us when it comes to managing the properties, allowing us to tailor property development to suit local needs.

We adopt a broad-based approach in regional terms, too. Investment candidates can be located in all German regions, increasing the number of potential targets. At the same time, we can also take advantage of regional real estate cycles when selecting assets.

— 3 asset classes
— 58 locations
— 875 individual tenants

ANNUALISED CONTRACTUAL RENTS BY ASSET CLASS



PORTFOLIO BREAKDOWN BY REGION

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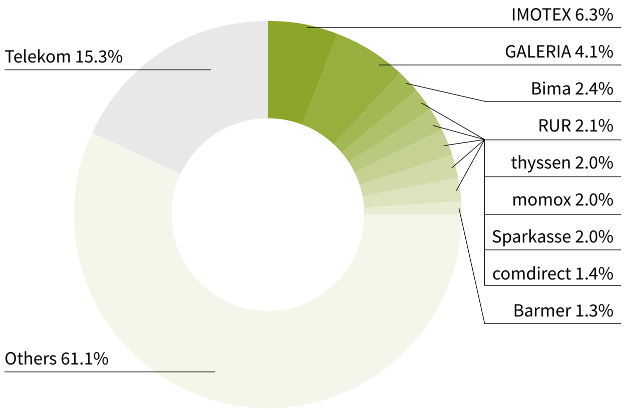
Our tenant structure is characterised by its granularity: only the largest three tenants account for more than 2% of annualised contractual rents. We were able to significantly reduce the cluster risk resulting from the large proportion of rental income generated with our main tenant, Deutsche Telekom, by way of further diversification compared to the previous year. Our portfolio predominantly features solvent tenants with strong credit ratings, a good reputation and stable business prospects.

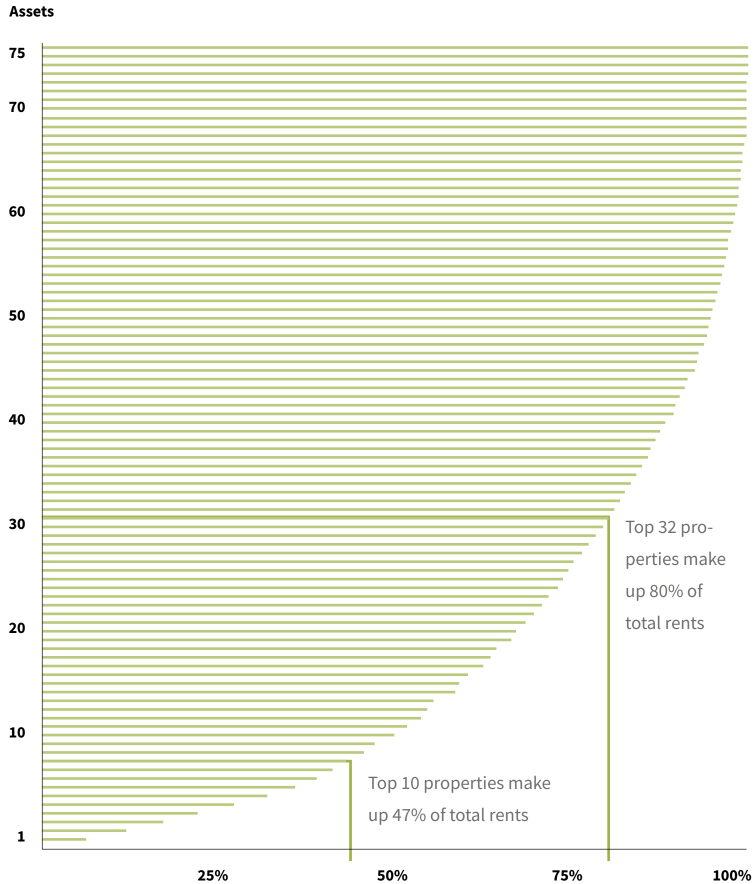
The share of annualised rental income that we generate with our ten largest tenants is 39.1%. The mix of a small number of large, and a large number of medium-sized and small, tenants allows us to strike a good balance between management expenses and the resulting benefits.

DISTRIBUTION BY TENANT



NO DEPENDENCY ON AN INDIVIDUAL ASSET

Rent distributed across assets



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RESILIENT IN THE FACE OF CRISIS

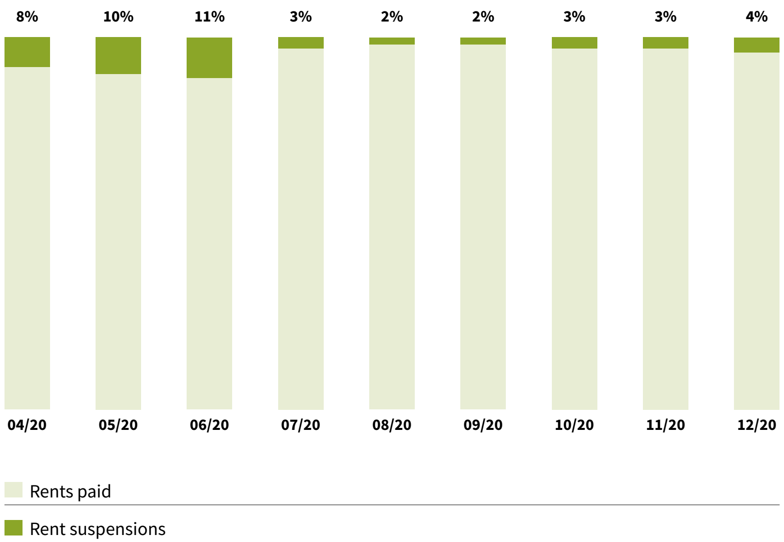
Low rent losses

The extraordinary overall conditions have posed a considerable challenge to the economy over the past financial year. The real estate sector also came under pressure. Good tenant relations and close tenant support allowed us to keep rent losses very much under control during the financial year. This was supported by individual agreements and by the fact that office properties make up a particularly large share of our portfolio. Tenants of office properties were only responsible for 1% of rent losses in our portfolio in 2020.

For the year as a whole, the drop in rental income came to EUR 3.1 million or 4.2% of target rents. Most of the affected tenants belong to the retail (52%) and hotel (41%) asset classes, while office tenants account for only 1%. The graphic on this page does not show the final rent losses but only deferred rent.

TABLE: COMPARISON OF ACTUAL AND TARGET RENTS IN 2020:
Moderate impact in Q2, significant recovery ever since

Proportion of unpaid rents per month



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New lease agreements

In 2020 we were also able to conclude countless new lease agreements or extend existing ones. We concluded new lease agreements or extended existing ones for a total of 177,300 m² with gross rental income of EUR 3.9 million last year.

TOP 5 NEW LEASES

Location	Tenant	Lease area (sqm)	Net cold rent p.m. (EUR)	Lease term (months)	Net cold rent over lease term (EURm).
Rostock	Pentahotels Wordlwide	8,055	97,280	255	24.8
Freiburg	Stadt Freiburg	6,789	57,433	120	6.9
Ansbach	Freistaat Bayern	4,450	36,622	72	2.6
Freiburg	Landkreis Bre-isgau	4,368	40,902	84	3.4
Flensburg	BImA	3,930	32,827	126	4.1

TOP 5 RENEWALS

Location	Tenant	Lease area (sqm)	Net cold rent p.m. (EUR)	Lease term (months)	Net cold rent over lease term (EURm).
Regensburg	GMG/Telekom	14,400	105,915	58	6.1
Leipzig	Rudolph Logistik	10,811	32,963	12	0.4
Leipzig	DB Schenker	8,859	33,503	12	0.4
Chemnitz	Jobcenter Chemnitz	5,765	36,750	120	4.4
Leipzig	THR Hotel	4,916	45,250	24	1.1

Successful disposals

In 2020, we continued to systematically pursue our strategy of removing small and particularly cost-intensive assets from our portfolio. Despite the difficult market environment, we were able to realise sales at an average of 2.7% above the market value.

These portfolio optimisation measures are clearly bearing fruit: The disposals made in the 2019 and 2020 financial years increased the average market value of the properties in our portfolio from EUR 13.5 million to EUR 19.2 million. This will allow us to manage our assets even more efficiently in the years to come.

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DIVESTMENTS

Closing	Asset class	Closing date	Market value (31/12/2019) (EUR)	Selling price (EUR)
Limbach-Oberfrohna	Retail	31/05/20	70,000	61,635
Wurzen	Retail	01/01/20	1,480,000	1,500,000
Bremen, Otto-Lilienthal-Straße 18	Office	01/01/20	2,590,000	3,200,000
Genthin	Retail	01/01/20	580,000	668,000
Herzberg	Office	01/01/20	470,000	490,000
Eisenhüttenstadt	Retail	01/04/20	27,500,000	27,500,000
Appen	Retail	23/04/20	140,000	120,000
Koblenz	Office	01/09/20	1,610,000	1,800,000
Bremen, Große Johannesstraße 146,148	Office	02/10/20	1,340,000	1,630,000
Worms	Office	01/11/20	4,400,000	4,750,000
Meschede	Retail	01/12/20	470,000	485,000
Unterschleißheim	Office	11/12/20	24,800,000	25,500,000
Bremen, Herman-Köhl-Str. 1a	Office	30/12/20	3,600,000	3,600,000
Bremen, Otto-Lilienthal-Straße 23	Office	16/12/20	2,440,000	2,500,000
Bremen, Otto-Lilienthal-Straße 22	Office	16/12/20	1,950,000	1,950,000
Bremen, Otto-Lilienthal-Straße 16a	Office	16/12/20	1,530,000	1,550,000
Bremen, Otto-Lilienthal-Straße 23a	Office	31/12/20	100,000	110,000
Darmstadt	Land		10,400,000	10,400,000
			Σ 85.470.000	**Σ 87.814.635**
			+2.7%	

DIVESTMENTS

Signed (Closing 30/06/21)	Asset class	Closing date	Market value (31/12/2019) (EUR)	Selling price (EUR)
Bremen, Flughafenallee 3/ Otto-Lilienthal-Straße 19	Office	14/10/20	10,400,000	10,400,000
Bremen, Otto-Lilienthal-Straße 25	Office	14/10/20	7,100,000	7,100,000
Bremen, Otto-Lilienthal-Straße 27	Office	14/10/20	6,780,000	6,800,000
Bremen, Otto-Lilienthal-Straße 29	Office	14/10/20	6,680,000	6,700,000
			Σ 30,960,000	**Σ 31,000,000**
			+0.1%	

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SUBSTANTIAL GROWTH AND SUCCESSFUL ASSET MANAGEMENT

Positive development in key performance indicators

Good and forward-looking asset management is a matter of course for DEMIRE. This is one of the key factors behind the strong performance of many of our properties in the 2020 financial year. Three examples of how successful asset management is reflected in the KPIs are provided below:

Bad Vilbel: reduction in the vacancy rate from 69% to 28.5%

— Transformation of the property from single-tenant to multi-tenant use
— Establishing a tenant related asset- and property management approach
— Optimization of the stacking plan
— Marketing initiatives

PROGRESS SINCE ACQUISITION

	as at the acquisition date 01/05/2019	as at the reporting date 31/12/2020[1]	Change
Market value in EUR millions	31.0	47.3	+52%
Vacancy rate in %	69.0	23.0	– 46 pp
Gross rental income in EUR millions (annualised)	1.1	2.9	+164%
Average remaining lease term in years	4.6	6.6	+2.0

[1] Pro forma new lettings

Essen: increase in gross rental income by attracting institutional tenants

— Strategic asset management to attract institutional tenants with long-term lease agreements
— Well connected within the market to avoid additional consultant/broker fees
— Good relationships with tenants to create early contract extensions

PROGRESS SINCE ACQUISITION

	as at the acquisition date 01/05/2019	as at the reporting date 31/12/2020 [1]	Change
Market value in EUR millions	81.5	98.0	+20%
Vacancy rate in %	12.8	10.8	– 2.0 pp
Gross rental income in EUR millions (annualised)	4.5	5.5	+22%
Average remaining lease term in years	3.1	3.6	+0.5

[1] Pro forma new lettings

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Logistik Park Leipzig: Vacancy halved and substantial market value increase achieved

- Transformation of a single-tenant property towards a multi-tenant logistic park
- Creating strong tenant mix from different industries such as e-commerce, entertainment and automotive
- On-site asset management
- Recovery of former tenants

PROGRESS SINCE ACQUISITION

	as at the acquisition date 31/12/2018	as at the reporting date 31/12/2020 [1]	Change
Market value in EUR millions	51.9	76.0	+46%
Vacancy rate in %	11.0	5.5[2]	– 5.5 pp
Gross rental income in EUR millions (annualised)	4.4	5.1	+16%
Average remaining lease term in years	1.6	2.4	+0.7

[1] Pro forma new lettings
[2] excluding structural vacancy

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COMPANY PRINCIPLES

This combined management report reports on business development at DEMIRE Deutsche Mittelstand Real Estate AG ("the Company"), Frankfurt am Main, and the Group ("DEMIRE" or "the DEMIRE Group") for the financial year from 1 January to 31 December 2020. The Company prepares its financial statements according to the provisions of the German Commercial Code (HGB) and the special provisions of the German Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU pursuant to Section 315e of the German Commercial Code (HGB). The composition of the scope of consolidation, which forms an integral part of the consolidated financial statements, is shown in the chapter entitled Information on page 166.

Set-up and orientation

Business activities

ACQUISITION AND VALUE-ORIENTED DEVELOPMENT OF COMMERCIAL REAL ESTATE

DEMIRE acquires and holds commercial real estate in regional centres, medium-sized cities and up-and-coming regions bordering metropolitan areas across Germany. This focus is described as the ABBA strategy – DEMIRE concentrates on "A" locations in "B" cities and on "B" locations in "A" cities. The Company's particular strength lies in realising the potential of the properties while focusing on a range of properties that appeals to both regional and international tenants.

Because efficient property management requires a special understanding of the respective local markets as well as a local network in those markets, international investors usually avoid these markets. The absence of opportunistic investors and the stability of a region's medium-sized companies give these markets added price stability.

The company focuses its portfolio on a mix of office, retail, hotel and logistics properties. With a current surplus in office properties, DEMIRE considers the return/risk structure for the commercial real estate business segment to be appropriate. The Company attaches great importance to signing contracts with solvent tenants and realising a property's potential and therefore continues to expect steady and sustainable rental income and solid valuations.

The business approach is fundamentally geared towards portfolio growth, and the Company disposes of any properties that are not consistent with its strategy.

DEMIRE is taking several steps to further the development of its operations and processes. Alongside cost discipline, operating performance should be improved by means of directing external property managers and other service providers in a targeted manner, as well as by expanding the internal asset and portfolio management structures.

LISTING ON THE STOCK MARKET ALLOWS SHAREHOLDERS TO PARTICIPATE IN GROWTH

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

DEMIRE's shareholders are at the centre of the Company's further development. DEMIRE plans to continue growing its portfolio. When expanding its portfolio, DEMIRE focuses on assets with strong funds from operations (FFO) that offer potential. In this regard, DEMIRE has taken advantage of a favourable financing environment to reduce its interest expenses. DEMIRE also aims to make regular dividend payments following the first dividend payout for the 2019 financial year.

Following the acquisition of a hotel property with a long-term lease in Frankfurt am Main and the profitable sale of smaller, non-core properties, DEMIRE now has a real estate portfolio of 75 properties with lettable space of around 1.0 million m² and a market valuation of approximately EUR 1.4 billion.

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DIVISION OF THE BUSINESS INTO THREE SEGMENTS

DEMIRE divides its business into three segments: “Core Portfolio”, “Fair Value REIT” and “Corporate Functions/Others”. The strategically important “Core Portfolio” segment comprises the assets and activities of DEMIRE’s subsidiaries and sub-subsidiaries that are not allocated to the Fair Value REIT-AG subsidiary. The “Fair Value REIT” segment comprises the investment activities in direct and indirect real estate holdings of this listed subsidiary with REIT status in a Group context. The “Corporate Functions/Others” segment comprises the Group’s administrative and cross-segment tasks such as risk management, finance, controlling, investor relations, legal, IT and compliance.

Strategy and objectives

REALIZE POTENTIAL

DEMIRE established a strategic medium-term plan for its further development back in 2019 summarised under the ambition “REALize Potential”; this strategy was pursued further in a targeted manner during the reporting period. The plan consists of the following objectives:

1. Increase the portfolio volume to more than EUR 2 billion.

2. Ensure the Company’s ability to pay dividends in the long run

3. Achieve an investment grade rating

In order to achieve these objectives, the Company pursues four central approaches or strategic levers:

1. **Acquisition** – Realising economies of scale through the continued purchase of properties in ABBA locations (“A” locations in “B” cities and “B” locations in “A” cities)

2. **Management** – Realising real estate potential through active and value-oriented property management

3. **Financials** – Realising cost savings potential

4. **Processes** – Realising optimisation potential in processes and structures

In detail, these levers can be described as follows:

ACQUISITION

DEMIRE is aiming to establish a portfolio worth more than EUR 2 billion over the next few years. The Company’s focus in this regard is on regional centres, medium-sized cities and up-and-coming regions bordering metropolitan areas across Germany. Given the continuing high demand for real estate, returns can be achieved in locations strategic for DEMIRE that have an appropriate risk ratio and at the same time offer potential for optimisation.

To further improve the risk/return ratio, DEMIRE is diversifying the portfolio according to a mix of office, retail, logistics and other (incl. hotel) uses appropriate for the German commercial property market. The focus is currently on office properties.

Expanding the portfolio allows the Company to exploit economies of scale, with a positive impact on the cost structure, for example, by reducing administrative, financing and service costs.

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MANAGEMENT
Based on its existing real estate portfolio, DEMIRE is expanding its real estate management with the aim of optimising it further by leveraging potential. This includes the expansion of the Company's in-house portfolio and asset management capacities. These steps enable the portfolio and asset management activities to create dedicated individual property strategies, maintain a high level of management attention on existing tenant support and new lettings, and help to optimise the cost structures at the individual property level through the close control of property and facility management. The Company is actively working on optimising its portfolio structure and the consistent implementation of the ABBA strategy. As part of this, small, low-yield properties in non-strategic areas are sold and properties consistent with the strategy are acquired. Properties that require restructuring due to changes in market conditions are repositioned using DEMIRE's active asset management approach.

DEMIRE is also expanding its regional network of administrations, trade associations, estate agents and other regional real estate players.

Profit/loss from the rental of real estate increased to EUR 70.2 million (2019: EUR 65.5 million), for a year-on-year increase of 7.2%. In addition to the annualisation effect from the purchase of properties, this increase resulted from rent increases and a better net balance of utility and service charges versus the prior year. Despite the announced growth target, the portfolio management team is continuing to systematically sell properties that are not in line with the strategy and boost the real estate portfolio by focusing on properties with strong FFO. Eighteen properties were successfully sold in 2020, notarised sales contracts were concluded for four additional properties with the transfer of ownership expected to take place in the second quarter of 2021.

FINANCIALS
DEMIRE's financial performance indicators are reviewed on an ongoing basis and further improved wherever possible. In these endeavours, the Company pays special attention to cost structures. In addition to monitoring the performance indicators, DEMIRE regularly reviews and benchmarks non-operating costs in particular.

In the favourable interest and financing environment, DEMIRE is also focusing on the continuous optimisation of its financing structure. Optimisation can be achieved primarily by refinancing existing loans. The average nominal interest rate on debt was reduced by 13 basis points from 1.84% at the end of 2019 to 1.71% p.a. The reduction is due to various refinancing and restructuring measures carried out in the 2020 financial year. In particular, the repayment of a loan amounting to EUR 19.5 million and an interest rate of 3.9% p.a. as well as two new loans totalling EUR 62.5 million with a weighted interest rate of 1.36% p.a. contributed to this.

Current administrative costs were reduced again in 2020, and the financial result reflects the full effect of the extensive refinancing measures taken in the autumn of 2019. Despite the positive result for the period and due to the payout of a dividend for the first time, the net loan-to-value ratio increased to 50% compared to the end of 2019 (46.7%).

PROCESSES
DEMIRE's corporate culture includes the continuous improvement of existing processes, procedures and structures. Most recently, the focus was on the optimisation of investment structures and the digitalisation of processes and control instruments.

In 2020, cost savings in real estate management processes and better service charge management started to bear fruit. As part of this effort, we expect to achieve even further efficiency gains in 2021.

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Corporate management

MANAGEMENT: KEY PERFORMANCE INDICATORS ARE GEARED TOWARDS EARNINGS AND VALUE DEVELOPMENT

In order to achieve the targets set within the framework of the strategy outlined above, DEMIRE uses rental income and operating cash flow (funds from operations before minority interests, after taxes [FFO I]) as a key management indicator for the portfolio and for the Company. In order to grow FFO I, management is tasked with improving the cash flow of the existing portfolio over time and through active portfolio management. To achieve this, the development of the occupancy rate, the actual net rent per m^2, excluding service charges, ongoing maintenance and operating costs, allocable service charges, rent losses and the net operating income of the properties (NOI) are monitored and actively controlled at the operating level by means of regular target/actual comparisons. Integrated cash flow planning links both the business segments and the individual properties together.

Alongside these performance indicators, liquidity is monitored particularly closely on a continuous basis.

Revenue and cash flows are aggregated and evaluated at the level of DEMIRE AG. The annual result is the key performance indicator for DEMIRE AG. The main performance indicator for measuring added value is the change in net asset value (NAV) in accordance with the specifications of the European Public Real Estate Association (EPRA), adjusted for dividend payouts.

A second key performance indicator for the Group is the ratio of net financial liabilities to the sum total of the real estate portfolio (net loan-to-value [net LTV]).

Interest expenses are also of major importance because they have a significant impact on the financial result and thus also on the profit/loss for the period and the development of cash flow. The active and ongoing management of the debt financing portfolio, combined with continuous market observation and evaluation, aims to steadily improve the financial result.

CORPORATE GOVERNANCE: EXECUTIVE BOARD AND SUPERVISORY BOARD

As the parent company of the Group, DEMIRE AG is managed by the Executive Board. The Executive Board manages the Company's business on its own responsibility and determines its strategic direction. The strategy is implemented in close coordination with the Supervisory Board. The Supervisory Board monitors the activities of the Executive Board and receives regular information from the latter regarding business developments, strategy and potential opportunities and risks. In the financial year under review, the Executive Board consisted of two members: the Chairman of the Executive Board (CEO), Ingo Hartlief (FRICS), and Tim Brückner as Chief Financial Officer (CFO).

The Executive Board is monitored by the Supervisory Board. In the financial year under review, the Supervisory Board consisted of three members and was chaired by Prof. Dr Alexander Goepfert. Other members were the Deputy Chairman, Frank Hölzle, and Prof. Dr Kerstin Hennig.

The Executive Board and Supervisory Board are committed to the responsible management and monitoring of the Company in line with the principles of good corporate governance. The principles are a prerequisite for sustainable corporate success and a central guideline for conduct in DEMIRE AG's day-to-day business. The Executive Board and the Supervisory Board are convinced that good corporate governance strengthens trust in the Company among business partners and employees, as well as the general public. It enhances the Company's competitive standing and secures the trust of financial partners in DEMIRE AG.

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Portfolio

DIVERSIFIED PORTFOLIO WITH A FOCUS ON OFFICE PROPERTIES

As at 31 December 2020, the existing portfolio comprised 75 commercial properties (previous year: 90) with total lettable floor space of around 989,050 m² (previous year: 1,118,789 m²).

The **market value** of the properties totalled EUR 1,441.5 million (previous year: EUR 1,488.4 million). Office properties accounted for the largest share of this portfolio in terms of market value, at around 65% (31 December 2019: 65%). Retail properties account for approximately 25% (31 December 2019: 27%). Around 10% of the portfolio is made up of logistics and other properties (including hotels) (31 December 2019: 8%). The market value per square metre averages EUR 1,457 and is below the replacement cost, i.e. the cost of constructing a comparable new building, across all property classes.

PORTFOLIO BY ASSET CLASS

	No. of Properties	Market Value in EUR million	Share in %	Lettable Space in thousand m²	Value/m²	Contractual Rent in EUR million p. a.	Contractual Rent per m²	Rental Yield in %	EPRA Vacancy Rate in %[1]	WALT in Years
Office	52	933.8	64.8	583.4	1,601	54.3	8.7	5.8	8.2	3.9
Retail	17	360.7	25.0	220.1	1,639	23.0	9.0	6.4	2.4	6.4
Logistics and Others	6	147.0	10.2	185.6	792	8.3	4.3	5.7	11.5	6.6
Total 31 December 2020	**75**	**1,441.5**	**100**	**989.1**	**1,457**	**85.6**	**8.0**	**5.9**	**6.9**	**4.8**
Total 31 December 2019	**90**	**1,488.4**	**100**	**1,118.8**	**1,329**	**90.0**	**7.5**	**6.0**	**9.4**	**4.8**
Change in units/%/bp	– 15	-3.2%		-11.6%	+ 9.6%	-4.9%	+ 6.7%	– 10 bp	– 250 bp	-

1 Excl. real estate held for sale
2 Difference to balance sheet value of EUR 1,457.3 million due to leaseholds

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PORTFOLIO AND ASSET MANAGEMENT

DEMIRE defines proactive asset management as a key factor in achieving positive portfolio development in the long run. This requires regular contact with all stakeholders, especially tenants. This strategy also played a key role in allowing us to achieve yet another increase in the record letting performance reported in the previous year.

Active portfolio management is also part of our comprehensive asset management approach and is aimed at keeping the real estate portfolio attractive and competitive in the long term. As part of these endeavours, DEMIRE is continuously refining its portfolio and taking advantage of attractive acquisition opportunities, as well as selling in a targeted manner properties that are no longer consistent with its strategy.

The last valuation of the entire portfolio was carried out by the independent real estate appraiser Savills Immobilien Beratungs-GmbH as at the reporting date, 31 December 2020. The change in value compared to the previous year from EUR 1,488.4 million to EUR 1,441.5 million is due to sales (EUR 85.4 million) and a net valuation result (EUR -22.0 million). This is offset by a purchase (residual purchase price payment of EUR 42.7 million) and various smaller effects, primarily value-enhancing expansion measures, in a total amount of EUR 17.8 million.

LETTING PERFORMANCE

At 177,247 m², letting performance in 2020 rivalled the record level achieved in the previous year. 172,700 m² had been let in 2019. DEMIRE’s long-term average has historically come to around 80,000 m² a year. 64.4% of the letting performance in 2020 is attributable to new lettings and around 35.6% to follow-on lettings.

The EPRA vacancy rate for the existing portfolio, excluding properties held for sale, was 6.9% as at the reporting date, which is approximately 2.5 percentage points lower than on 31 December 2019. The weighted average lease term (WALT) of the entire portfolio remained stable at 4.8 years – the same figure reported as at 31 December 2019.

The annualised rental income generated from the real estate portfolio fell by 1.9% in like-for-like terms in the financial year. If, however, we take a more differentiated look at rental growth by asset class, the following picture emerges:

DEVELOPMENT OF RENTAL INCOME IN 2020

Asset class	Lfl rental growth
Office	1.3%
Retail	–9.3%
Logistics & Other	0.1%
Total	**–1.9%**

The pronounced negative rental growth in the retail segment is largely due to the insolvency of a major retailer and the resulting amendments to the lease agreements.

ACTIVE PORTFOLIO MANAGEMENT

The purchase of a property with a volume of EUR 45.0 million was completed in the 2020 financial year. 18 properties were sold for a total of EUR 87.8 million, which corresponds to a premium on the cumulative market value of almost 3%. Further sales contracts with a volume of EUR 31.0 million were also signed in the reporting period and will be closed in the course of the first half of 2021.

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DISPOSALS IN 2020

Closed	Asset class	Last market value (31/12/19) (EUR)	Sale price (EUR)
Limbach-Oberfrohna	Retail	70,000	61,635
Wurzen	Retail	1,480,000	1,500,000
Bremen, Otto-Lilienthalstr. 18	Office	2,590,000	3,200,000
Darmstadt	Land	10,400,000	10,400,000
Genthin	Retail	580,000	668,000
Herzberg	Office	470,000	490,000
Eisenhüttenstadt	Retail	27,500,000	27,500,000
Appen	Retail	140,000	120,000
Koblenz	Office	1,610,000	1,800,000
Bremen, Große Johannesstraße 146, 148	Office	1,340,000	1,630,000
Worms	Office	4,400,000	4,750,000
Meschede	Retail	470,000	485,000
Unterschleißheim	Office	24,800,000	25,500,000
Bremen, Herman-Köhl-Str. 1a	Office	3,600,000	3,600,000
Bremen, OLS 23	Office	2,440,000	2,500,000
Bremen, OLS 22	Office	1,950,000	1,950,000
Bremen, OLS 16a	Office	1,530,000	1,550,000
Bremen, OLS 23a	Office	100,000	110,000
		85,470,000	**87,814,635**
Signed (Closing Completion in the second quarter of 2021)			
Bremen, Flughafenallee 3/OLS 19	Office	10,400,000	10,400,000
Bremen, OLS 25	Office	7,100,000	7,100,000
Bremen, OLS 27	Office	6,780,000	6,800,000
Bremen, OLS 29	Office	6,680,000	6,700,000
		30,960,000	**31,000,000**

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NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators are non-quantifiable values that are not used to directly control the Company but rather play a fundamental role in the success of the Company's development and the appreciation in DEMIRE's value. The non-financial performance indicators are based on competencies, competitive advantages and qualifications that have accumulated through the Company's history in the context of current business activities and the people involved. We consider our employees, as well as the maintenance of our network of actual and potential tenants and the comprehensive topic of sustainability, to be key performance indicators.

PERSONNEL

KEY SPECIALISTS AND CENTRAL DEVELOPMENT DRIVERS

The Group employed a total of 34 people (31 full-time equivalents), excluding the Executive Board, at its consolidated and non-consolidated entities as at 31 December 2020 (31 December 2019: 41 employees). DEMIRE embraces and promotes diversity throughout the Company. The proportion of female employees is 50% (previous year: 48%). The age structure of our employees is widely distributed. Around 12% of our employees are younger than 30 years of age, around 68% are between 30 and 50 years old, and another 20% are over 50.

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

By applying a market- and performance-oriented remuneration system, DEMIRE encourages the management's and employees' focus on achieving corporate and departmental goals. Remuneration is reviewed regularly within the Company and adjusted to the Company-wide operational and personal targets. Employees are offered the opportunity to develop their professional qualifications internally and externally, thus ensuring that personal skills are promoted in line with the requirements of corporate development.

In order to make the workplace more attractive, DEMIRE provides sufficient working space along with modern and spacious recreational areas to foster team building. This supports the targeted exchange of knowledge within the workforce and promotes cooperation between the various working areas and project groups.

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

DEMIRE WELCOMES DIVERSITY AND VARIETY

The Executive Board and Supervisory Board are convinced that diversity promotes the Company's culture and commercial success. DEMIRE AG embraces an inclusive work environment and an open work culture in which individual differences are respected, valued and encouraged. We are committed to having a diverse team in which each and every individual can fully develop and utilise their individual potential and strengths.

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

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As at the reporting date, the proportion of women on the Supervisory Board was 33%. The proportion of women on the two-member Executive Board was zero, and the proportion of women at the first level of management below the Executive Board came to 37.5%. This means that the target figures for the proportion of women in the Company were once again met as at 31 December 2020. The Company expects that the targets will also be met in 2021.

TENANT RELATIONSHIP MANAGEMENT AND NETWORK MAINTENANCE

DEMIRE's commercial success is directly linked to the Company's ability to maintain and, where appropriate, further expand its relationships with the environment around it. Regular dialogue with tenants in the spirit of partnership ensures that our Company can pick up on any potential need for action to secure the tenancy in the long term early on – not only, but especially, in times dominated by the pandemic. On the acquisition side, DEMIRE involves numerous partners in constructive cooperation depending on its requirements and the project cycle. These partners include experts (e.g. lawyers, architects, building specialists) and partners with special local knowledge (e.g. estate agents, local authorities).

CLOSE TENANT SUPPORT

DEMIRE relies on a high level of tenant loyalty based on a lasting, direct relationship and mutual trust. To this end, our employees are in regular contact with our tenants – by telephone, but also by providing regular direct support on location.

DEMIRE generally aims for long-term tenancies when drafting its lease agreements. This involves a careful review and discussion of the requirements and overall conditions by both sides at the beginning of a tenancy, making it easier for both parties to plan and minimising the default risks for DEMIRE.

Close tenant support proves particularly effective in phases of crisis, as was the case last year with the COVID-19 pandemic. Constructive dialogue allowed individual solutions to be found in the vast majority of cases, keeping default risks to a minimum (cf. p. 35).

NETWORKING

DEMIRE's business model is also based on identifying potential market opportunities on the transaction market at an early stage. This means seeking out properties that are undervalued in terms of their potential. Long-term partnerships with relevant service providers and other institutional market participants in the real estate market are maintained.

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

In 2019, DEMIRE entered into a partnership with the EBS Universität für Wirtschaft und Recht. The aim of this cooperation is to conduct practical and scientific studies and research in the field of real estate economics.

TRANSPARENCY

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

DEMIRE is also a member of DIRK e. V., the German Investor Relations Association. The association represents the interests of German listed companies on the capital market and provides them with professional support, access to networks and hands-on capital market knowledge so as to optimise dialogue between capital market participants.

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SUSTAINABILITY

PREPARING OUR FIRST SUSTAINABILITY REPORT

In recent years, social and environmental factors have become much more important alongside economic aspects. This has prompted DEMIRE to address this topic in greater depth, and the Company is preparing to publish its first sustainability report. This will be an exercise designed to take stock of the status quo, the idea being for further activities to be included later on.

ESG – ENVIRONMENTAL, SOCIAL & GOVERNANCE

DEMIRE strives to act responsibly and sustainably in every situation. In doing so, DEMIRE observes ecological and social aspects in its business activities and acts in accordance with the principles of good corporate governance. DEMIRE supports measures that help to save energy and reduce emissions. In the future, DEMIRE will continue to pay attention to the sustainable use of environmental resources and consider the impact of its entrepreneurial activities on them. Treating employees, customers, business partners and the public fairly and responsibly is also a top priority.

DEMIRE strives to further anchor sustainability in the Group by implementing guidelines. In 2020, DEMIRE underwent an external audit to document and apply the principles of good corporate governance based on the standards of the Institute for Corporate Governance (ICG) and was admitted as a member following successful certification.

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ECONOMIC REPORT

Economic environment

Macroeconomic situation

Compared to the previous year, the overall economic outlook in Germany has been defined by the COVID-19 pandemic. The SARS-CoV-2 virus has affected the German economy like no other event in recent German history. The economic restrictions were particularly stringent during the “lockdown” phases from March to June and from November 2020 onwards. Figures released by the German Federal Statistical Office (destatis) show that the most prolonged growth phase witnessed since reunification has come to an abrupt end. Price-adjusted gross domestic product (GDP) in 2020 was 5% lower than in the previous year. The drop in economic output is pronounced both in industry (-10.4%) and in the retail, transport and hospitality sectors (-6.3%). Despite the significant drop in economic output, the contraction in the labour market was more moderate, partly due to the government’s aid measures as part of Germany’s “Kurzarbeit” furlough programme. On average, around 2.7 million people were unemployed in 2020 – a good 480,000 more than in the previous year. The unemployment rate came in at 5.9%.

Development of the real estate and construction sectors

After a record year in 2019, the real estate investment market was more subdued in 2020. According to the Investment Market Overview by international brokerage Jones Lang Lasalle (JLL), properties with a transaction volume of EUR 81.6 billion were traded in the reporting period, down by 11.0% on 2019. Transaction activity picked up again in the fourth quarter, indicating a possible catch-up effect from the comparatively weak second and third quarters. High levels of liquidity and the associated capital pressure among many investors contributed to the sustained solid result, despite the considerable uncertainty triggered by the pandemic. Institutional investors, in particular, have increased their share of real estate investments overall.

The construction industry has escaped the pandemic largely unscathed. The industry associations BAU INDUSTRIE and DAS DEUTSCHE BAUGEWERBE expect to see revenue growth of 5.5% compared to 2019. The positive development is bolstered, among other things, by the ongoing stable development in the residential construction segment.

The section below outlines developments in those sub-markets that are the most relevant to DEMIRE in 2020.

OFFICE REAL ESTATE MARKET

The office letting market in Germany has been hit hard by the impact of the COVID-19 pandemic and the associated economic uncertainty in a large number of sectors. Colliers International, a brokerage house with international operations, recorded a 35.3% drop in office space turnover to around 2.55 million m² in what are known as “A” cities (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart). The vacancy rate in the cities analysed rose moderately by 60 basis points to 3.5%, meaning that Colliers still considers it to be low. The development in average rents varied between the markets analysed. Whereas Berlin, Frankfurt and Munich once again saw an increase of 9%, 8% and 7% respectively, average rents in Düsseldorf dropped by 6%.

The office investment market would appear to have reacted to the changes in the overall conditions. Looking at Germany’s nationwide transaction volume, figures from the international brokerage house BNP Paribas Real Estate show a decline of 36% to EUR 24.6 billion. This still, however, puts the result well ahead of the average for the decade, with office transactions accounting for around 41% of all commercial real estate investments. EUR 15.6 billion was invested in “A” cities in 2020, with a further EUR 2.7 billion being ploughed into “B” locations, i.e. large German cities that are not classed as “A” locations. The transaction volume remained stable in this segment and even increased in relative terms. In terms of prime yields, “A” cities recorded slight declines of between 5 and 15 basis points, meaning that yields remained at a low level of between 2.55% and 2.95%

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LOGISTICS REAL ESTATE MARKET

According to surveys conducted by the international brokerage firm CBRE, momentum on the industrial and logistics real estate market picked up where it had left off in 2018 and 2019. Market activity is dominated by high demand, low levels of space and product availability, and ongoing yield compression. Space turnover in 2020 came to around 6.9 million m², around 1% less than in the previous year. The high demand translated into declining net initial yields, which fell by 0.2 percentage points to 3.4%. Prime rents, on the other hand, increased by 1% to EUR 6.35/m². The prime rent for secondary centres rose at a more dynamic rate of 4% to EUR 5.16/m².

One reason behind the continued high demand for industrial and logistics space is the COVID-19 pandemic itself. Demand for shipping services has been boosted by the strong growth in online retail sparked by the pandemic. Online retail accounted for around 52% of space turnover, compared with only 40% in the previous year.

RETAIL REAL ESTATE MARKET

In spite of the pandemic, German retail sales are expected to have risen to EUR 557.4 billion in 2020, according to the data portal statista. Whereas the textile industry is predicted to see a sharp decline in sales due to the lockdown measures, chemists and grocery stores are likely to have witnessed increasing sales. The forecast also expects e-commerce to continue the same growth trend that emerged in previous years and ultimately to account for around 12.2% of total sales.

Retail real estate remained a sought-after asset class in 2020. Colliers reported a transaction volume of around EUR 11.4 billion in the German market, up by around 12% higher year-on-year. In terms of demand, there are major differences between the individual types of use. Speciality stores and speciality shopping centres were in strong demand, accounting for 50% of the transaction volume. Discount stores, supermarkets and hypermarkets, in particular, are proving extremely popular and were able to increase their share of total retail investments to 18%.

High-quality retail properties and commercial buildings located on central shopping streets account for around 35% of the total transaction volume. Shopping centres make up a share of around 15%. Both segments lost significant ground compared to the previous year.

Yields also varied depending on the type of use and the location, but overall remained stable or increased/decreased only moderately. They range between 2.8% for commercial buildings in Munich to under 5.0% for free-standing specialty stores.

HOTEL REAL ESTATE MARKET

The pandemic has had a significant impact on the market environment for hotel properties in 2020. The collapse of national and international travel has posed major challenges for hotel operators and left the hotel investment market, which was previously an area of dynamic growth, facing significant uncertainty.

According to analyses conducted by CBRE, the hotel investment volume fell accordingly by 60% year-on-year to EUR 1.95 billion, with a large part of the transaction activity taking place before the outbreak of the pandemic. Prime yields rose by 50 basis points to 4.25% in the same period. CBRE observed that the slightly lower prices have already been exploited by some investors, who have invested in core locations. The market share of the core segment or the core+ segment in proportion to the market as a whole increased from 83% to 87%.

With a market share of 57%, four-star hotels were the most frequently purchased properties. The second-largest, and fastest-growing segment, is made up of three-star hotels, which upped their share from 21% to 36%. The remaining transaction volume is mainly attributable to the two and five-star segment.

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Implications for DEMIRE

The macroeconomic and property market environment was challenging in 2020. Even in this phase, however, DEMIRE benefited from the portfolio focus on economically strong German secondary locations and a balanced portfolio mix of different asset classes. Secondary locations were not exposed to any excessive market volatility and were less affected than "A" locations by the ongoing yield compression witnessed in many asset classes.

TARGET/ACTUAL COMPARISON

Key figure/date in EUR million	2019 actual	Forecast 18 March 2020	Forecast 19 August 2020	Forecast 3 December 2020	2020 actual
Rental income	81.8	90.0-92.0	85.0-87.0	85.0-87.0	87.5
FFO I (after taxes, before minorities)	34.5	40.0-42.0	36.0-38.0	at least 38.0	39.2

General assessment of the Executive Board

General Statement on the business performance and position of the Group

DEMIRE once again ended the 2020 financial year very successfully, especially given the adverse circumstances. Rental income and FFO as key management indicators, as well as numerous other key figures, showed positive development in line with, or even outstripping, our expectations. Even though the pandemic has not had any dramatic impact on the 2020 figures, the situation has tied up extensive management capacities. This will remain the case in 2021, too. Our intensive contact with tenants is, however, not only due to the prevailing situation, but rather has been an integral part of our strategy since 2019, and has also made a significant contribution to our strong letting performance. We also made decisive progress in 2020 in another key strategic area, namely our efforts to make our portfolio more dynamic, and we were able to sell 18 properties that were no longer consistent with our strategy. Although this slightly reduced the value of the portfolio to EUR 1,441.4 million as at the reporting date, numerous other key portfolio figures improved as a result. This provides us with an excellent basis on which we can continue to persistently pursue our strategic objectives, primarily portfolio growth, in 2021, taking advantage of opportunities as and when they arise.

The 2020 results reflect the success achieved with the "REALize Potential" strategy in numerous respects. The strategy, which was developed back in early 2019 and was then put into practice, has proven to be the right approach, and an efficient one, in an environment characterised by unusual circumstances. This strategic orientation and the focus on a diversified portfolio with a balanced risk/opportunity profile is a key factor differentiating DEMIRE from competitors. The active management approach will continue to help us leverage valuation potential, generate increasing rental income and reduce our costs in the future. It is also easy to add any future acquisitions to this effective platform with low marginal costs. The resulting improved profitability forms the basis for DEMIRE's ability to pay sustainable dividends.

Following the extensive refinancing activities performed in the previous year, the Company reaped significant benefits from much lower financing costs in 2020. In addition, further financing arrangements were concluded based on attractive conditions, meaning that DEMIRE still has financial leeway available to it with a comfortable liquidity position and that it was able to reduce its financing costs once again.

Measures were taken to actively shape the real estate portfolio in the financial year under review. Numerous properties that were no longer consistent with the Company's strategy were sold, as a whole, at slightly above the latest market value. Annualised contract rents fell by 4.9%. On a like-for-like basis, i.e. excluding purchases

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and sales, it fell by 1.9%, mainly due to the insolvency of a single tenant and the associated far-reaching consequences. The EPRA vacancy rate fell by 250 basis points to 6.9% as at the reporting date thanks to positive letting performance. The WALT remained constant compared to the end of 2019 at 4.8 years.

In summary, DEMIRE performed successfully in the 2020 financial year and achieved very positive development, particularly in view of the exceptional situation. As part of the ongoing and consistent implementation of the “REALize Potential” strategy, the focus is on making the portfolio even more dynamic and allowing it to grow further, the aim being to achieve a market valuation in excess of EUR 2 billion. Due to the numerous sales and the difficult economic environment, the Company expects a moderate decline in rental income and FFO I (after tax, before minorities) for the 2021 financial year. Acquisition and growth opportunities are to be exploited as and when they arise and are likely to have a positive impact on rental income and FFO. In the medium term, DEMIRE’s objective is still to achieve an investment grade rating and to continue to pay an attractive and sustainable dividend to its shareholders.

Results of operations, net assets and financial position

Results of operations

Rental income and profit/loss from the rental of real estate increased significantly in a year-on-year comparison due to what was again very successful letting performance, as well as the annualisation effect of numerous acquisitions, and more than compensated for the drop resulting from the sale of 18 properties. The income from the sale of real estate almost balances out the expenses relating to the sale. This demonstrates that, despite the challenging market environment, the properties could at least be sold at market value. Following substantial increases in previous years, the profit/loss from fair value adjustments in investment properties reflects the circumstances associated with the pandemic and its temporary impact on the retail and hotel asset classes. On the other hand, there were positive valuation effects for logistics and office properties. The impairment of receivables totalled EUR 6.1 million as against EUR 0.6 million in the previous year. EUR 4.2 million of this amount is attributable to actual effects of the COVID-19 crisis, while the rest relates to one-off effects or impairments of other receivables. While general current administrative expenses fell again compared to the previous year due to various cost-cutting measures, the positive effects of the comprehensive refinancing measures taken in 2019 and 2020 are impressively reflected in the financial result.

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CONSOLIDATED STATEMENT OF INCOME

in EUR thousand	2019	2020	Change	in %
Rental income	81,799	87,509	5,710	7.0%
Income from utility and service charges	19,625	21,327	1,701	8.7%
Operating expenses to generate rental income	– 35,886	– 38,608	– 2,722	7.6%
Profit/loss from the rental of real estate	**65,538**	**70,228**	**4,690**	**7.2%**
Income from the sale of real estate and real estate companies	46,130	88,887	42,757	92.7%
Expenses relating to the sale of real estate and real estate companies	– 29,327	– 89,932	– 60,605	>100%
Profit/loss from the sale of real estate and real estate companies	**16,803**	– 1,046	**– 17,848**	**-**
Profit/loss from fair value adjustments in investment properties	83,022	– 22,134	– 105,157	-
Impairment of receivables	– 629	– 6,150	– 5,521	>100 %
Other operating income	4,327	1,490	– 2,836	– 65.6%
General and administrative expenses *	– 13,017	– 13,368	– 351	2.7%
Other operating expenses *	– 874	– 1,366	– 492	56.3%
Earnings before interest and taxes	**155,170**	**27,654**	**– 127,516**	**– 82.2%**
Financial result	– 57,315	-21,172	36,143	– 63.1%
Profit/loss before taxes	**97,855**	**6,482**	**– 91,373**	**– 93.4%**
Current incomes taxes	– 4,651	– 712	3,939	– 84.7%
Deferred taxes	– 13,466	3,397	16,863	-
Net profit/loss for the period	**79,538**	**9,166**	**-70,572**	**– 88.5%**
Thereof attributable to parent company shareholders	75,539	8,503	– 67,036	– 88.7%
Basic earnings per share (EUR)	0.70	0.08	– 0.62	– 88.6 %
Weighted average number of shares outstanding (in thousands)	107,777	106,775	– 1,002	– 0.9%
Diluted earnings per share (EUR)	0.70	0.08	– 0.62	– 88.6%
Weighted average number of shares outstanding, diluted (in thousands)	108,287	107,285	– 1,002	– 0.9%

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

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DEVELOPMENT OF THE MAIN ITEMS OF THE INCOME STATEMENT

In the 2020 financial year, the DEMIRE Group generated **rental income** totalling EUR 87.5 million (2019: EUR 81.8 million). The increase is primarily due to the annualisation effect of the purchases made in 2019 (EUR 12.6 million) and the strong letting result in 2020, partially offset by the effects from the sale of properties from the "Core Portfolio" (EUR 4.4 million). Rental income thus overshot the upper end of the forecast range, which was published as EUR 85.0 million to EUR 87.0 million in August 2020, by 0.6%.

Income from utility and service charge allocations of EUR 21.3 million (2019: EUR 19.6 million) includes tenant payments for utilities. Utility and service charges were recorded as expenses to generate rental income and measures to preserve the value of the property and amounted to EUR 38.6 million in the reporting year (2019: EUR 35.9 million). The increased level of income and expenses is due to the additional properties purchased in 2019, as well as to the lower vacancy rate in the portfolio. Overall, the total profit/loss from the rental of real estate increased 7.2% to EUR 70.2 million in the reporting year (2019: EUR 65.5 million).

The **profit/loss from the sale** of real estate amounted to EUR -1.0 million in the 2020 financial year (2019: EUR 16.8 million), resulting from the sale of 18 properties with a volume of EUR 88.9 million. The main drivers behind the proceeds from these sales were the properties in Eisenhüttenstadt (EUR 27.5 million) and Unterschleissheim (EUR 25.5 million). In addition, numerous small units that were not consistent with the Company's strategy were sold. The carrying amounts of the properties were usually achieved or exceeded. The slightly negative balance results primarily from the necessary expenses for brokers and consultants associated with the sales.

The **profit/loss from fair value adjustments** in investment properties amounted to EUR -22.1 million or 1.5% of the portfolio value (2019: EUR 83.0 million). While the value of some properties in the portfolio increased, assets in the retail and hotel sectors in particular lost value compared to the previous year due to the pandemic.

Impairments on receivables amounted to EUR 6.1 million in the reporting period (previous year: EUR 0.6 million). EUR 1.9 million of this amount relates to tenants of retail properties that are involved in so-called protective shield proceedings or insolvency proceedings in the wake of the COVID-19 pandemic. EUR 1.5 million is attributable to two hotel tenants who are also either insolvent, or at risk of insolvency, as a result of the pandemic. Furthermore, the amount includes a reversal of capitalised rent-free periods for a department store in Trier amounting to EUR 1.6 million (previous year: EUR 0).

Other operating income fell by EUR 2.8 million year-on-year to EUR 1.5 million (2019: EUR 4.3 million). This figure includes insurance compensation and the repayment of a loan granted that had already been written off.

General administrative expenses remained stable in 2020 at EUR 13.4 million due to a one-off effect (2019: EUR 13.0 million). This highlights the Company's earnings potential and its ability to improve its operating results despite exercising cost discipline.

At EUR 1.4 million, **other operating expenses** increased year-on-year due to provisions for litigation (2019: EUR 0.9 million).

As a result of all of the factors referred to above, **earnings before interest and taxes** (EBIT) came to EUR 27.7 million, as against EUR 155.2 million in the previous year.

The **financial result** improved by EUR 36.1 million in 2020 and amounted to EUR -21.2 million (2019: EUR -57.3 million). In the previous year, financial expenses included one-off costs relating to refinancing activities and early repayment penalties of EUR 31.7 million, which play a decisive role in a significant decrease in financial expenses in 2020 and beyond. Interests of minority shareholders in the Fair Value REIT-AG's subsidiaries fell from EUR 7.7 million to EUR 3.4 million, primarily due to a lack of positive fair value changes in properties held by the Fair Value REIT funds.

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The **net profit/loss for the period** (earnings after taxes) came to EUR 9.2 million in the 2020 financial year compared with EUR 79.7 million in the previous year.

FUNDS FROM OPERATIONS (FFO)

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

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FFO CALCULATION

in EUR thousand	2019	2020	Change	in %
Profit/loss before taxes	97,855	6,482	– 91,373	– 93.4%
Interests of minority shareholders	7,743	3,371	– 4,371	– 56.5%
Earnings before taxes (EBT)	**105,598**	**9,853**	**– 95,745**	**– 90.7%**
± Profit/loss from the sale of real estate	– 16,803	1,046	17,848	–
± Profit/loss from fair value adjustments in investment properties	– 83,022	22,134	105,157	-
± Profit/loss from the valuation of derivative financial instruments	0	0	0	0.0%
± Other adjustments*	29,205	8,052	– 21,153	– 72.4%
FFO I before taxes	**34,977**	**41,085**	**6,108**	**17.5%**
± (Current) income taxes	– 472	– 1,919	– 1,447	>100%
FFO I after taxes	**34,506**	**39,166**	**4,660**	**13.5%**
Thereof attributable to parent company shareholders	30,467	33,805	3,338	11.0%
Thereof attributable to non-controlling interests	4,039	5,361	1,322	32.7%
± Profit/loss from the sale of real estate companies/real estate (after taxes)	15,730	– 1,738	– 17,468	–
FFO II after taxes	**45,658**	**37,428**	**– 8,230**	**– 18.0%**
Thereof attributable to parent company shareholders	42,059	31,698	– 10,360	– 24.6%
Thereof attributable to non-controlling interests	3,599	5,730	2,131	59.2%
FFO I after taxes per share				
Basic earnings per share (EUR)	0.32	0.37	0.05	14.6%
Weighted average number of shares outstanding (in thousands)	107,777	106,775	– 1,002	– 0.9%
Diluted earnings per share (EUR)	0.32	0.37	0.05	14.6%
Weighted average number of shares outstanding, diluted (in thousands)	108,287	107,285	– 1,002	– 0.9%
FFO II after taxes per share				
Basic earnings per share (EUR)	0.42	0.35	– 0.07	– 17.3%
Weighted average number of shares outstanding (in thousands)	107,777	106,775	– 1,002	– 0.9%
Diluted earnings per share (EUR)	0.42	0.35	– 0.07	– 17.3%
Weighted average number of shares outstanding, diluted (in thousands)	108,287	107,285	– 1,002	– 0.9%

* Other adjustments include:
— One-time refinancing costs (EUR 3.8 million, previous year: EUR 31.7 million including other effects from refinancing)
— One-time transaction, legal and consulting fees (EUR 0.6 million, previous year: EUR – 3.3 million)
— One-time administrative costs (EUR 2.0 million, previous year: EUR – 0.3 million)
— Expenses related to other periods (EUR 1.7 million, previous year: EUR 0.1 million)

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FFO I (after taxes, before minorities) increased again in the 2020 financial year and amounted to EUR 39.2 million (2019: EUR 34.5 million); after taxes and after minorities, FFO I amounted to EUR 33.8 million (2019 financial year: EUR 30.5 million). Taking into account the result from the sale of real estate, funds from operations (FFO II) amounted to EUR 37.4 million after taxes and before minorities (2019: EUR 45.7 million), and EUR 31.7 million (2019: EUR 42.1 million) after taxes and after minorities.

Other adjustments of FFOs amounted to EUR 8.1 million in the reporting period. Of this amount, EUR 1.6 million relates to the reversal of linearised rent-free periods through profit or loss due to the insolvency proceedings of a tenant and the related termination of a lease agreement. As the realisation of the deferred item is no longer possible over the term of the contract, a related impairment loss was recognised and adjusted accordingly as a one-off effect.

Overall, the increase in FFO is due primarily to the annualisation effect of the properties acquired in the previous year, the purchase in March 2020 and reduced financial expenses. The FFO I income taxes include the adjustment of a tax effect from the distribution of a subsidiary of DEMIRE in the amount of EUR 0.7 million. The distribution is due to the sale of a property; therefore the tax expense from this is allocated to FFO II.

NET ASSET VALUE (NAV)

in EUR thousand	31/12/2019	31/12/2020	Change	in %
Net asset value (NAV)	613,351	557,956	– 55,395	– 9.0%
Deferred taxes	75,518	72,122	– 3,396	– 4.5%
Goodwill resulting from deferred taxes	– 4,738	– 4,738	0	0.0%
NAV (basic)	**684,131**	**625,340**	**– 58,791**	**– 8.6%**
Number of shares outstanding (in thousands) (basic)	107,777	105,772	– 2,005	– 1.9%
NAV per share (EUR) (basic)	6.35	5.91	– 0.44	– 6.9%
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0%
NAV (dilution)	684,641	625,850	– 58,791	– 8.6%
Number of shares outstanding (in thousands) (diluted)	108,287	106,282	– 2,005	– 1.9%
NAV per share (EUR) (dilution)	**6.32**	**5.89**	**– 0.43**	**– 6.8%**

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SEGMENT DEVELOPMENT

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

The key segment data developed as follows during the 2020 financial year:

SELECTED INFORMATION FROM THE CONSOLIDATED BALANCE SHEET

in EUR thousand	Core Portfolio		Fair Value REIT		Corporate Functions/ Others		Group	
	2019	2020	2019	2020	2019	2020	2019	2020
External revenue	118,286	144,340	28,268	53,382	1,000	0	147,554	197,722
Total revenue	119,286	144,340	28,268	53,382	0	0	147,554	197,722
Profit/loss from fair value adjustments in investment properties	70,500	– 19,900	12,523	– 2,234	0	0	83,022	– 22,134
Other income	3,836	486	323	412	167	592	4,327	1,490
Segment revenue	**193,622**	**124,926**	**41,114**	**51,560**	**167**	**592**	**234,903**	**177,078**
Expenses relating to the sale of real estate	– 28,127	– 59,775	– 1,200	– 30,157	0	0	– 29,327	– 89,932
Other expenses	– 27,452	– 37,677	– 14,949	– 13,750	– 8,005	– 8,065	– 50,407	– 59,492
Segment expenses	**– 55,579**	**– 97,452**	**– 16,149**	**– 43,907**	**– 8,005**	**– 8,065**	**– 79,734**	**– 149,424**
EBIT	**137,043**	**27,474**	**24,965**	**7,652**	**– 6,838**	**– 7,473**	**155,170**	**27,654**
Financial income	183	260	6	4	1,100	1,022	1.288	1,286
Financial expenses	– 48,140	– 17,118	– 2,351	– 1,618	– 369	– 340	– 50,860	– 19,086
Interests of minority shareholders	0	0	– 7,743	– 3,371	0	0	– 7,743	– 3,371
Income taxes	– 12,031	5,347	– 2,327	– 1,628	– 3,759	– 1,034	– 18,117	2,685
Net profit/loss for the period	**99,017**	**15,963**	**12,549**	**1,028**	**– 31,829**	**– 7,824**	**79,738**	**9,166**
Significant non-cash items	**– 74,311**	**14,743**	**– 10,190**	**4,638**	**3,759**	**1,160**	**– 80,742**	**20,541**
Impairment losses in net profit/loss for the period	**159**	**4,564**	**224**	**1,127**	**246**	**459**	**629**	**6,150**

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

Revenue in the "Core Portfolio" segment amounted to EUR 144.3 million in 2020 compared to EUR 118.3 million in the previous year. Net profit/loss for the period totalled EUR 16.0 million in 2020 (previous year: EUR 99.0 million).

Revenue in the "Fair Value REIT" segment amounted to EUR 53.4 million in 2020 compared to EUR 28.3 million in the previous year. Net profit/loss for the period totalled EUR 1.0 million in 2020 (2019: EUR 12.5 million).

The "Corporate Functions/Others" segment did not generate any revenue in 2020, after reporting revenue of EUR 1.0 million in the previous year. Net profit/loss for the period totalled EUR -7.8 million in 2020, compared to EUR -31.8 million in the previous year.

At Group level, revenue increased from EUR 147.6 million in the previous year to EUR 197.7 million in the 2020 financial year. The Group's net profit/loss for the period amounted to EUR 9.2 million in 2020 (2019: EUR 79.7 million).

Further information on segment reporting can be found in the Notes to the consolidated financial statements from page 142 onwards.

Net assets

NET ASSET VALUE (NAV)

NAV, previously known as EPRA NAV, is the value of all tangible and intangible assets of the Company minus liabilities and adjusted for the fair values of derivative financial instruments, deferred taxes and goodwill from deferred taxes.

In 2020, NAV decreased by 8.6% to EUR 625.3 million, down from EUR 684.6 million at the end of 2019. This is due to the payout of a dividend that is not offset by the positive result for the period under review. Based on the number of shares outstanding (EUR 106.3 million), diluted NAV per share equalled EUR 5.89, compared to EUR 6.32 at the end of 2019. The number of underlying shares has decreased by 2.0 million compared to the previous year, as the shares repurchased during the year are deducted pro rata temporis. The drop in NAV per share is also due primarily to the payout of dividends, while the positive result for the period and the reduced number of shares have the opposite effect.

TOTAL ASSETS DOWN SLIGHTLY BY 3.1%

Total assets of the DEMIRE Group as at 31 December 2020 amounted to EUR 1,625.3 million (31 December 2019: EUR 1,677.4 million), down by 3.1% in a year-on-year comparison.

For the real estate portfolio (investment properties), the external real estate appraiser Savills Immobilien Beratungs-GmbH determined a total market value of EUR 1,441.5 million as at the balance sheet date (31 December 2019: EUR 1,488.4 million). The difference compared with the property value shown in the balance sheet is due to accounting accruals, deferrals and capitalisations.

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SELECTED INFORMATION FROM THE CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET – ASSETS

in EUR thousand	31/12/2019	31/12/2020	Change	in %
Assets				
Total non-current assets	1,520,155	1,451,125	– 69,030	– 4.5%
Total current assets	140,956	143,186	2,229	1.6%
Non-current assets held for sale	16,305	31,000	14,695	90.1%
Total assets	**1,677,416**	**1,625,311**	**– 52,105**	**– 3.1%**

As at 31 December 2020, non-current assets fell by EUR 69.0 million to EUR 1,451.1 million (31 December 2019: EUR 1,520.2 million). Investment property accounted for the lion's share of this development, with a decrease of EUR 67.6 million. This decrease can be attributed primarily to the portfolio reduction due to sales (EUR -70.0 million), the reclassification of assets to non-current assets held for sale (EUR -31.0 million) and net portfolio valuation losses (EUR -22.5 million). The purchase of a property in March 2020 (EUR 42.7 million) as well as capitalised, value-enhancing expansion measures and rental incentives (EUR 13.3 million) increased non-current assets.

As at 31 December 2020, the DEMIRE Group's current assets rose slightly by EUR 2.2 million to EUR 143.2 million (31 December 2019: EUR 141.0 million) due, in particular, to higher tax refund claims.

The assets held for sale as at 31 December 2020 in the amount of EUR 31.0 million (31 December 2019: EUR 16.3 million) relate to four properties in Bremen.

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

in EUR thousand	31/12/2019	31/12/2020	Change	in %
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to parent company shareholders	613,351	557,956	– 55,395	– 9.0%
Non-controlling interests	47,431	40,085	– 7,347	– 15.5%
TOTAL EQUITY	**660,782**	**598,041**	**– 62,741**	**– 9.5%**
LIABILITIES				
Total non-current liabilities	911,587	987,235	75,648	**8.3%**
Total current liabilities	105,046	40,035	– 65,011	– 61.9%
TOTAL LIABILITIES	**1,016,633**	**1,027,270**	**10,636**	**1.0%**
TOTAL EQUITY AND LIABILITIES	**1,677,416**	**1,625,311**	**– 52,105**	**– 3.1%**

EQUITY RATIO REMAINS STRONG AT 36.8%

Group equity fell to EUR 598.0 million in the 2020 financial year (31 December 2019: EUR 660.8 million), primarily due to the dividend payout, with the positive consolidated net profit for the period having the opposite effect. The equity ratio came to 36.8%, compared to 39.4% at the end of 2019. Non-controlling minority interests of EUR 78.9 million are reported in non-current liabilities and not under equity in accordance with IFRS, primarily due to the legal form of a partnership. The corresponding adjusted Group equity totalled EUR 676.9 million or 41.6% of total equity and liabilities (31 December 2019: EUR 739.5 million or 44.1%).

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Non-current liabilities amounted to EUR 987.2 million at the end of 2020 (31 December 2019: EUR 911.6 million) and current liabilities came to EUR 40.0 million (31 December 2019: EUR 105.0 million). As a result, the total liabilities of the DEMIRE Group increased slightly to EUR 1,027.3 million as at 31 December 2020 (31 December 2019: EUR 1,016.6 million).

Total financial liabilities of EUR 829.7 million (31 December 2019: EUR 807.0 million) include the EUR 600 million bond issued in 2019, which is reported with a market value of EUR 592.0 million as at the reporting date, and liabilities to banks and third parties of around EUR 237.7 million (31 December 2019: EUR 216.9 million). The proportion of unsecured properties as at 31 December 2020 came to 61.5% (31 December 2019: 45.6%). There were no variable interest rate agreements as at the reporting date. The average nominal interest rate on financial liabilities decreased by 13 basis points to 1.71% p.a. as at the 31 December 2020 reporting date due to successful financing activities in the reporting period. This compares with 1.84% p.a. at the end of 2019. The average remaining term of the liabilities fell from 4.4 years at the end of 2019 to 3.7 years at the end of 2020.

As at 31 December 2020, trade payables and other liabilities dropped to EUR 20.8 million (31 December 2019: EUR 29.1 million). In the previous year, this item included the residual purchase price and the land transfer tax for a property transferred at the end of 2019 (EUR 9.2 million).

FINANCIAL POSITION

FINANCIAL MANAGEMENT

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

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

SELECTED INFORMATION FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR thousand	2019	2020	Change	in %
Cash flow from operating activities	45,844	–24,101	–69,945	–
Cash flow from investing activities	–253,212	34,983	288,195	–
Cash flow from financing activities	119,065	–11,401	–130,466	–
Net change in cash and cash equivalents	**–88,303**	**–519**	**87,784**	**–99.4**
Cash and cash equivalents at the end of the period	**102,139**	**101,620**	**–519**	**–0.5**

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LIQUIDITY HEADROOM REMAINS COMFORTABLE

Cash flow development in the 2020 financial year is balanced overall. Whereas cash flow from operating activities is influenced in particular by the dividend payment, the impact of the property sales is reflected in the cash flow from investing activities. The detailed consolidated cash flow statement precedes the Notes to the consolidated financial statements.

Cash flow from operating activities amounted to EUR -24.1 million at the end of the 2020 financial year (2019: EUR 45.8 million) and, in addition to significantly reduced financial expenses (EUR 19.1 million, compared to EUR 50.9 million in the previous year), primarily includes the dividend payout of EUR 60.1 million (2019: EUR 2.2 million).

Cash flow from investing activities amounted to EUR 35.0 million in 2020, compared to EUR -253.2 million in 2019. This includes payments for acquisitions of EUR -65.5 million (previous year: EUR -282.6 million) and sales proceeds totalling EUR 100.5 million (previous year: EUR 31.4 million).

Cash flow from financing activities amounted to EUR -11.4 million (2019: EUR 119.1 million). This includes proceeds from borrowed capital of EUR 89.9 million (2019: EUR 704.9 million) in connection with two secured mortgage financing transactions. This is offset by the payments for the redemption of financial liabilities in the amount of EUR 69.9 million (2019: EUR 540.9 million). The net change in cash and cash equivalents amounted to EUR -0.5 million at the end of the 2020 financial year (2019: EUR 88.3 million). Total cash and cash equivalents at the end of the reporting period amounted to EUR 101.6 million (2019: EUR 102.1 million).

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

SLIGHT INCREASE IN NET LOAN-TO-VALUE RATIO

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

NET LOAN-TO-VALUE (NET LTV)

in EUR million	31/12/2019	31/12/2020
Financial liabilities	807.0	829.7
Cash and cash equivalents	102.1	101.6
Net financial debt	**704.8**	**728.1**
Fair value of investment properties and non-current assets held for sale	**1,510.2**	**1,457.3**
Net LTV in %	**46.7%**	**50.0%**

As expected, net loan-to-value rose from 46.7% to 50.0% year-on-year, mainly as a result of the payout of the dividend, which had an impact on liquidity. Financial liabilities themselves increased moderately year-on-year by EUR 22.7 million to EUR 829.7 million, although there was a shift from current to non-current liabilities due to refinancing activities.

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The maturities of the existing loan agreements are broadly staggered. While there will be no follow-up financing over the next four years and only scheduled repayments will have to be made, refinancing requirements of EUR 731.5 million will emerge in 2024. The liquidity requirements for follow-up financing and repayments over the next few years are as follows:

MATURITIES

in EUR million	2021	2022	2023	2024	2025	as of 2026
	8.1	8.3	8.4	731.5	55.5	19.1

COVENANTS COMPLIED WITH

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

BOND COVENANTS 31/12/2020

	NET LTV	NET SECURED LTV	ICR
Covenant	max. 60%	max. 40%	min. 1.75
Value	49.2%	8.8%	3.77x

*As at 31 March 2021: 2.00x

As at 31 December 2020, DEMIRE had complied with all covenants of the 2019/2024 corporate bond. The planning for the 2021 financial year and beyond assumes that all covenants will be complied with at all times.

Economic development of DEMIRE AG

The section below explains the development of the Company. The basic statements on the market, strategy and management as well as on the opportunities and risks of the business activities presented in the group management report also apply equally to the Company.

The Company is the operational management unit of the DEMIRE Group and does not hold any of its own properties. In the 2020 financial year, it generated revenue from management services rendered for the project companies. The number of employees, excluding Executive Board members, remained constant in the reporting year at an average of 30.

DEMIRE's financial statements as at 31 December 2020 were prepared in accordance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). Supplementary provisions from the Articles of Association did not arise.

Results of operations, net assets and financial position

The Company expected to achieve a much better annual result in the 2020 financial year than it did in 2019. This forecast was achieved. As planned, the financial result in particular was down in a year-on-year comparison for two reasons: the issue of the 2019/2024 corporate bond was associated with one-off, unscheduled financing expenses in the previous year, meaning that interest costs started to fall considerably, as expected, in 2020. In addition, a withdrawal was made from the free capital reserve, which had a positive effect on DEMIRE AG's accumulated profit.

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RESULTS OF OPERATIONS

STATEMENT OF INCOME (EXCERPT)

In EUR thousand	2019	2020	Change	in %
Revenue	3,483	4,024	540	15.5
Other operating income	2,695	1,095	– 1,600	– 59.4
Staff costs	– 4,886	– 5,561	675	13.8
Other operating expenses, depreciation and amortisation	– 12,520	– 5,015	– 7,504	– 59.9
Income from investments	1,179	22,198	21,019	> 100.0
Income from profit transfer agreements	20,023	7,620	– 12,403	– 61.9
Expenses from the assumption of losses	– 2,531	– 1,044	– 1,487	– 58.8
Income from loans of financial assets	15,859	18,709	1,670	9.8
Impairment of financial assets	– 120	– 448	328	> 100.0
Financial expenses	– 20,786	– 12,320	– 8,465	– 40.7
Earnings after taxes	2,697	29,168	26,472	> 100.0
Withdrawal from the capital reserve	0	36,740	36,740	> 100.0
Accumulated profit	2,697	65,909	63,201	> 100.0

The Company's **revenue** results mainly from management fees related to the provision of internal Group services to the subsidiaries and sub-subsidiaries of DEMIRE. As a result of the annualisation effect of newly concluded agency agreements in the course of 2019, including for Fair Value REIT-AG, and due to the acquisitions made, there was a year-on-year increase of EUR 0.5 million to EUR 4.0 million.

Other operating expenses fell by EUR 1.6 million to EUR 1.1 million. In the previous year, provisions amounting to EUR 1.6 million were reversed as a one-off effect.

Staff costs increased as planned to EUR 5.6 million (2019: EUR 4.9 million).

Other operating expenses fell considerably by EUR 7.5 million to EUR 5.0 million. Whereas the previous year included expenses relating to the issue of the 2019/2024 bond, the reporting period includes operating costs on a normalised basis.

In the 2020 financial year, a total net profit of EUR 7.6 million (2019: EUR 20.0 million) was transferred and a loss of EUR 1.0 million (2019: EUR 2.5 million) was assumed on the basis of existing control and profit transfer agreements. In the previous year, a very lucrative property sale in a company belonging to the tax group of consolidated companies resulted in substantial income.

Income from investments increased considerably, primarily due to the sale of a property significantly above its carrying amount at a DEMIRE AG subsidiary.

Income from loans of financial fixed assets of EUR 18.7 million (previous year: EUR 17.0 million) resulted primarily from loans granted to affiliated companies to finance the acquisition of real estate companies and properties by subsidiaries and sub-subsidiaries of the Company.

Financial expenses came to EUR -12.3 million in the 2020 financial year (2019: EUR -20.8 million). The figure for the previous year included costs associated with the issue of bonds. Impairment on financial assets in the 2020 financial year equalled EUR 0.4 million (2019: EUR 0.1 million).

Earnings after taxes amounted to EUR 29.9 million in 2020 (2019 financial year: EUR 2.7 million). In 2020, EUR 36.7 million was withdrawn from the free capital reserve and transferred to the net profit. (2019: EUR 0 million). The Company's accumulated profit amounted to EUR 65.9 million (previous year: EUR 63.2 million).

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NET ASSETS (EXCERPT)

BALANCE SHEET – ASSETS

In EUR thousand	31/12/2019	31/12/2020	Change	in %
Assets				
Fixed assets	878,932	864,581	– 14,351	–1.6
Current assets/prepaid expenses	123,811	119,382	– 4,429	– 1.9
Total assets	**1,002,743**	**983,963**	**– 18,780**	**– 1.9**

BALANCE SHEET – EQUITY AND LIABILITIES

In EUR thousand	31/12/2019	31/12/2020	Change	in %
Equity and liabilities				
Equity	368,896	332,020	– 36,875	–10.0
Provisions	4,872	6,291	1,418	29.1
Liabilities/deferred tax liabilities	628,975	645,652	16,677	2.7
Total equity and liabilities	**1,002,743**	**983,963**	**–18,780**	**–1.9**

The Company's total assets as at the 31 December 2020 reporting date amounted to EUR 984.0 million. This represents a moderate drop of 1.9% compared to the previous year's total of EUR 1,002.7 million.

Fixed assets also remained largely constant in a year-on-year comparison in the financial year under review at EUR 864.6 million (2019: EUR 878.9 million). Current assets including prepaid expenses decreased slightly by 1.9% to EUR 119.4 million compared to EUR 123.8 million on the previous year's reporting date. The largest item was cash and cash equivalents, amounting to EUR 54.3 million (2019: EUR 61.3 million).

On the liabilities side of the balance sheet, the Company's equity fell from EUR 368.9 million as at 31 December 2019 to EUR 332.0 million as at 31 December 2020 as a result of the dividend payout on the one hand, and the net profit for 2020 on the other.

The equity ratio declined accordingly from 36.8% as at 31 December 2019 to 33.7% as at 31 December 2020.

Provisions of EUR 6.3 million as at 31 December 2020 (31 December 2019: EUR 4.9 million) primarily relate to other staff costs, legal and consulting fees, as well as costs for the preparation and audit of the annual and consolidated financial statements.

The Company's liabilities increased moderately from EUR 629.0 million as at 31 December 2019 to EUR 645.7 million as at 31 December 2020.

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FINANCIAL POSITION

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

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

STATEMENT OF CASH FLOWS (EXCERPT)

in EUR thousand	2019	2020	Change	in %
Cash flow from operating activities	– 15,748	29,458	45,206	–
Cash flow from investing activities	– 300,006	13,864	313,870	–
Cash flow from financing activities	234,752	– 50,274	–285,027	–
Net change in cash and cash equivalents	**– 81,002**	**– 6,952**	**74,049**	**– 91.4**
Cash and cash equivalents at the end of the period	**61,267**	**54,315**	**–6,952**	**– 11.3**

Operating activities resulted in a cash inflow of EUR 29.5 million in 2020, after a cash outflow of EUR 15.8 million in the previous year.

Cash flow from investing activities amounted to EUR 13.9 million, compared to EUR 300.0 million in 2019. The previous year includes purchases made through subsidiaries.

DEMIRE AG's cash flow from financing activities amounted to EUR -50.3 million in the 2020 financial year, compared with EUR 234.8 million in 2019. While the reporting period includes the payment of the dividend, the prior-year value includes the net effect of the issue of the 2019/2024 corporate bond and the repayment of the 2017/2022.

During the 2020 financial year, DEMIRE was able to meet all of its payment obligations at all times.

OUTLOOK

The forecast reduction in financing expenditure in 2020 has occurred. Looking ahead to the 2021 financial year and following a weak start to the year as a result of the lockdown, an increasing recovery in the economic environment and a positive annual result slightly up on 2020 are expected.

SUBSEQUENT EVENTS

As part of the share buy-back programme that was announced on 08 December 2020, DEMIRE was offered 259,729 shares within the acceptance period. DEMIRE acquired these 259,729 shares on 4 January 2021 and now holds 2,264,728 treasury shares, which corresponds to 2.1% of the share capital.

On 26 February 2021, DEMIRE acquired a stake in the office building on Frankfurt's Theodor-Heuss-Allee and became an equal partner with RFR. DEMIRE secured a right of first refusal through the transaction. The value of the entire transaction comes to over EUR 270 million. The parties to the transaction expect it to be finalised during the second quarter of 2021.

On 4 March 2021, the majority shareholders sent a letter to the Company asking that it consider distributing a substantial dividend in the amount of the retained earnings for the year 2020 as well. The Executive Board and Supervisory Board reviewed this request and will propose a dividend of EUR 0.62 per share at the Annual General Meeting.

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CONCLUDING STATEMENT TO THE DEPENDENCY REPORT PURSUANT TO SECTION 312 AKTG

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

Dividends

In the reporting period, DEMIRE distributed a dividend of EUR 0.54 per share for the first time for the 2019 financial year. Based on a suggestion made by the Company’s major shareholders, the Executive Board and Supervisory Board will propose the distribution of a dividend of EUR 0.62 per share to the 2021 Annual General Meeting.

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COMPOSITION OF SUBSCRIBED CAPITAL

A) AS AT 31 DECEMBER 2020

As at 31 December 2020, the Company had fully paid-up subscribed capital in the amount of EUR 107,777,324.00 divided into 107,777,324 no-par value bearer shares with a notional interest in share capital of EUR 1.00; DEMIRE AG itself held 2,004,999 of these shares as at the reporting date. DEMIRE shares have been admitted for trading in the Prime Standard of the Frankfurt Stock Exchange.

B) DEVELOPMENT AFTER 31 DECEMBER 2020

On 8 December 2020, the Company announced an offer to repurchase up to 1,000,000 treasury shares by 4 January 2021. The Company acquired 259,729 additional shares as a result of this offer and now holds 2,264,728 treasury shares, which corresponds to approximately 2.1% of the share capital.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER OF SHARES

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

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

A) AS AT 31 DECEMBER 2020

In 2020, the Company received two voting rights notifications from Mr Klaus Wecken, which are published on DEMIRE’s website. As at 31 December 2020, the following shareholders held interests in the Company, representing more than 3%, 5% or 10% of the voting rights:

— AEPF III 15 S. à r. l. held a total of 58.61% of the shares.
— The Wecken Group of Mr Klaus Wecken, Basel, Switzerland held a total of 32.14% of the shares through various subsidiaries.

B) DEVELOPMENT AFTER 31 DECEMBER 2020

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

HOLDERS OF SHARES ENDOWED WITH SPECIAL RIGHTS CONFERRING POWER OF CONTROL

Such shares do not exist.

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

Such interests do not exist.

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

APPOINTMENT AND REPLACEMENT OF EXECUTIVE BOARD MEMBERS

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Changes to the Articles of Association require a resolution of the Annual General Meeting pursuant to Section 179 (1) AktG, which requires a majority of three-fourths

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

AUTHORISATION OF THE EXECUTIVE BOARD TO ISSUE AND REPURCHASE SHARES

AUTHORISED CAPITAL

A) AS AT 31 DECEMBER 2020

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

Authorised Capital I/2019 had not yet been utilised by 31 December 2020.

B) DEVELOPMENT AFTER 31 DECEMBER 2020

There were no changes compared with 31 December 2020 up to the publication of this Annual Report.

CONDITIONAL CAPITAL

A) AS AT 31 DECEMBER 2020

By resolution of the ordinary Annual General Meeting of 22 September 2020, Conditional Capital I/2019 was cancelled and the Executive Board was authorised, with the consent of the Supervisory Board, to conditionally increase the share capital of the Company by up to EUR 53,328,662.00 by issuing up to 53,328,662 no-par value bearer shares (Conditional Capital I/2020). The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments), which are or will be issued (i) on the basis of the authorisation resolved by the Annual General Meeting of 11 February 2019 under Agenda Item 2 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) and/or (ii) on the basis of the authorisation resolved by the Annual General Meeting of 11 June 2019 under Agenda Item 2 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) issued or to be issued by the Company or its direct or indirect subsidiaries, and granting a conversion or option right to new no-par value bearer shares of the Company or establishing a conversion or option obligations. The new shares shall be issued at the exercise or conversion price to be determined in each case in accordance with the respective authorisation resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights or the holders with conversion or option obligations fulfil their conversion or option obligations, unless cash compensation is granted or treasury shares or shares created from authorised capital are used to service this obligation. The Executive Board is authorised, with the consent of the

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Supervisory Board, to determine the further details of the implementation of a conditional capital increase.

Conditional Capital I/2020 had not yet been utilised by 31 December 2020.

B) DEVELOPMENT AFTER 31 DECEMBER 2020
There were no changes compared with 31 December 2020 up to the publication of this Annual Report.

AUTHORISATION TO ISSUE CONVERTIBLE BONDS OR BONDS WITH WARRANTS
A) AS AT 31 DECEMBER 2020
The authorisation granted by resolution of the Annual General Meeting of 27 June 2018 under Agenda Item 8 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds with a total nominal value of up to EUR 125,000,000.00 was cancelled by resolution of the Annual General Meeting of 11 February 2019 and the Executive Board was authorised, with the consent of the Supervisory Board, to issue subordinated or non-subordinated bearer or registered convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments; collectively "bonds") with or without a limited term to maturity in the total nominal amount of up to EUR 325,000,000.00 on one or more occasions up to 10 February 2024, and to grant or impose conversion or option rights and conversion or option obligations to holders or creditors of bonds for a total of up to 53,328,662 no-par value bearer shares of the Company with a notional interest in the share capital totalling up to EUR 53,328,662.00 in accordance with the more detailed provisions of the bond conditions.

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

This authorisation had not been used by the reporting date.

AUTHORISATION TO PURCHASE TREASURY SHARES
On the basis of the resolution of the Annual General Meeting of 22 September 2020, the Company is authorised until 21 September 2025 to acquire up to a total of 10% of the share capital existing at the time of the resolution or, if lower, the share capital existing at the time the authorisation is exercised. Together with other own shares acquired and owned by the Company or attributable to the Company, the own shares acquired on the basis of this authorisation may at no time exceed 10% of the Company's share capital existing at the time of the resolution or, if this value is lower, at the time the authorisation is exercised. Acquisition for the purpose of trading in own shares is excluded. The authorisation may be exercised in whole or in part, once or several times, in pursuit of one or several objectives by the Company or its Group companies or by third parties for its or their account.

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

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

At the Executive Board's discretion, Company shares may be acquired on the stock exchange or by means of a public purchase offer to all shareholders or public

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

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

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

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

The purchase offer or the invitation to submit an offer to sell may stipulate further conditions. The authorisation to purchase own shares was used in July 2020 and in December 2020.

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

The majority of the existing debt financing agreements (including the 2019/2024 bond) provide for an extraordinary termination right for the creditors of Group companies concerned in the event of a change of control.

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

None of the Executive Board members or employees have an extraordinary special right of termination in the event of the direct or indirect acquisition of control of the voting rights of the Company of at least 50% of the voting rights or a comparable situation that restricts the power of management of the Executive Board of the Company.

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Corporate Governance Statement

On 4 March 2021, the Executive Board of the Company issued its Corporate Governance Statement in accordance with Sections 315d and 289f of the German Commercial Code (HGB) and made it generally and permanently accessible on the Company's website www.demire.ag in the "Company" section under Corporate Governance.

Remuneration paid to the Executive Board and the Supervisory Board

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

Remuneration of the Executive Board

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

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

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

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

EXISTING EMPLOYMENT CONTRACTS

MR INGO HARTLIEF (FRICS)

On 20 December 2018, the Supervisory Board of the Company concluded a contract with Mr Ingo Hartlief (FRICS) as Chief Executive Officer until 31 December 2021. This means that one member of the Executive Board has a fixed-term employment contract.

Under this contract and addendum no. 1 dated 14 April 2020, Mr Hartlief (FRICS) receives a basic annual salary of EUR 400,000. This fixed component is paid monthly as a basic salary and paid pro rata temporis if the contract begins or ends during the year.

In addition, Mr Hartlief (FRICS) receives, pursuant to addendum no. 1 dated 14 April 2020, a performance- and success-based bonus of EUR 190,000.00 per year. The gross target bonus is reduced or increased up to a maximum of EUR 380,000.00 in accordance with achievement of the target. The amount is based on the achievement of certain targets set by the Supervisory Board at its reasonable discretion (in particular operational and financial KPIs). If the employment contract of the

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Executive Board member ends during the year, the bonus is reduced on a pro rata basis. The bonus is due at the end of the month, one year after the annual financial statements of the Company were adopted.

Mr Hartlief (FRICS) also receives, pursuant to addendum no. 1 dated 14 April 2020, a variable success-based remuneration on a multi-year basis (Long-Term Incentive) at the reasonable discretion of the Supervisory Board in accordance with the Long-Term Incentive Programme. This is still calculated in line with the requirements set out in the Executive Board employment contract dated 18/20 December 2018. The annual performance-related variable remuneration on a multi-year basis is set at EUR 310,000.00 gross (pro rata in the event of departure during the year) and depends on achievement of the respective targets. The details are based on the Long-Term Incentive Programme as amended and determined at the reasonable discretion of the Supervisory Board. If the employment contract of the Executive Board member ends during the year, the bonus is reduced on a pro rata basis. The provision set up in this regard amounted to EUR 144,606.89 as at 31 December 2020, and EUR 19 thousand was used for this purpose in the reporting period.

Mr Hartlief (FRICS) is entitled to the usual contractual (non-cash) fringe benefits. These include the provision of a company car, the reimbursement of expenses and travel costs, participation in contributions to statutory health insurance or suitable private health insurance, nursing care insurance with the statutory employer's contribution, the payment of contributions to a pension contract, if any, continuation of the existing pecuniary damage liability insurance (D&O insurance), conclusion of an accident and invalidity insurance policy within the framework of a group accident insurance policy, as well as continued payment of remuneration in the event of illness or accident and a death benefit. In addition, Mr Hartlief (FRICS) is granted a payment of EUR 500,000 in 2019 for waiving a special right of termination (disbursed in the 2020 financial year).

MR TIM BRÜCKNER

On 17 January 2019, the Supervisory Board of the Company concluded a contract with Mr Tim Brückner to join the Executive Board from 1 February 2019 until 31 December 2021. As a result, one member of the Executive Board has a fixed-term employment contract.

Effective 1 January 2020, the remuneration paid to Mr Brückner was adjusted in accordance with the supplementary agreement dated 14 January 2020 and 25 April 2020. His basic annual salary is EUR 230,000.00. In addition, Mr Brückner receives a performance and success-based bonus of up to EUR 115,000.00 per year. The gross target bonus is reduced or increased up to a maximum of EUR 240,000.00 in accordance with achievement of the target. The amount is based on the achievement of certain targets set by the Supervisory Board at its reasonable discretion (in particular operational and financial KPIs). If the employment contract of the Executive Board member ends during the year, the bonus is reduced on a pro rata basis. The bonus is due at the end of the month, one year after the annual financial statements of the Company were adopted. The performance-related variable success-based remuneration on a multi-year basis in the form of virtual shares was set at EUR 185,000.00 gross. The provision in respect of the stock option programme amounted to EUR 81,142.10 as at 31 December 2020, and EUR 48 thousand was used for this purpose in the reporting period.

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

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

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FORMER EXECUTIVE BOARD MEMBERS

A former Executive Board member received a gross basic salary of EUR 2,903.23 in 2019 under an Executive Board contract that was prematurely terminated with effect from 3 January 2019. The amount of any remaining compensation to which this Executive Board member may still be entitled is open, as these issues are currently the subject of pending legal proceedings; however, a provision amounting to EUR 1,920 thousand has been recognised.

TABLE ACCORDING TO GAS 17

In EUR thousands	2020				2019
	Fixed components	Performance-based components	Component with long-term incentive effect	Total remuneration	Total remuneration
Ingo Hartlief (FRICS)	414	190	145	749	1,151
Tim Brückner	289	143	81	513	451
Executive Board member who has left	0	0	0	0	3
Total:	**703**	**333**	**226**	**1,262**	**1,482**

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VALUE OF BENEFITS DURING THE REPORTING YEAR

**INGO HARTLIEF (FRICS),
CHAIRMAN OF THE EXECUTIVE BOARD
SINCE 20 DECEMBER 2018**

In EUR thousands	FY 2020	FY 2020 (MIN)	FY 2020 (MAX)	FY 2019
Fixed remuneration	400	400	400	320
Fringe benefits	9	9	9	10
One-time payment	0	0	0	500
Total	**409**	**409**	**409**	**830**
Variable remuneration (one-year)	190	0	380	190
Long-term incentive	310	0	310	190
Total	**909**	**409**	**1,099**	**1,710**
Pension expenses	5	5	5	5
Total remuneration	**914**	**414**	**1,104**	**1,715**

**TIM BRÜCKNER,
CHIEF FINANCIAL OFFICER
SINCE 1 FEBRUARY 2019**

In EUR thousands	FY 2020	FY 2020 (MIN)	FY 2020 (MAX)	FY 2019
Fixed remuneration	240	240	240	200
Fringe benefits	18	18	18	17
Total	**258**	**258**	**258**	**217**
Variable remuneration (one-year)	115	0	230	50
Long-term incentive	185	0	185	300
Total	**558**	**258**	**673**	**567**
Pension expenses	31	31	31	28
Total remuneration	**589**	**289**	**704**	**595**

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BENEFITS RECEIVED DURING THE REPORTING YEAR

INGO HARTLIEF (FRICS), CHAIRMAN OF THE EXECUTIVE BOARD SINCE 20 DECEMBER 2018

In EUR thousands	FY 2020	FY 2019
Fixed remuneration	400	320
Fringe benefits	9	10
One-time payment	500	–
Total	**909**	**330**
Variable remuneration (one-year)	190	–
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**1099**	**330**
Pension expenses	5	5
Total remuneration	**1,104**	**335**

TIM BRÜCKNER, CHIEF FINANCIAL OFFICER SINCE 1 FEBRUARY 2019

In EUR thousands	FY 2020	FY 2019
Fixed remuneration	240	183
Fringe benefits	18	17
Total	**258**	**200**
Variable remuneration (one-year)	50	–
Variable remuneration (multi-year)	–	–
Stock options	–	–
Total	**308**	**200**
Pension expenses	31	28
Total remuneration	**339**	**228**

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Remuneration of the Supervisory Board

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

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

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

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OPPORTUNITIES AND RISKS

Risk report

Risk management system

The objectives of the risk management system are to ensure the lasting viability of DEMIRE, to recognise risks at an early stage, monitor compliance with the risk strategy derived from the corporate strategy, control risks through appropriate actions, and to monitor and optimise the performance-risk ratio. Risk management covers all organisational rules and activities and the periodic and Group-wide implementation of the risk strategy. The Group-wide risk management system covers all of the DEMIRE Group's affiliated companies included in the consolidated financial statements, especially Fair Value REIT-AG.

EARLY RISK WARNING SYSTEM

DEMIRE AG's early warning system is intended to detect all relevant risks and their causes, as well as to quantify and communicate them, thereby ensuring that any necessary countermeasures can be initiated at an early stage. The early risk warning system is audited and assessed annually by the auditor as part of the audit of the annual financial statements with regard to its compliance with the requirements set forth in the German Stock Corporation Act in accordance with Section 317 (4) HGB. In addition, an internal audit was carried out in 2020 with the help of an external service provider, and will take place at regular intervals in the future.

The early risk warning system is being developed on an ongoing basis. In 2020, this further development was carried out in cooperation with the audit firm Deloitte. In this project, the risk assessment methodology in particular was completely revised in order to improve the comprehensibility and quality of the risk quantification.

RISK IDENTIFICATION AND EVALUATION

Risk identification forms the basis for the appropriate and effective handling of risks. Our employees are called upon to consciously and responsibly deal with risks and opportunities within their scope of responsibility. The risks are assigned to the respective business areas according to responsibility. They are assessed in terms of their probability of occurring and evaluated in terms of the potential extent of loss.

RISK MANAGEMENT

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

RISK REPORTING

The reports of the risk officers are aggregated centrally in order to be able to assess the overall risk position of the DEMIRE Group. The Executive Board is informed quarterly and also ad hoc if necessary. This is how DEMIRE ensures the complete and timely communication of information on material risks.

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

Internal control and risk management system

IT SYSTEMS

At DEMIRE AG, the IT systems are controlled and monitored centrally. To guarantee high availability of all necessary systems and components at all times, the programs and interfaces we use are monitored regularly to ensure they are operating correctly. The results of this monitoring are utilised for the ongoing optimisation of the processes. DEMIRE's entire IT system is secured against unauthorised access and malicious programmes, such as viruses and Trojan horses, based on a multi-level concept. The DEMIRE Group's internal network is protected from outside access using firewalls.

FINANCIAL REPORTING PROCESS

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

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

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

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

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

Other essential tools include:

- The clear separation of duties and assignment of responsibilities between the internal and external departments involved in the accounting process
- The use of external specialists to the extent necessary to provide an expert opinion e.g. on the market value of real estate

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

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

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

General risk situation

During the 2020 financial year, DEMIRE benefited from the continued positive development of the real estate market in Germany, despite the coronavirus pandemic. This, together with the measures initiated by the Company's Executive Board, contributed significantly to the improvement in the financial and operating figures. The Company's rental income was sustainably increased through acquisitions and successful letting. At the same time, raising new financing and replacing existing financing contributed to a lasting reduction in average financing costs. This will lead to significantly better performance indicators in 2020 and the following years.

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Nevertheless, the coronavirus pandemic is leaving a lasting mark on the Group's financial and operating figures. For example, the lockdown periods contributed to an increased number of open payment items. In addition, increased individual value adjustments had to be recognised due to insolvencies. Income from the valuation of real estate holdings also failed to match the level of previous years.

Individual risks

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

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

MACROECONOMIC, MARKET-RELATED AND SECTOR RISKS

Macroeconomic changes can have positive or negative effects on our net assets, financial position and results of operations. In 2020, the coronavirus pandemic resulted in losses in rental income and made the conditions for new lettings more difficult. For 2021, the forecast from the economic experts is cautiously positive, despite the ongoing coronavirus pandemic. Economic recovery would have a stabilising effect on demand for space in the office and retail sectors. While the availability of vaccines makes it more likely that the coronavirus pandemic will be overcome, economic development remains subject to considerable uncertainty for the time being – at least until the autumn.

DEMIRE's economic performance is directly related to the development of the German real estate market. The future development of rental income represents a risk that may also indirectly affect the valuation of the portfolio. Risks from negative development of the real estate market and other environmental and industry risks with indirect effects on the net assets, financial position and results of operations are currently classified as low. However, it is particularly difficult to predict the effects on the retail sector, which is underweighted in DEMIRE's portfolio.

In spite of everything, there is continued strong competition in the commercial real estate sector, which entails the risk that the Company might not be able to assert itself sufficiently.

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FINANCIAL RISKS

FINANCING AND LIQUIDITY RISKS

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

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

The funds available at the reporting date and the planned cash flows in 2021 are sufficient for the current needs of the operating activities. In addition, there are no final maturities of financial liabilities in 2021 and 2022, so there is no risk from follow-up financing in this period.

RISKS FROM COVENANT OBLIGATIONS

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

As at the reporting date, the LTVs of all of the Group's financial liabilities were clearly below the levels stipulated in the respective financing agreements. The 2019/2024 corporate bond stipulates the following covenants: LTV (net loan-to-value ratio) based on financial and leasing liabilities minus cash and cash equivalents as a ratio to total assets minus goodwill and cash or cash equivalents; ICR (interest-coverage ratio) based on Group EBITDA as a ratio to net cash interest (interest expenses to third parties minus interest income from third parties, net of one-time financing costs and early repayment penalties). Please refer to page 134 onwards for the individual covenants, as well as the status as at 31 December 2020 for the new corporate bond. The internationally renowned rating agencies Standard & Poor's and Moody's confirmed their BB+ and Ba2 ratings for the corporate bond in July 2020 and maintained this rating for the 2019/2024 corporate bond. DEMIRE is required to comply with the conditions necessary to maintain the credit rating of the rating agencies. Compliance with the relevant covenants and rating conditions is monitored and reported to the Executive Board on an ongoing basis. The Executive Board estimates the risk from the deterioration of the covenants and the rating and the resulting effects on net assets, financial position and results of operations to be low.

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INTEREST RATE RISK

The DEMIRE Group uses outside capital to finance German commercial real estate. This involves loans with exclusively fixed interest rates and tradable instruments such as corporate bonds. The interest rate policy is evaluated at regular intervals in close coordination with the Supervisory Board. Due to the fixed interest rate agreements, no derivatives are used. The interest rate level also has an impact on the purchase prices of newly acquired properties. The Executive Board estimates the Group's interest rate risk to be low.

CURRENCY RISK

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

OPERATING RISK

Commercial properties in particular demonstrate the classic risks associated with letting. In view of the current market situation in Germany, there are also valuation risks.

RENTAL AND PROPERTY MANAGEMENT RISKS

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

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

Based on the Group's tenant structure, at the time of this report's preparation there was no significant rental risk that would have a direct impact on the Group's earnings situation. Default risks from rent receivables are taken into account by recognising impairments. We also generally try to avoid depending on large tenants. In the 2020 financial year, the ten largest tenants accounted for 39.05% (31 December 2019: 43.2%; 31 December 2018: 47.6%) of contractual leases. These are reputable tenants, especially from the public sector, telecommunications and retail. However, there is a dependency on a few tenants who account for a significant share of rental income. The largest tenant, with a cumulative share of 15.3% (31 December 2019: 19.1%; 31 December 2018: 30.8%) of total contractual rents in the real estate portfolio across several leases and real estate locations, is Deutsche Telekom (GMG Generalmietgesellschaft GmbH). Should it not be possible to find subsequent tenants for this property or other key tenants from the ten largest tenants after the end of the contract or extraordinary termination of the contract, this would lead to a considerable decline in rental income and, consequently, to a material negative effect on the Company's net assets, financial position, and results of operations.

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Thanks to our own well-executed asset and portfolio management, we are positioned close to our tenants and maintain long-term tenant loyalty. Through the change from single-tenant properties for Telekom to multi-tenant properties, we have been able to significantly reduce our dependence on our main tenant. Subsequent lettings were mainly to tenants from the public sector.

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

VALUATION RISKS

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

In the course of the subsequent measurement of investment properties in the quarterly, half-year or annual financial statements, negative changes in the fair value of the respective properties may occur due to a possible change in the internal and external parameters included in the valuation reports. This then leads to impairments, which may also have a significant negative impact on consolidated earnings under certain circumstances. This would not, however, have a direct impact on the Group's funds from operations (FFO) or liquidity.

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

CORONAVIRUS PANDEMIC

The COVID-19 pandemic arrived in Germany in early 2020 and led to the first lockdown from 18 March 2020 to 10 May 2020. By government order, a large number of shops, hotels, leisure facilities, etc. were required to close. Tenants either did not pay their rent or paid it late. The second lockdown was initiated on 20 December 2020 and has been extended beyond 31 December 2020. When the closed shops will be able to reopen and when a "certain" normality can be achieved again is unknown at the time of writing this report.

The pandemic is having a lasting impact on the German economy and individual businesses. There is a threat of rent losses, insolvencies and risks in the re-letting of space. This is especially true for retail and hotel space. This situation is unprecedented in Germany, so all market participants are challenged to deal with these increased impairments in business life.

The Executive Board estimates the risk from the coronavirus pandemic as high.

SALES RISKS

We are using property sales from the existing portfolio to reduce cluster risk in the sectoral and regional portfolio structure, achieve profit and reduce debt, thereby lowering financial risks. Following the sale of properties, the buyer could assert warranty claims if the properties do not have the features promised, e.g. state of modernisation, no contamination, occupancy rate. These could have a negative impact on the Company's net assets, financial position and results of operations.

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

LEGAL RISK

Concerning DEMIRE's business model, risks can arise from changes in the legal framework and regulations in particular. DEMIRE may also need to pay for contaminated sites, environmental pollution and harmful building substances that are currently unrecognised, or be held liable for non-compliance with building law requirements in accordance with the applicable legal situation.

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Other legal risks can generally result from various types of dispute, such as in rental or personnel matters. Rental disputes are part of the unavoidable everyday business of real estate companies and are handled accordingly. Due to newly introduced legislation as well as a change in case law, the COVID-19 pandemic may lead to landlords having to accept a rent reduction, particularly during periods of an officially ordered closure (“disturbance of contract”). There are currently no pending or foreseeable major legal disputes that could pose a significant risk. Adequate provisions have been made for current legal disputes. Overall, the Executive Board estimates the legal risk and the financial effect on the Company’s net assets, financial position and results of operations to be low.

COMPLIANCE RISKS

Responsible and sustainable management is part of DEMIRE’s corporate culture and everyday business. We are therefore continuing to develop our Compliance Programme with the aim of supporting employees in complying with relevant legal regulations and standards of conduct. DEMIRE’s Compliance Programme includes a code of conduct and regular staff training, among other things. In 2020, DEMIRE successfully underwent an external audit and was registered as a certified company of the Institute for Corporate Governance (Institut für Corporate Governance in der deutschen Immobilienwirtschaft e.V.).

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

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

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TAX RISKS

DEMIRE's tax structure is complex because of the different taxable entities (tax groups and taxation at the level of individual companies) and various legal forms existing within the Group. Restrictions that are relevant to DEMIRE include restrictions on what is referred to as the interest barrier as well as those for minimum taxation and extended trade tax deductions for property holdings. In addition, changes in the tax regulations, particularly the (intragroup) use of losses carried forward, could lead to higher tax expenses and payments. In the Company's opinion, there are currently no significant tax risks that would need to be taken into account by provisions other than those recognised. Tax risks may arise in connection with external tax audits and routine changes to the existing portfolio or in connection with the portfolio's expansion primarily through the acquisition of shares in the companies holding the properties.

RISKS RELATED TO THE REIT STATUS OF FAIR VALUE REIT-AG

In its capacity as a German real estate investment trust corporation (REIT), Fair Value REIT-AG must fulfil certain statutory requirements in order to benefit from exemptions from corporate income and trade tax. If it fails to fulfil the requirements, it could be subject to penalties and – if repeated several times – the loss of its tax exemption and withdrawal of its status as a German REIT. This could result in additional tax payments and a substantial outflow of liquidity under certain circumstances, and in the event that Fair Value REIT-AG loses its REIT status, this could also result in Fair Value REIT-AG's shareholders possibly having claims for compensation. These events could have a material negative impact on the Company's net assets, financial position and results of operations.

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

PERSONNEL RISKS

Competent, committed and motivated employees are an essential prerequisite for DEMIRE's successful development. The DEMIRE Group may lose members of the Executive Board or other key personnel, or may not be able to replace them in a timely manner, nor with sufficiently qualified personnel. In 2019, there was a relatively high fluctuation of employees in addition to the new appointments to the Executive Board. All vacant positions were filled promptly. The Executive Board is convinced that the current personnel structure also means that the positions will be filled on a longer-term basis. This was confirmed in the 2020 financial year, when there were significantly fewer changes in personnel. However, since the demand for well-qualified personnel is very high, the Executive Board considers the risk associated with the loss of employees and the resulting effects on the net assets, financial position and results of operations to be moderate.

IT RISKS

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

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Overall assessment of the risk situation

The risk situation of the DEMIRE Group and the Company deteriorated during the reporting period due to the coronavirus pandemic. However, the operational successes, the sustained improvement in corresponding key figures, and the refinancing in 2019 and 2020 are contributing to DEMIRE being better equipped to withstand external shocks than in the past. This is clearly shown by the earnings of the 2020 financial year. In addition, the Executive Board monitors the risks described individually and in combined form, and regularly assesses the likelihood of their occurrence. With regard to risks from a negative development of the real estate market and other risks, we currently assume a higher probability of occurrence and estimate the probability of occurrence and estimate the risk of a negative influence on the financial position and results of operations as medium. In particular, the short, medium and long-term effects on the retail sector play a significant role.

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

Description of major individual opportunities

Opportunities arising from the current market situation

MACROECONOMIC AND SECTOR OPPORTUNITIES

DEMIRE considers the macroeconomic and sector-specific environment to be ambiguous for the 2021 financial year as well. On the one hand, the further impact of the pandemic and the resulting lockdown is shaping the development of the macroeconomic situation as well as the real estate industry, in some cases considerably so. On the other, particularly as vaccines become increasingly available, an end to the restrictions appears to be in sight, and catch-up effects can be expected in numerous areas and sectors.

DEMIRE is cautiously optimistic as it looks ahead to 2021. Internally, the Company's strategy and structure survived their baptism of fire in 2020 and, with regard to the German real estate market, opportunities for acquisitions could well arise. The DEMIRE Group intends to use this environment to further increase its enterprise value by carefully and professionally selecting additional properties and continuing to actively manage the existing portfolio.

Although it is still impossible to definitively predict the effects of the coronavirus more than a year after the outbreak of the pandemic, DEMIRE nonetheless expects demand for good properties in decent locations to remain stable, even outside the country's top seven locations.

Business Opportunities

During the reporting period, the insourcing of Group functions and the associated harmonisation of processes and IT structures were largely completed. In addition, the in-house asset and portfolio management team was strengthened in terms of expertise and personnel resources, and was adapted to reflect the size of the portfolio and the planned growth. Property and facility management, which was largely

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outsourced to a renowned service provider at the end of 2018, is positioned well to deal with the planned portfolio growth. These measures have resulted in greater efficiency and economic benefits which are reflected in the renewed drop in property-specific and current administrative expenses. DEMIRE now expects to achieve only minor further savings in 2021. It is, however, expected that the professional and committed support that the Company provides will result in longer lease terms and better chances of follow-on lettings, while tenant fluctuation and vacancy rates will remain at least on a par with the reporting date.

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

FINANCIAL OPPORTUNITIES

DEMIRE plans to use the current interest rate level to further reduce its average interest rate on borrowed capital. Since, however, there are no final maturities of financial liabilities in 2021 and numerous liabilities were comprehensively refinanced in 2019 and 2020, DEMIRE aims to use a balanced financing mix of secured and unsecured financing to further optimise the DEMIRE Group's financial structure, particularly in the context of its planned growth.

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

Overall assessment of DEMIRE's opportunities

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

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OUTLOOK

Expected development of the overall environment and sector

ECONOMIC ENVIRONMENT AND SECTOR OUTLOOK

The German economy will make a relatively slow recovery from the COVID-19 pandemic, according to forecasts released by the International Monetary Fund (IMF). The experts expect to see growth of 3.5% in 2021, with a return to pre-crisis levels expected in 2022 at the earliest. The industry association DAS DEUTSCHE BAUGEWERBE expects revenue in the construction sector to fall by around one percentage point. The transaction volume on the commercial investment market will most likely continue to be influenced by high levels of liquidity and ongoing investment pressure in 2021. In this sort of environment, the international brokerage house CUSHMAN & WAKEFIELD is predicting a transaction volume on par with the 2020 level.

Anticipated development of the overall environment

MACROECONOMIC ENVIRONMENT

The IMF expects the euro area to achieve a slight increase in gross domestic product of 4.2%. The UN is predicting growth of 3.5% for Germany. The forecasts for individual sectors of the economy will depend to a considerable degree on how the pandemic develops going forward. The IMF puts the average inflation rate for the world's developed economies, which include the Federal Republic of Germany, at 1.5% for 2021. The ifo Institute for Economic Research expects to see around 2.7 million people out of work in Germany, as in the previous year.

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

Anticipated development of the sector

TRANSACTION MARKET FOR COMMERCIAL REAL ESTATE

CUSHMAN & WAKEFIELD predicts a transaction volume of between EUR 55 million and EUR 60 billion for the commercial real estate market, roughly on a par with the previous year. The international brokerage house JLL also expects liquidity levels to remain high, with associated pressure to invest in commercial real estate, too. There is considerably greater uncertainty with regard to the individual types of use. Whereas demand for logistics properties is expected to remain high, also due to the booming e-commerce sector, developments for office, retail and hotel properties will depend to a considerable degree on the further course of the pandemic and any associated restrictions on economic life. Analysts see themselves confronted with considerable uncertainty when it comes to forecasting further market developments, especially for office properties. For example, it is not yet possible to predict in detail how working from home during the pandemic will affect demand for office space in the medium to long term.

RENTAL MARKET

The marked uncertainty, even among experts, is also reflected in the forecasts for the rental market. JLL believes that the office rental market has reached a turning point in the cycle, but cannot forecast how strong this turnaround will be. Looking at Germany's top 7 office markets, the Company expects rental space turnover of 2.9 million m^2, which would equate to an increase of 11%. Despite a trend towards slightly rising vacancy rates, rents are expected to remain largely stable. On the logistics rental market, a shortage of space remains the determining factor. Specialists at Colliers International expect demand to remain high, rents to increase in general and yields to fall as a result.

The analysts expect decreasing rental income in the hotel and retail asset classes due to the considerable uncertainty.

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Expected development of the Group

Overall assessment

GENERAL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE DEMIRE GROUP

After a mixed start to the year due to the lockdown imposed in December 2020, DEMIRE expects to see stable economic conditions overall for the 2021 financial year and a revival in public life from the second quarter onwards.

Expected development in operating business

The focus will be on further portfolio growth and measures to make the portfolio more dynamic, alongside continued positive development in the key operating figures. DEMIRE is planning further acquisitions in order to achieve its medium-term goal of a portfolio worth over EUR 2 billion. DEMIRE intends to continue to optimise the current real estate portfolio through actively managing properties, reducing vacancies, realising value creation potential and continuing to selectively sell non-strategic properties. DEMIRE anticipates a further gradual increase in the earnings base in 2021 through further acquisitions, efficiency gains from continued optimisation of property management and cost structures, and by making use of synergies and economies of scale. Ultimately, however, the effects of the lockdown and the further course of the pandemic are impossible to predict.

Anticipated development of the key economic indicators

EXPECTED DEVELOPMENT OF DEMIRE'S KEY PERFORMANCE INDICATORS

Within the context of the positive developments in 2020 and the successful streamlining of our portfolio, the Company expects to see rental income of between EUR 80.0 million and EUR 82.0 million and FFO I (after taxes, before minorities) of between EUR 34.5 million and EUR 36.5 million for 2021. This means that the values will be down slightly on the previous year due to the numerous disposals in 2020 and despite the successful letting performance. The forecast values do not include positive acquisition effects, over and above those relating to Cielo, from the portfolio growth that is planned for 2021, or possible further sales of non-strategic properties. As soon as corresponding transactions have been contractually agreed, the forecast will be adjusted accordingly.

With regard to non-financial performance indicators, DEMIRE's primary objective is to keep staff turnover stable at a low level, to stabilise vacancy rates and outstanding rents at a low level by engaging in targeted network maintenance activities, and to publish a sustainability report for the first time.

OUTLOOK

in EUR million	FORECAST 18/03/2020	FORECAST 19/08/2020	FORECAST 03/12/2020	RESULT 2020	FORECAST 2021
Rental income	90.0–92.0	85.0–87.0	85.0–87.0	87.5	80.0–82.0
FFO I (after taxes, before minorities)	40.0–42.0	36.0–38.0	at least 38.0	39.2	34.5–36.5

Frankfurt am Main, 16 March 2021
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

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CONSOLIDATED STATEMENT OF INCOME

For the financial year 1 January 2020 to 31 December 2020

in EUR thousands	NOTE	2019	2020
Rental income		81,799	87,509
Income from utility and service charges		19,625	21,327
Operating expenses to generate rental income		– 35,886	– 38,608
Profit/loss from the rental of real estate	**D 1**	**65,538**	**70,228**
Income from the sale of real estate and real estate companies		46,130	88,887
Expenses relating to the sale of real estate and real estate companies		– 29,327	– 89,932
Profit/loss from the sale of real estate and real estate companies	**D 2**	**16,803**	**– 1,045**
Profit/loss from fair value adjustments in investment properties	D 3	83,022	– 22,134
Impairment of receivables	D 4	– 629	– 6,150
Other operating income	D 5	4,327	1,490
General and administrative expenses	D 6	– 13,017	– 13,368
Other operating expenses	D 7	– 874	– 1,368
Earnings before interest and taxes		**155,170**	**27,653**
Financial income		1,288	1,286
Financial expenses		– 50,860	– 19,086
Interests of minority shareholders		– 7,743	– 3,371
Financial result	**D 8**	**– 57,315**	**– 21,171**
Earnings before taxes		**97,855**	**6.482**
Current income taxes	D 9	– 4,651	– 712
Deferred taxes	D 9	– 13,466	3,397
Net profit/loss for the period		**79,738**	**9,167**
Thereof attributable to:			
Non-controlling interests		**4,199**	**664**
Parent company shareholders		**75,539**	**8,503**
Diluted/basic earnings per share	D 10	0.70	0.08

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year 1 January 2020 to 31 December 2020

in EUR thousands	2019	2020
Net profit/loss for the period	**79,738**	**9,167**
Other comprehensive income	**0**	**0**
Total comprehensive income	**79,738**	**9,167**
Thereof attributable to:		
Non-controlling interests	**4,199**	**664**
Parent company shareholders	**75,539**	**8,503**

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CONSOLIDATED BALANCE SHEET

as at 31 December 2020

ASSETS

in EUR thousands	NOTE	31 December 2019	31 December 2020
ASSETS			
Non-current assets			
Intangible assets	E 1.1	6,881	6,880
Property, plant and equipment	E 1.2	446	303
Investment property	E 1.3	1,493,912	1,426,291
Other assets*	E 1.4	18,917	17,651
Total non-current assets*		**1,520,156**	**1,451,125**
Current assets			
Trade accounts receivable	E 2.1	6,261	7,346
Other receivables*	E 2.1	31,025	26,730
Tax refund claims	E 2.2	1,530	7,490
Cash and cash equivalents	E 2.3	102,139	101,620
Total current assets		**140,955**	**143,186**
Non-current assets held for sale	**E 3**	**16,305**	**31,000**
TOTAL ASSETS		**1,677,416**	**1,625,311**

*The previous year's data have been adjusted

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CONSOLIDATED BALANCE SHEET

as at 31 December 2020

EQUITY AND LIABILITIES

in EUR thousands	NOTE	31 December 2019	31 December 2020
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital		107,777	105,772
Reserves		505,574	452,184
Equity attributable to parent company shareholders		**613,351**	**557,956**
Non-controlling interests		47,431	40,085
TOTAL EQUITY	**E 4**	**660,783**	**598,041**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	E 5.1	75,518	72,122
Minority interests	E 5.2	78,682	78,881
Financial liabilities	E 5.3	737,832	817,342
Lease liabilities	E 7.2	18,717	18,355
Other liabilities	E 5.4	837	535
Total non-current liabilities		**911,586**	**987,235**
Current liabilities			
Provisions	E 6.1	2,204	2,995
Trade payables	E 6.2	10,041	10,681
Other liabilities	E 6.2	18,223	9,558
Tax liabilities	E 6.3	4,948	4,060
Financial liabilities	E 5.3	69,137	12,370
Lease liabilities	E 7.2	492	371
Total current liabilities		**105,046**	**40,035**
TOTAL LIABILITIES		**1,016,633**	**1,027,270**
TOTAL EQUITY AND LIABILITIES		**1,677,416**	**1,625,311**

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year 1 January 2020 to 31 December 2020

in EUR thousands	31 December 2019	**31 December 2020**
Group profit/loss before taxes	**97,855**	**6,482**
Financial expenses	50,860	19,086
Financial income	– 1,288	-1,286
Interests of minority shareholders	7,743	3,371
Change in real estate inventory	– 4,043	0
Change in trade accounts receivable	233	-5,670
Change in other receivables and other assets	– 4,734	-11,611
Change in provisions	902	791
Change in trade payables and other liabilities	340	1,571
Profit/loss from fair value adjustments in investment properties	– 83,022	22,134
Profit/loss from the sale of real estate and real estate companies	– 16,803	1,046
Interest proceeds	92	42
Income tax payments	– 727	-7,560
Change in reserves	– 99	360
Depreciation and amortisation and impairment	797	7,225
Distributions to minority shareholders / dividends	– 2,153	-60,125
Other non-cash items	– 109	43
Cash flow from operating activities	**45,844**	**-24,101**
Payments for the acquisition of/investments in investment properties, incl. prepayments, refurbishment measures and prepayments for property, plant and equipment	– 213,309	– 65,426
Payments for the acquisition of interests in fully consolidated companies, less net cash equivalents acquired	– 69,301	– 65
Payments due to short-term cash investments	– 2,000	0
Proceeds from the sale of real estate	31,398	100,473
Cash flow from investing activities	**– 253,212**	**34,982**

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year 1 January 2020 to 31 December 2020

in EUR thousands	31 December 2019	**31 December 2020**
Payments for borrowing costs	– 7,405	– 828
Proceeds from borrowings	704,883	89,925
Interest paid on financial liabilities	– 37,003	– 16,622
Payments for the purchase of additional shares in a subsidiary	– 525	– 5,059
Payments for the redemption of financial liabilities	– 540,885	– 69,860
Buyback of own shares	0	– 8,956
Cash flow from financing activities	**119,065**	**– 11,400**
Net change in cash and cash equivalents	**– 88,303**	**-519**
Cash and cash equivalents at the start of the period	190,442	102,139
Cash and cash equivalents at the end of the period	**102,139**	**101,620**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year 1 January 2020 to 31 December 2020

in EUR thousands	**SHARE CAPITAL**	**RESERVES**				
	Subscribed capital	Capital reserves	Retained earnings incl. group profit/loss	Equity attributable to parent company shareholders	Non-controlling interests	**TOTAL EQUITY**
1 January 2020	**107,777**	**129,852**	**375,722**	**613,351**	**47,431**	**660,783**
Net profit/loss for the period			8,503	8,503	664	9,167
Other comprehensive income						
Total comprehensive income			**8,503**	**8,503**	**664**	**9,167**
Stock option programme		0		0		0
Dividend payments/distributions			– 57,117	– 57,117	– 1,268	– 58,385
Increase in shareholdings in subsidiaries		2,270		2,270	–7,170	– 4,900
Acquisition of treasury shares	– 2,005	– 6,978		– 8,983		– 8,983
Other changes		– 36,740	36,672	– 68	428	359
31 December 2020	**105,772**	**88,404**	**363,780**	**557,956**	**40,085**	**598,041**

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For the financial year 1 January 2020 to 31 December 2020

in EUR thousands	SHARE CAPITAL	RESERVES				
	Subscribed capital	Capital reserves	Retained earnings incl. group profit/loss	Equity attributable to parent company shareholders	Non-controlling interests	TOTAL EQUITY
1 January 2019	**107,777**	**129,848**	**300,288**	**537,914**	**44,425**	**582,339**
Net profit/loss for the period			75,539	75,539	4,199	79,738
Other comprehensive income						
Total comprehensive income	**0**	**0**	**75,539**	**75,539**	**4,199**	**79,738**
Stock option programme		4		4		4
Dividend payments/distributions					– 424	– 424
Increase in shareholdings in subsidiaries			81	81	– 947	– 866
Other changes			– 185	– 185	178	– 7
31 December 2019	**107,777**	**129,852**	**375,722**	**613,351**	**47,431**	**660,783**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR

1 January 2020 to 31 December 2020

A. General information

1. Basis of preparation

DEMIRE Deutsche Mittelstand Real Estate AG ("DEMIRE AG") is recorded in the commercial register in Frankfurt am Main, Germany, the location of the Company's headquarters, under the number HRB 89041. As at 31 December 2020, the Company's scope of consolidation pursuant to Section 313 (2) HGB includes DEMIRE AG as the parent company and the companies listed in Appendix 1 ("DEMIRE" or "the DEMIRE Group"). The Company's registered office is located in Frankfurt am Main, Germany, and the Company's business address is Robert-Bosch-Straße 11, Langen, Germany. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

DEMIRE itself has not carried out any investments in real estate or real estate projects to date. Investments are generally processed through real estate companies. Interests in these real estate companies are either directly or indirectly held by DEMIRE (through intermediate holding companies). DEMIRE focuses on the German commercial real estate market where it is an active investor and portfolio manager. DEMIRE itself carries out the acquisition, management and leasing of commercial properties. Value appreciation is to be achieved through active real estate management. This may also include the targeted sale of properties when they are no longer a strategic fit or have exhausted their potential for value appreciation. See Appendix 5.

The euro (EUR) is the reporting currency of DEMIRE AG's consolidated financial statements. Unless otherwise stated, all amounts are expressed in thousands of euros (EUR thousands). For computational reasons, rounding differences of ± one unit (EUR, %, etc.) may occur in the information presented in these financial statements. The financial year corresponds to the normal calendar year. The consolidated statement of income has been prepared according to the cost-of-sales method.

The consolidated financial statements of DEMIRE AG for the financial year ended 31 December 2020 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), pursuant to Section 315e of the German Commercial Code (HGB). All International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations of the IFRS Interpretations Committee (IFRS IC) – formerly the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) – that were mandatory for the 2020 financial year have been taken into consideration. Furthermore, all statutory disclosure and explanation requirements of the German Commercial Code (HGB) that are in addition to the provisions of the IASB have been fulfilled, particularly those for the preparation of a group management report, which is contained with the management report of the separate financial statements.

These consolidated financial statements were prepared by the Executive Board and were approved on 16 March 2021 by the Supervisory Board.

2. New and amended standards and interpretations

2.1 FIRST-TIME APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN THE 2020 FINANCIAL YEAR

The accounting policies applied to the consolidated financial statements are the same as those applied in the 2019 financial year except for the changes mentioned below. The following new and amended standards and interpretations were applied for the first time in the 2020 financial year.

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FIRST-TIME APPLICATION OF STANDARDS AND INTERPRETATIONS IN THE 2020 FINANCIAL YEAR

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE's consolidated financial statements
Amendments to IAS 1 and IAS 8	Definition of Material (issued on 31 October 2018)	29 November 2019	1 January 2020	No material effect
Amendments to References to the Conceptual Framework in IFRS Standards	Conceptual Framework in IFRS Standards (issued on 29 March 2018)	29 November 2019	1 January 2020	No material effect
Amendments to IFRS 3	Business Combinations (issued on 22 October 2018)	21 April 2020	1 January 2020	No material effect
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform (issued on 26 September 2019)	15 January 2020	1 January 2020	No effect
Amendments to IFRS 16	Covid-19-related Rent Concessions (issued on 28 May 2020)	9 October 2020	1 June 2020	No material effect

The amendments to IAS 1 and IAS 8, which narrow the definition of "material" and standardise the various definitions in the framework and standards, are currently being examined for their impact on the consolidated financial statements of DEMIRE. DEMIRE does not expect any significant impact on the consolidated financial statements.

The changes in the references to the conceptual framework in IFRS standards represent an update of the references to the conceptual framework and quotes contained therein. This change has no material effect on the consolidated financial statements of DEMIRE.

The amendments to IFRS 3 do not have any material effects, as business combinations will generally not apply to purchases of real estate portfolios according to the concentration test.

Amendments to IFRS 9, IAS 39 and IFRS 7 allow for certain simplifications in the accounting of hedging relationships in the context of reference rate reform. These amendments have no effect on the consolidated financial statements of DEMIRE.

The amendments to IFRS 16 grant lessees simplifications in the application of the accounting regulations regarding amendments to leases resulting from concessions on rent as a result of the coronavirus pandemic. These amendments did not have any significant impact on the consolidated financial statements.

2.2 STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

The following IASB standards have been endorsed by the EU but are only mandatory after 31 December 2020:

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STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE's consolidated financial statements
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)	13 January 2021	1 January 2021	No effect
Amendments to IFRS 4	Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020)	15 December 2020	1 January 2021	No effect

The amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 4 will not have any effect on the consolidated financial statements of DEMIRE.

DEMIRE has not made use of the early application option.

STANDARDS AND INTERPRETATIONS FOR FUTURE MANDATORY APPLICATION

		Endorsement	Mandatory application for financial years beginning on or after	Effect on DEMIRE's consolidated financial statements
IFRS 17	Insurance Contracts (issued on 18 May 2017) including Amendments to IFRS 17 (issued on 25 June 2020)	Pending	1 January 2023	No effect
Amendments to IAS 1	Classification of Liabilities as Current or Non-current (issued on 15 July 2020)	Pending	1 January 2023	No material effect
Amendments to IAS 1	Disclosure of Accounting Policies (issued on 12 February 2021)	Pending	1 January 2023	No material effect
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use (issued on 14 May 2020)	Planned for H2 2021	1 January 2022	No effect
Amendments to IFRS 3	Reference to the Conceptual Framework (issued on 14 May 2020)	Planned for H2 2021	1 January 2022	No effect
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract (issued on 14 May 2020)	Planned for H2 2021	1 January 2022	No effect
Annual Improvements	Annual Improvements 2018–2020	Planned for H2 2021	1 January 2022	No material effect
Amendments to IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)	Pending	1 January 2023	No material effect

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DEMIRE plans to apply the new standards mentioned above when they take effect in the EU. The IASB and IFRS IC standards will be adopted into European law through their endorsement by the EU. Early adoption is impossible due to the pending endorsement. Based on our current knowledge, there is likely to be only a minor effect on the presentation of DEMIRE's net assets, financial position and results of operations from the standards not yet adopted into European law.

3. Key discretionary decisions, judgements and assumptions

In DEMIRE AG's consolidated financial statements, estimates, discretionary decisions and assumptions were made that affect the amount and recognition of the assets and liabilities, income and expenses and contingent liabilities. The estimation of future business development takes into account the future economic environment deemed as realistic in the sectors and regions in which DEMIRE AG and its subsidiaries operate at the time of preparing the consolidated financial statements. All knowledge currently available is taken into account. The estimates are based on past experience and other assumptions that are considered appropriate for the circumstances. The estimates, discretionary decisions and assumptions made by DEMIRE AG are reviewed on an ongoing basis but may differ from the actual amounts.

When applying the accounting and valuation methods, the Company's management must make discretionary decisions. This applies to the following matters in particular:

Valuation of investment properties: Key valuation indicators are the expected cash flows, the assumed vacancy rate and the discount and capitalisation rates. Valuation is performed using the discounted cash flow method, in which future cash flows are discounted back to the reporting date. Estimates contain assumptions about the future. The valuation parameters used in the valuation model reflect normal market expectations and represent forecasts based on analysed market information and past values of the properties to be valued or comparable properties.

If DEMIRE AG obtains direct or indirect control over an acquired entity or acquires assets, it must be determined whether the transaction should be classified as a business combination according to IFRS 3, or an acquisition of a group of assets or net assets (aggregated assets). This involves carrying out a concentration test that evaluates whether the full fair value of the acquired gross assets is concentrated in one asset or in a group of similar assets. If this is the case, they do not constitute business operations and are thus not deemed a business combination as defined by IFRS 3. 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 must be accounted for according to IFRS 3. Business processes in the areas of property management, credit management and accounting, for example would be defined as an integrated group of activities. Additionally, the fact that staff is employed at the acquired real estate company is another indication that a business operation has been acquired.

An explanation of the estimates and assumptions made with respect to individual items in the consolidated balance sheet, consolidated statement of income or consolidated statement of comprehensive income is given in the items that follow in the Notes to the consolidated financial statements together with the respective relevant Note disclosures.

Income taxes	Note D. 9
Goodwill impairment test	Note E. 1.1.1
Investment property	Note E. 1.1.2
Impairment of receivables	Note C
Deferred tax assets and liabilities	Note E. 5.1

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B. Scope and principles of consolidation

The consolidated financial statements include DEMIRE AG and all its controlled subsidiaries. The scope of consolidation is shown in Appendix 1.

Panacea Property GmbH, Berlin, was not included in the consolidated financial statements due to its insignificance for the Group.

As at the reporting date, the consolidated financial statements comprise the subgroup DEMIRE and the subsidiaries of the subgroup Fair Value REIT. The subgroup DEMIRE comprises the consolidated financial statements of DEMIRE AG and its subsidiaries as at the acquisition date, i.e. from the date on which control was acquired. The Fair Value REIT subgroup comprises the consolidated financial statements of Fair Value REIT-AG and its subsidiaries. Fair Value REIT AG is the parent company of the subgroup Fair Value REIT and a subsidiary of the subgroup DEMIRE.

The financial statements of DEMIRE AG's subsidiaries are prepared using uniform accounting and valuation methods on the same reporting date as the parent company's financial statements.

DEMIRE AG's direct and indirect interests in the subsidiaries also correspond to the share of voting rights. The contributions of the non-consolidated companies to the Group's revenue, net income and total assets were not considered to be significant. These companies were therefore not included in the consolidated financial statements.

DEMIRE controls an investee if and only if the following characteristics have been met:

— the power of control over the investee (i,e, based on its existing rights, DEMIRE has the option of controlling those activities of the investee that have a material influence on the investee's return),
— risk exposure from or rights to variable returns from its involvement with the investee, and
— the ability to use its power of control over the investee to influence the return on the investee.

Generally, the ownership of a majority of the voting rights is assumed to result in control, If DEMIRE does not hold a majority of the voting rights or comparable rights in an investee, then all facts and circumstances are taken into account when assessing whether DEMIRE has the power of control over this investee, Factors to consider include:

— contractual agreements with others exercising voting rights,
— rights resulting from other contractual agreements,
— voting rights and potential voting rights of the Group.

The consolidation of a subsidiary begins on the day on which DEMIRE acquires control over the subsidiary. It ends when DEMIRE loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or sold during the reporting period are recognised in the consolidated financial statements as at the date on which DEMIRE acquires control over the subsidiary until the date on which control ceases.

In the case of company acquisitions, DEMIRE assesses whether a business combination according to IFRS 3 or acquisition of a group of assets and liabilities exists as aggregated assets. This involves carrying out a concentration test that evaluates whether the full fair value of the acquired gross assets is concentrated in one asset or in a group of similar assets. If this is the case, they do not constitute business operations and are thus deemed a business combination according to IFRS 3.

Business combinations are accounted for using the acquisition method when the Group obtains control. In the course of the necessary revaluation, all hidden reserves and liabilities of the acquired company are released. Any positive difference remaining after the release of hidden reserves and liabilities is capitalised as

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goodwill on the balance sheet. The consideration transferred upon acquisition and the identifiable net assets acquired are generally measured at fair value. Transaction costs are recognised as an expense immediately, unless they are costs for raising capital or issuing liabilities.

Acquisitions of real estate companies that do not constitute business operations as defined by IFRS 3 are recognised as the direct purchase of properties. The acquisition cost of the property company is allocated to individually identifiable assets and liabilities based on their relative fair values.

Interests in the net assets of subsidiaries that are not partnerships and not attributable to DEMIRE (so-called “non-controlling interests”) are recorded under the item “Non-controlling interests” within the Group’s equity, but separately from the equity of the shareholders of DEMIRE AG.

Interests in the net assets of subsidiaries that are in the legal form of a partnership and not attributable to DEMIRE are recorded in the Group’s liabilities, since the minority shareholders have the right to terminate their investments. In accordance with IAS 32, the interests of these minority shareholders are assessed as potential compensation claims and reported as liabilities. Upon initial recognition, they are measured at fair value, which corresponds to the minority shareholders’ interests in the net assets of the respective company. The liability reported corresponds to the notional share of minority shareholders in the net assets of the respective subsidiary at their carrying amounts.

DEMIRE’s interests in associates are measured and accounted for using the equity method in accordance with IAS 28, after their initial recognition at cost. Associates are all companies over which the Group exercises significant influence but not control or joint control. This is generally the case when the Group holds between 20% and 50% of the voting rights.

CHANGES TO THE SCOPE OF CONSOLIDATION AND STRUCTURAL CHANGES IN THE REPORTING PERIOD

BBV Immobilien-Fonds Nr. 6 GmbH & Co. KG, Munich, was deconsolidated during the reporting period due to its liquidation. IC Fonds & Co. Büropark Teltow KG, Munich, was deconsolidated due to its insignificance for the Group. This did not have any significant effects on the net assets, financial position and results of operations.

Integration of BBV 3 Geschäftsführungs-GmbH & Co. KG, Munich (“FV03”) and BBV 9 Geschäftsführungs-GmbH & Co. KG, Munich (“FV09”) to Fair Value REIT-AG also took place. The companies DEMIRE Köln Leverkusen-Opladen GmbH, Frankfurt am Main, DEMIRE Hamburg Kandinskyallee GmbH, Frankfurt am Main, and DEMIRE Wismar Wuppertal GmbH, Frankfurt am Main, were also merged with DEMIRE Meckenheim Merl GmbH, Frankfurt am Main. DEMIRE Rendsburg Jungfernstieg 15 GmbH, Frankfurt am Main, merged with DEMIRE Lichtenfels Bamberger Straße 20, Frankfurt am Main.

This also had no significant effects on the net assets, financial position and results of operations.

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CHANGES TO THE SCOPE OF CONSOLIDATION IN THE PREVIOUS YEAR

During the previous year, 94.9% of the shares in each of the following companies were acquired: DEMIRE Trier Celle GmbH, Frankfurt am Main (formerly Kaufhaus Portfolio Beteiligung A S. à. r. l., Luxembourg); DEMIRE Goslar Rosenstraße 1 GmbH, Frankfurt am Main (formerly Goslar, Rosenstraße 1 Immobilien S. à. r. l., Luxembourg); DEMIRE Memmingen Königsgraben 3 GmbH, Frankfurt am Main (formerly Memmingen, Königsgraben 3 Immobilien S. à. r. l., Luxembourg); and DEMIRE Offenburg Lindenplatz 3 GmbH, Frankfurt am Main (formerly Offenburg, Lindenplatz 3 Immobilien S. à. r. l., Luxembourg). This transaction constitutes an acquisition of real estate companies that do not represent business operations as defined by IFRS 3 and is referred to below as the department store portfolio.

Based on 100% of the assets and liabilities and taking into account non-controlling interests, the following amounts at the time of acquisition (1 July 2019) upon first-time consolidation were applied:

in EUR thousands	Amount recognised at time of acquisition
Acquired assets	87,456
Acquired liabilities	16,354
Net assets at 100%	71,102
Thereof non-controlling interests	1,371
Acquisition costs	69,731

During the previous year, the following foreign companies in the legacy portfolio were deconsolidated due to their immateriality for the Group: MAGNAT Investment I B.V. (Hardinxveld Giessendamm, Netherlands); MAGNAT AM GmbH (Vienna, Austria); R-Quadrat Bulgaria EOOD (Sofia, Bulgaria); SC Victory International Consulting s.r.l. (Bucharest, Romania); and Irao Magnat 28/2 LLC (Tbilisi, Georgia). Irao Magnat Digomi LLC (Tbilisi, Georgia) was deconsolidated due to the sale. In addition, BBV Immobilien-Fonds Erlangen GbR (Munich) was deconsolidated due to the company's liquidation. R-Quadrat Bulgaria EOOD, Sofia (Bulgaria) was merged with Magnat Investment I BV (Netherlands) in 2020. Irao Magnat 28/2 LLC, Tbilisi (Georgia) and Magnat AM GmbH (Austria) were sold in 2020.

Deconsolidations did not have any significant effects on the net assets, financial position and results of operations.

DEMIRE Parkhaus Betriebsgesellschaft mbH, Berlin, was merged with DEMIRE Einkauf GmbH, Frankfurt am Main, during the previous year while maintaining the carrying amounts of acquired assets and liabilities.

Disclosures according to IFRS 12

a) DISCLOSURES RELATING TO FULLY CONSOLIDATED SUBSIDIARIES

Fair Value REIT-AG, Frankfurt am Main and its subsidiaries were fully consolidated for the first time in DEMIRE AG's consolidated financial statements as at 31 December 2015, as the Fair Value REIT subgroup. In the reporting period, dividend distributions of EUR 735 thousand were allocated to the non-controlling shareholders of Fair Value REIT-AG.

The carrying amount of the non-controlling interests of Fair Value REIT-AG minorities amounted to EUR 21,842 thousand as at 31 December 2020 (previous year: EUR 27,337 thousand). A share in the profit for the period in the amount of EUR 641 thousand was attributable to non-controlling shareholders for the 2020 financial year pursuant to the IFRS consolidated financial statements (previous year: EUR 3,112 thousand).

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Information on Fair Value REIT's financial ratios can be found in the table below.

FAIR VALUE REIT-AG SUBGROUP FINANCIAL STATEMENTS

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Non-current assets	325,582	297,254
Current assets	22,797	24,059
Thereof cash and cash equivalents	18,144	20,014
Non-current borrowing	125,820	154,733
Thereof non-controlling interests	78,682	78,881
Current borrowing	63,391	6,711
Thereof financial liabilities	58,951	2,711
Net assets	**159,167**	**159,869**
STATEMENT OF INCOME		
Revenue	27,292	24,196
Financial income	48	4
Financial expenses	– 2,537	– 1,717
Net profit/loss for the period	**15,107**	**4,098**

During the reporting period, DEMIRE AG acquired 700,000 shares in Fair Value REIT-AG for a price of EUR 7.00 per share. This led to a 4.96% decrease in the proportion held by non-controlling interests. The EUR 2,270 thousand difference between the EUR 4,900 thousand purchase price for shares acquired and the net assets correspondingly attributed to the non-controlling interests amounting to EUR 7,170 thousand was offset against capital reserves. As such, the proportion held by non-controlling interests decreased from 20.61% to 15.65% during the 2020 financial year.

Through REIT's status, Fair Value REIT-AG is exempt from corporate income and trade tax. The prerequisite for this tax exemption is compliance with specific requirements relating to capital and company law. The majority of these requirements are stipulated in the REIT Act (Real Estate Investment Trust Act). The REIT Act stipulates standardised specifications in terms of free float, asset requirements, income requirements, distribution to shareholders (dividend), exclusion of real estate trading and minimum equity. The regulations aim to achieve the sustainable management of a predominantly commercial real estate portfolio and to facilitate ongoing dividend payments to the shareholders.

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C. Accounting policies

The consolidated financial statements were prepared based on the assumption of a going concern. In the opinion of the Executive Board, there is no intention or need to discontinue business activities.

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

Assets are generally measured at amortised acquisition or production costs, except for the fair value measurement of investment properties pursuant to IAS 40. According to IFRS 5.5(d), real estate held for sale is also carried at fair value. The fair value in this case is the selling price.

Assets, equity and debt instruments, excluding share-based payments under IFRS 2, that are measured at fair value based on other standards are valued uniformly according to the provisions of IFRS 13.

If fair value is determined using a valuation method, the fair value should be assigned to one of the following three levels of the fair value hierarchy, depending on the available observable parameters and the respective importance of these parameters for the overall measurement.

Level 1: Input factors are quoted prices in active markets for identical assets or liabilities that are available as at 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.

The following table shows the measurement hierarchy, measurement methods and significant input factors for determining the fair values of the various measurement categories of financial assets and liabilities. A special feature results from the fact that the fair value of the 2019/2024 corporate bond was determined on the basis of the stock exchange price on 31 December 2020.

TYPE	Hierarchy	Measurement method and significant input factors
Financial receivables and other financial assets	Level 3	Discounted cash flows based on input factors not observable on the market at the valuation date
Non-current financial liabilities	Level 3	Discounted cash flows based on input factors not observable on the market at the valuation date

No transfers between the different levels of the measurement hierarchy took place during the reporting period or comparison periods.

Financial assets and financial liabilities are classified and recognised in accordance with the categories of IFRS 9. Accordingly, financial assets are classified in the categories at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. As at the reporting date, the Company only holds financial instruments in the category at amortised cost. Financial instruments are classified as at amortised cost if they are held as part of a business model and the objective is to hold them to collect the contractual cash flows, and if the contractual terms and conditions of the financial asset result in cash flows at specified dates, which represent exclusively principal and interest payments on the outstanding principal.

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Financial assets and financial liabilities are recognised in the consolidated balance sheet for the first time when a Group company becomes a party to a financial instrument. The initial recognition of a financial instrument is at fair value including any transaction costs. The maximum default risk is reflected by the amortised carrying amounts of the receivables and other financial assets recognised in the balance sheet. Credit risk and default risk are the risk that counterparties – essentially the tenants of the properties held by DEMIRE – will not be able to meet their contractual payment obligations, which could result in a loss for the Company. In order to mitigate and manage default risks as much as possible, DEMIRE reviews the creditworthiness of tenants for new lettings. Default risks exist for all classes of financial instruments, but especially for trade accounts receivable and purchase price receivables. There is no significant default risk for other financial instruments. Due to the ongoing COVID-19 pandemic and the associated national restrictions, DEMIRE considered it appropriate to have higher loss allowances for trade accounts receivable than in previous years.

In accordance with the requirements of IFRS 9.5.5, the simplified model of expected credit losses is used for impairments of trade accounts receivable and lease payments receivable. Accordingly, the credit losses expected over the term are taken into account for all relevant items. Trade accounts receivable and contract assets were combined on the basis of credit risk features to measure expected credit losses. DEMIRE mainly has receivables from letting and purchase price receivables from properties located in Germany. The credit risk is classified at the level of the property companies, as they have different default rates in some cases. The expected default rates are based on the payment profiles of the last three years before the reporting date. In order to determine the expected credit loss, appropriate and reliable information on past events, current circumstances and forecasts on future economic developments must be determined with a reasonable effort.

Other accounting policies for the individual balance sheet items and items in the statement of income are presented in the Notes to the consolidated statement of income (section D) and the consolidated balance sheet (section E).

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D. Notes to the consolidated statement of income

DEMIRE has entered into commercial property lease agreements for its investment properties. These agreements stipulate that DEMIRE shall retain all the significant risks and opportunities connected with the ownership of properties rented and therefore classifies these lease contracts as operating leases. The income from these contracts is recognised as rental income and is generally free from seasonality. However, the sale and/or acquisition of one or several properties can have a significant influence on the net rental income. Revenue from ancillary rental costs is allocable ancillary costs that are passed on to tenants.

Revenue consists of rental income (net rents and ancillary rental costs), income from the sale of real estate companies and income from the sale of real estate.

DEMIRE generates revenue both based on a point in time and over a period of time in the following areas:

2020

in EUR thousands	Revenue from renting and leasing	Revenue from sale of IAS 40 real estate
Point in time	0	88,887
Period	108,835	0
Total	**108,835**	**88,887**

2019

in EUR thousands	Revenue from renting and leasing	Revenue from sale of IAS 40 real estate
Point in time	0	46,130
Period	101,424	0
Total	**101,424**	**46,130**

When real estate companies and real estate are sold, income is realised when

- the risks and rewards (ownership, benefits and encumbrances) associated with ownership have been transferred to the buyer;
- DEMIRE does not retain any right of disposal or effective power of disposal over the object of sale;
- the amount of revenue and the costs incurred or to be incurred in connection with the sale can be measured reliably;
- it is sufficiently probable that an economic benefit will flow to DEMIRE from the sale.

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1. Profit/loss from the rental of real estate

Rental income is generated in connection with leases classified as operating leases and is recognised as rental income over time. The average monthly rent per sq m at the reporting date was EUR 7.91 (previous year: EUR 7.55). This figure is calculated by dividing the monthly net rent, excluding service charges, by the floor space. Properties already registered as being for sale are not included in this calculation. The property taxes and insurance settled as part of service charges do not constitute a separate performance obligation and are allocated to the rents accordingly. They are accounted for as other lease components in accordance with IFRS 16. In the case of other costs (gas, electricity, water, etc.), the Company has come to the conclusion that it is acting in the role as principal and continues to bear significant risks. Accordingly, revenues and related costs continue to be presented on a gross basis. Revenue from other operating costs are accounted for according to IFRS 15.

The profit/loss from the rental of real estate in the amount of EUR 70,228 thousand (previous year: EUR 65,538 thousand) consists of the following:

in EUR thousands	2019	2020
Net rent	81,799	87,509
Income from utility and service charges	19,625	21,327
Rental revenue from real estate	**101,424**	**108,836**
Allocable operating expenses to generate rental income	– 24,376	– 28,944
Non-allocable operating expenses to generate rental income	– 11,511	– 9,664
Operating expenses to generate rental income	**– 35,886**	**– 38,608**
Profit/loss from the rental of real estate	**65,538**	**70,228**

The increase in the profit/loss from the rental of real estate to EUR 70,228 thousand (previous year: EUR 65,538 thousand) is primarily due to the addition of the office portfolio acquired in the second quarter of 2019, the addition of the department stores acquired in July 2019 and the addition of the distribution centre in Neuss in the fourth quarter of 2019 and the hotel in Frankfurt am Main in the first quarter of 2020.

The higher income from utility and service charges of EUR 21,327 thousand (previous year: EUR 19,625 thousand) resulted mainly from higher allocable costs, as well as the addition of the real estate acquired in the 2019 and 2020 financial years.

Due to contractual provisions regarding rent obligations during the coronavirus lockdown, the rent obligations for one retail property tenant were reduced by EUR 74 thousand for the duration of the lockdown in December.

Of the operating expenses, an amount of EUR 28,944 thousand (previous year: EUR 24,376 thousand) is generally allocable and can be charged on to tenants. The main reason for the increase in allocable operating expenses is the new property additions during the 2019 and 2020 financial years.

Operating expenses amounting to EUR 9,664 thousand (previous year: EUR 11,511 thousand) are non-allocable. This decrease is largely attributable to the higher capitalisation of expenses for tenant improvements and lease commissions.

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Assets and liabilities from contracts with customers were as follows:

ASSETS AND LIABILITIES FROM CONTRACTS WITH CUSTOMERS

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Current contract assets from operating costs	4,999	4,466
Total contract assets	**4,999**	**4,466**
Current contract liabilities from operating costs	715	484
Total contract liabilities	**715**	**484**

Impairment losses of EUR 1,378 thousand (previous year: EUR 181 thousand) were recognised for operating costs in the reporting period.

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

In the 2019 financial year, the Group generated a loss of EUR –1,046 thousand (previous year: EUR 16,803 thousand) from the sale of real estate. The loss from the sale of real estate was largely due to the selling expenses of EUR –748 thousand that were incurred in connection with the sale of the property in Eisenhüttenstadt. The high level of income from sales in the previous year was mainly due to the properties in Stahnsdorf and Marzahn being sold for prices that exceeded their valuation.

Please refer to sections E.1.1.3 and E 3 for more information about the properties which were sold.

3. Profit/loss from fair value adjustments in investment properties

As at 31 December 2020, profit/loss from adjustments to the fair value of investment properties amounted to EUR –22,134 thousand (previous year: EUR 83,022 thousand), of which EUR –21,862 thousand is attributable to the valuation effects of investment property.

The negative valuation result during the reporting year is largely due to the effects of the coronavirus pandemic. The pandemic had and continues to have an impact on many aspects of everyday life and on the global economy. Some property markets are showing lower transaction volumes and liquidity. Restrictions on travel, movement and business led to a drop in revenue for the retail and hotel industry. This in turn reduced the fair value measured as at 31 December 2020. This was caused by the use of a higher discount rate or exit cap rate or due to a reduced estimated rental value (market rent). Any rent losses and reductions in rent obligations were taken into account in the measurement, differentiating between types of use. Generally speaking, office space/use remained stable or increased slightly in value. Supermarkets and hardware stores increased in value.

The pandemic and the measures implemented to contain COVID-19 continue to have an impact on economies and property markets around the world. As at the measurement date, property markets are largely fully functional again. Transaction volumes and other relevant market data are at a level that is able to provide a sufficient level of market evidence to serve as the basis for appraisals.

During the reporting year, the carrying amount of operating equipment acquired the previous year was adjusted to a final valuation. This resulted in a valuation loss of EUR 186 thousand.

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The fair values of these properties are based on the appraisal reports of external, independent experts from Savills Immobilien Beratungs-GmbH. Please refer to Section E.1.1.3 for details on the valuation method applied.

4. Impairment of trade accounts receivable

Impairment of trade accounts receivable amounted to EUR 6,150 thousand (previous year: EUR 629 thousand). Of this, EUR 1,958 thousand is attributable to retail property tenants who are subject to so-called protective shield proceedings or insolvency proceedings as a result of the COVID-19 pandemic. EUR 1,475 thousand of this is attributable to two tenants of hotels that are either insolvent or threatened with insolvency as a result of the pandemic. EUR 222 thousand (previous year: EUR 55 thousand) was recorded as expected credit losses by applying the expected credit loss model. This includes the reversal of capitalised rent-free periods for the department store in Trier amounting to EUR 1,565 thousand (previous year: EUR 0 thousand).

5. Other operating income

in EUR thousands	2019	2020
Impairment of receivables in the legacy portfolio	0	496
Insurance compensation	598	350
Other non-period income	70	146
Reservation fees	0	100
Derecognition of liabilities	0	93
Income from default interest	0	83
Benefits in kind	37	43
Compensation and indemnity payments	3,004	0
Income from passing on of expenses	97	0
Other	521	179
Total	**4,327**	**1,490**

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The impairment of receivables in the legacy portfolio involved a receivable due from MAGNAT AM GmbH, Vienna, Austria.

Insurance compensation primarily involves reimbursements as a result of storm, water and fire damage. Insurance compensation in the previous year includes reimbursements in the amount of EUR 370 thousand due to storm damage.

Other non-period income primarily relates to the derecognition of an accrual to the amount of EUR 60 thousand, and from a value-added tax correction from 2018 amounting to EUR 45 thousand.

The reservation fees are fees related to a pre-emptive right.

The derecognition of liabilities relates to expired liabilities.

Income from compensation and indemnity payments in the previous year primarily relate to payments of EUR 900 thousand from the settlement with a credit institute and a settlement payment of EUR 336 thousand from a court claim.

6. General and administrative expenses

in EUR thousands	2019	2020
Staff costs	– 4,659	– 5,861
Legal and consulting fees	– 1,795	– 2,093
Accounting and audit costs	– 1,818	– 1,678
Fund administration costs	– 450	– 642
Non-deductible input taxes	– 424	– 445
IT costs	– 226	– 369
Fees and incidental costs from monetary transactions	– 476	– 305
Advertising and travel expenses	– 371	– 233
Supervisory Board remuneration	– 236	– 213
Investor relations expenses	– 136	– 187
Custodial compensation	– 211	– 184
Expenses for real estate expert opinions	– 569	– 157
Annual General Meeting and shareholder advisory expenses	– 134	– 83
Insurance	– 77	– 78
Amortisation of rights-of-use	– 40	– 78
Recruitment costs	– 186	– 55
Cost of premises	– 42	– 46
Agency commissions	– 22	0
Other	– 1,145	– 661
Total	**– 13,017**	**– 13,368**

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Staff costs for the staff employed at the level of the ultimate parent company and Fair Value REIT-AG are included in general and administrative expenses only.

The year-on-year increase primarily resulted from the remaining compensation to which a former member of the Executive Board is entitled. For more information, see section G. 2.

Legal and consulting fees mainly relate to tax consulting fees, consulting fees for financing and transactions, as well as other legal and consulting fees. The year-on-year increase is mainly due to transaction consulting fees for various projects.

The drop in fees and incidental costs from monetary transactions is due to reductions in account management fees.

The drop in travel expenses is mainly due to the COVID-19 pandemic, which has reduced travel activity.

IT costs include software costs and ongoing IT consulting service fees. During the reporting period, around EUR 100 thousand in implementation costs was attributed to software for asset and portfolio management.

The decrease in expenses for real estate expert opinions is due to the fact that investment properties were only valued as at 31 December during the reporting year.

7. Other operating expenses

in EUR thousands	2019	2020
Other non-period expenses	– 149	– 629
Depreciation/amortisation	– 128	– 214
Expenses for the early termination of an asset management agreement	0	– 119
Membership fees	– 42	– 49
Facility management expenses	– 41	– 41
Further education, trade literature	– 39	– 32
Deconsolidation effects	– 24	0
Other	– 451	– 284
Total	**– 874**	**– 1,368**

At EUR 493 thousand, other non-period expenses are attributed to a derecognition of valuation effects from a liability that expired the previous year.

Depreciation/amortisation relates to both office and operating equipment as well as operating facilities. The increase is mainly due to additional depreciation on newly acquired operating facilities in the previous year/in the reporting period.

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8. Financial result

in EUR thousands	2019	2020
Financial income	1,288	1,286
Financial expenses	– 50,860	– 19,086
Interests of minority shareholders	– 7,743	– 3,371
Financial result	**– 57,315**	**– 21,172**

Financial income of EUR 1,286 thousand (previous year: EUR 1,288 thousand) results primarily from interest on deferred purchase price receivables of EUR 647 thousand (previous year: EUR 646 thousand) and from income from loans to a minority shareholder and a foreign affiliated company of EUR 324 thousand (previous year: EUR 354 thousand).

The EUR 31,773 thousand decrease in financial expenses to EUR 19,086 thousand (previous year: EUR 50,860 thousand) is mainly due to the refinancing of the 2017/2022 corporate bond and promissory note in the third quarter of 2019. The resulting one-off effects during the previous year comprised the early repayment penalties for the 2017/2022 corporate bond (EUR 5,272 thousand) and for the promissory note (EUR 11,714 thousand) and also the early amortisation expenses from the repayment of the corporate bond (EUR 4,336 thousand) and the promissory note (EUR 5,520 thousand).

Refinancing costs of EUR 1,149 thousand were incurred for refinancing during the reporting period.

Profits from investments accounted for using the equity method amounting to EUR 239 thousand (previous year: EUR 165 thousand) are reported under financial income for reasons of materiality and relate to profits from the investments in DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf, and G+Q Effizienz GmbH, Berlin.

Financial expenses include a nominal interest expense of EUR 15,060 thousand (previous year: EUR 24,819 thousand). The effective interest method resulted in expenses of EUR 2,878 thousand (previous year: EUR 3,048 thousand), of which EUR 584 thousand (previous year: EUR 185 thousand) were attributable to effective interest for leasehold contracts.

The share of profit/loss of minority shareholders amounting to EUR – 3,371 thousand (previous year: EUR – 7,743 thousand) concerns minority shareholders’ profits in the Fair Value REIT-AG subsidiaries recorded as liabilities under IAS 32. The year-on-year decrease largely resulted from negative valuation results for the properties of these subsidiaries, as well as from selling expenses in connection with the sale of the property in Eisenhüttenstadt.

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9. Income taxes

in EUR thousands	2019	2020
Current income taxes	– 4,651	– 712
Deferred income taxes	– 13,466	3,397
Total income taxes	**– 18,117**	**2,685**

Current income taxes of EUR – 712 thousand (previous year: EUR – 4,651 thousand) include corporate taxes and trade taxes and arose entirely in Germany. In the previous year, current income taxes were primarily the result of the profit/loss from the sale of real estate in the amount of EUR – 1,046 thousand (previous year: EUR 16,803 thousand).

Deferred income taxes of EUR – 3,397 thousand (previous year: EUR – 13,466 thousand) comprise deferred tax benefits of EUR 819 thousand (previous year: EUR – 14,958 thousand) and deferred tax expenses of EUR – 4,215 thousand (previous year: EUR 1,492 thousand). Deferred tax expenses result primarily from temporary differences in connection with the valuation of investment properties pursuant to IAS 40 and IFRS 13. The decline in deferred taxes was largely a result of the lower profits from fair value adjustment in investment properties and the sale of the Unterschleißheim and Darmstadt properties.

As at the reporting date, there were total unused tax loss carryforwards of EUR 43,594 thousand (previous year: EUR 41,965 thousand) for the companies included in the consolidated financial statements. In the DEMIRE Group, deferred taxes on loss carryforwards were capitalised only at the level of the same taxable entities to the extent that deferred tax liabilities existed.

TAX RECONCILIATION

The tax reconciliation between the theoretical and actual tax expense is presented on the basis of the Group tax rate of 28.78% (previous year: 28.78%). The Group tax rate includes the 15% corporate tax rate, 5.5% solidarity surcharge and 12.95% trade tax (municipal rate for Langen: 370%; basic federal rate 3.5%). The calculation of the deferred taxes of domestic real estate companies is based on a tax rate of 15.83%. These companies generate income exclusively from managing their own real estate. Only the corporate tax rate and the solidarity surcharge apply to these companies because of the option to deduct the profit from the management of own real estate from the profit under trade tax law.

in EUR thousands	2019	2020
Earnings before taxes	**97,855**	**6,482**
Group tax rate	**28.78%**	**28.78%**
Expected income taxes	**28,163**	**1,866**
Trade tax effects	– 10,716	– 309
Tax effects from non-deductible operating expenses and similar items	442	– 2,145
Tax effects of tax-free income	– 171	– 1,843
Other	399	– 255
Actual income taxes	**18,117**	**– 2,685**

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The tax effect from non-deductible operating expenses and similar items is mainly the result of the formation of the provision under Section 6b of the Income Tax Act. Tax-exempt income resulted primarily from profit distributions.

According to IAS 12, deferred tax liabilities are also 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 mainly resulted from retained earnings from foreign and domestic subsidiaries.

DEMIRE did not recognise deferred tax liabilities for the accumulated results of subsidiaries amounting to EUR 10,854 thousand (previous year: EUR 11,074 thousand), since these profits are intended to be reinvested indefinitely.

Recognising deferred taxes on outside basis differences as temporary differences means that future tax effects must be reported at the time profits originate, even if a distribution of profits to the parent company and the corresponding taxation of the parent company will occur only in future periods. The Company can determine the timing of distributions and the retention of earnings from subsidiaries. Except for the mandatory distributions from Fair Value REIT-AG, dividend distributions from subsidiaries are neither planned nor foreseeable. Therefore, the recognition of deferred taxes for outside basis differences was waived with the exception of those related to Fair Value REIT. The recognition of deferred taxes for outside basis differences at the level of Fair Value REIT amounted to EUR 20,392 thousand as at 31 December 2020 (previous year: EUR 18,756 thousand).

For other disclosures relating to deferred tax assets and liabilities, please refer to section E.5.1.

10. Earnings per share

EARNINGS PER SHARE

Basic earnings per share are computed by dividing the net profit/loss for the period attributable to DEMIRE AG shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share are computed by adjusting net profit/loss for the period and the number of shares outstanding based on the assumption that convertible instruments are converted, and options in connection with share-based payments are exercised.

	2019	2020
Net profit/loss for the period (in EUR thousands)	**79,738**	**9,167**
Profit/loss for the period less non-controlling interests	75,539	9,167
Number of shares in thousand units		
Number of shares outstanding as at the reporting date	107,777	105,772
Weighted average number of shares outstanding	107,777	106,775
Impact of conversion of convertible bonds and exercise under the 2015 Stock Option Programme	510	510
Weighted average number of shares (diluted)	108,287	107,285
Earnings per share (in EUR)		
Basic earnings per share	0.70	0.08
Diluted earnings per share	0.70	0.08

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In July 2020, 1,999,999 shares were bought back as part of a public share buy-back offer. More information is available in Section E.4. Equity . 5,000 shares in MAGNAT AM GmbH, Vienna (Austria), were also acquired. Participants in the 2015 Stock Option Programme are entitled to subscribe to 510,000 shares (previous year: 510,000 shares).

Earnings per share were lower compared to the previous year, mainly due to the fair value adjustment of investment properties.

11. Staff costs

in EUR thousands	2019	2020
Salaries	– 4,257	– 5,417
Statutory social expenses	– 418	– 444
Total	**– 4,674**	**– 5,861**

Staff costs of EUR 5,861 (previous year: EUR 4,674 thousand) are generally recognised in general and administrative expenses and relate mainly to DEMIRE AG (EUR 5,567 thousand; previous year: EUR 4,407 thousand) and Fair Value REIT-AG (EUR 291 thousand; previous year: EUR 251 thousand). Of the statutory social expenses, about half are attributable to contributions to statutory pension insurance.

The year-on-year increase primarily resulted from the remaining compensation to which a former member of the Executive Board may be entitled. For more information, see section G. 2.

The previous year's figures also include staff costs of EUR 15 thousand related to Hanse-Center Objektgesellschaft mbH for staff that left in April 2019. These staff costs were recognised during the previous year as expenses to generate rental income.

There was no income from the reversal of staff provisions during the financial year (previous year: EUR 482 thousand).

Expenses of EUR 67 thousand (previous year: EUR 159 thousand) from the 2019 Virtual Stock Option Programme are also included under staff costs. In the previous year, staff costs at DEMIRE AG contained expenses for share-based payments from the 2015 Stock Option Programme in the amount of EUR 3 thousand. This was offset by the release of capital reserves in the amount of EUR 4 thousand. More information about the stock option programmes can be found in Section G.4.d.

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E. Notes to the consolidated balance sheet

1. Non-current assets

The development of the individual items can be found in the schedule of non-current assets (Appendix 4).

1.1 INTANGIBLE ASSETS

Upon initial recognition, individually acquired intangible assets are measured at their acquisition cost. Subsequently, intangible assets with a limited period of use are amortised on a straight-line basis usually over a period of three to five years based on their estimated useful economic life and are tested for possible impairment when there are any relevant indications thereof. Impairment of intangible assets is recognised in profit or loss.

Intangible assets with an indefinite useful life are not amortised. These assets are tested for impairment at least once a year either on the basis of the individual asset or at the level of the cash-generating unit. An impairment test is also carried out when events have occurred that impair the asset.

Intangible assets are tested for impairment if circumstances or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As soon as the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised through profit or loss. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount that could be achieved by selling an asset or a cash-generating unit in a transaction at market conditions between knowledgeable parties willing to contract less costs to sell.

Impairment losses are reversed once the reason for the previously recognised impairment ceases. This excludes goodwill for which there is a general prohibition of reversal of impairment under IFRS.

1.1.1 GOODWILL

Upon first-time recognition, goodwill is measured at acquisition cost, which is calculated as the excess of the sum of the consideration transferred, the amount of non-controlling interests and any previously held interests over the acquired identifiable assets and assumed liabilities. After first-time recognition, goodwill is measured at acquisition cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in the context of a business combination is allocated as at the purchase date to the Group's cash-generating units that are expected to benefit from the merger.

Goodwill is regularly tested for impairment at least once a year. The determination of the recoverable amount requires assumptions and estimates regarding the future development of earnings and the sustainable growth rate of the cash-generating unit or group of cash-generating units to which goodwill has been allocated.

Goodwill of EUR 6,783 thousand arising from the first-time consolidation of Fair Value REIT-AG as at 31 December 2015 was allocated to the cash-generating unit (CGU) Fair Value REIT.

The Group carried out the annual impairment test as at 31 December 2020. The recoverable amount of Fair Value REIT was calculated on the basis of the calculation of value in use using cash flow forecasts based on financial plans approved by the management for a period of five years. The management's plans are based on past experience and the best possible estimates of future developments. The discount rate (WACC) used for cash flow forecasts was 3.37%. The projections for cash flows after five years are based on the average amount from the last two detailed planning periods 2024 and 2025. The recoverable amount determined on the basis of the value in use was then compared with the carrying amount of the CGU in order to assess its value. As a result of this analysis, management identified sufficient headroom between the value in use and the carrying amount of the CGU. No change in the material assumptions deemed possible by the management results in the carrying amount exceeding the recoverable amount. Accordingly, DEMIRE has not identified any impairment as at 31 December 2020.

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The key basic assumptions for the calculation of the value in use and the sensitivity analysis versus the assumptions made:

Rental cash flows – The CGU Fair Value REIT focuses on the acquisition and management of commercial real estate in Germany. Fair Value REIT invests directly in real estate as well as indirectly through the participation in real estate partnerships. Accordingly, cash flows for direct ownership and the subsidiaries were planned. Rental income and rental costs were derived from contracted leases or based on assumptions for the probability of contract prolongations and vacancies for specific rental areas. The planned maintenance expenditures are largely based on concrete planned measures, or on a flat rate based on past experience. The operating costs of the properties have been indexed and extrapolated based on the previous year's figures.

Rental cash flows could drop as a result of rent reductions, rental losses or rising vacancies. Moreover, a reduction in the real estate portfolio could lead to a decline in cash flows. Even in the event of a 10% downturn in cash flows, there would be no impairment as at 31 December 2020.

Discount rate – A weighted, average costs of capital rate is used to discount free cash flow that reflects the returns expected by the capital market for the transfer of debt and equity to property companies that manage their own portfolio, determined using a group of comparable companies as a basis. The sector-specific risk was determined by applying individual beta factors. The beta factors were determined on the basis of publicly available market data. An increase in the discount rate of 0.5% as at 31 December 2020 would not have resulted in the need for impairment.

1.1.2 OTHER INTANGIBLE ASSETS

Other intangible assets came to EUR 97 thousand (previous year: EUR 97 thousand), and mainly include computer software. A useful life of three to five years is applied to other intangible assets. Amortisation of EUR 0.5 thousand (previous year: EUR 3 thousand) is reported in the consolidated statement of income in the line item "Other operating expenses".

1.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include office and operating equipment. These are carried at historical acquisition cost less depreciation. Historical acquisition cost includes expenses that can be directly allocated to the acquisition of operating and office equipment. Straight-line depreciation is based on a useful life of three to 15 years. Depreciation is reported in the statement of income in the line item "Other operating expenses", amounting to EUR 119 thousand (previous year: EUR 125 thousand).

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1.3 INVESTMENT PROPERTIES

The group's investment properties include those properties that are held for rental income generation and value appreciation and not for their proprietary use or sale in the ordinary course of business. Investment properties are carried at acquisition cost plus incidental acquisition costs at the time of acquisition. In accordance with the option provided for in IAS 40, investment properties are subsequently measured at fair value, whereby changes in the fair value are generally recognised in profit or loss. Prepayment for real estate purchases are recognised as advance payments within item "Properties held as investment properties"..

VALUATION OF PROPERTIES

When measuring investment properties, the key valuation parameters and estimates are expected cash flows, assumed vacancy rates, their changes over the planning period and discounting and capitalisation rates. The valuation is carried out by an external, independent reviewer in accordance with International Financial Reporting Standards (IFRS), International Standards of Valuation of Real Estate for Investment Purposes ("International Valuation Standards") and the RICS Valuation – Professional Standards (January 2014) of the Royal Institution of Chartered Surveyors.

The fair value of DEMIRE's investment properties is determined using the discounted cash flow method.

The discounted cash flow method provides the basis for the dynamic investment calculation and is used to calculate the present value of future expected, time-staggered and varying levels of cash flows. After identifying all value-relevant factors, the expected and partially projectable future cash flows are totalled for each period. The result of the cash inflows and outflows is discounted up to a fixed point in time (valuation date) using the discount rate. In contrast to the German discounted earnings model of the German Property Valuation Regulation (Immobilienwertermittlungsverordnung – ImmoWertV), however, the cash flows during the period under consideration are explicitly quantified and not shown as annuity payments. Since the importance of future cash flows decreases as a result of discounting and the forecast uncertainty increases over the observation period, the stabilised net income of a property is usually capitalised (capitalisation rate) following a 10-year period (detailed observation period) and discounted to the valuation date when assessing investment decisions in real estate.

These valuation parameters reflect the customary market expectations as well as the extrapolation of analysed past values of the property to be valued or of one or more comparable properties.

The valuation parameters are assessed in the context of determining the market value at the discretion of the appraiser and can be divided into two groups:

The property-specific valuation parameters include, for example, rental revenue for initial and subsequent rentals, extension probabilities for the existing rental agreements, vacancy periods and vacancy costs, non-allocable ancillary costs, expected capital expenditures by the owner, and expansion and rental costs for initial and subsequent rentals.

Macroeconomic factors include, in particular, the development of market and rental prices during the detailed observation period and the inflation expectations assumed in the calculation model. In order to meet fair value disclosure requirements, DEMIRE has defined groups of assets and liabilities based on their nature, characteristics and risks and on the levels of the fair value hierarchy described above.

The Group's management team is closely involved in and oversees the process of evaluating investment properties, which takes place at least once per financial year. In doing so, the results made available by independent experts are checked for plausibility and compared with values in previous years. The evaluation results are also compared to the management's own assumptions made in the framework of early risk detection and any deviations are discussed with the expert. The portfolio's performance is also discussed in regular meetings with the Supervisory

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Board, which ensures that the development of the real estate portfolio's value is continuously monitored.

The determination of fair values depends on the underlying key, non-observable input factors (Level 3), which are specified in Appendix 2.

The resulting changes in value (gains and losses) are due, in particular, to the adjustment of the capitalisation and discounting rates.

A sensitivity analysis of the key unobservable input parameters showed the following effect on the fair value of investment properties: a substantial increase in maintenance costs or vacancy rates would lead to a lower fair value for the properties if the assumptions for the remaining input parameters remained unchanged. The sensitivity analysis can be found in Appendix 3.

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Fair value development during the reporting period:

in EUR thousands	Office	Retail	Logistics	Other	**2020**
Fair value at the beginning of the financial year	**968,451**	**420,609**	**71,200**	**33,652**	**1,493,912**
Additions of properties	12,687	753	257	42,750	56,447
Disposals	– 43,135	– 27,985	0	0	– 71,120
Reclassifications to non-current assets held for sale	– 31,000	0	0	0	– 31,000
Unrealised gains from fair value measurement	11,429	905	4,543	600	17,477
Unrealised losses from fair value measurement	– 15,621	– 17,771	0	– 6,033	– 39,425
Fair value at the end of the financial year	**902,811**	**376,511**	**76,000**	**70,970**	**1,426,291**

in EUR thousands	2019	Office	Retail	Logistics	Other	2018
Fair value at the beginning of the financial year	**1,139,869**	**784,687**	**263,304**	**65,436**	**26,442**	**1,021,847**
Additions of properties	304,204	147,553	151,603	86	4,962	24,341
Disposals	– 29,140	– 29,140	0	0	0	1,592
Reclassifications to non-current assets held for sale	– 5,843	– 3,690	– 2,153	0	0	– 970
Reclassifications from non-current assets held for sale to investment properties	1,800	0	1,800		0	0
Unrealised gains from fair value measurement	86,572	71,591	7,055	5,678	2,248	97,956
Unrealised losses from fair value measurement	**– 3,550**	**– 2,550**	**– 1,000**	**0**	**0**	**– 4,897**
Fair value at the end of the financial year	**1,493,912**	**968,451**	**420,609**	**71,200**	**33,652**	**1,139,869**

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At EUR 42,683 thousand, additions to investment properties consisted primarily of the remaining purchase price of the hotel in Frankfurt am Main acquired in the 2019 financial year. The transfer of benefits and obligations took place in the first quarter of 2020. Furthermore, EUR 13,366 thousand in ongoing investments were capitalised during the reporting period.

The additions in the previous year resulted, above all, from the office property portfolio containing properties in Cologne, Aschheim-Dornach, Bad Vilbel and Essen (EUR 143,950 thousand), which was acquired during the second quarter of 2019, as well as from the completion of the purchase of five department stores (EUR 81,553 thousand) and the related capitalisation of rights-of-use from the leasehold contracts pursuant to IFRS 16. The carrying amount of these rights-of-use amounted to EUR 16,079 thousand as at 31 December 2019 and to EUR 15,791 thousand as at 31 December 2020. In the fourth quarter of 2019, a fashion distribution centre in Neuss (EUR 69,475 thousand) was also acquired, and an advance payment of EUR 4,962 thousand was made for a hotel in Frankfurt am Main.

Disposals of EUR 71,120 thousand were made during the reporting period. These primarily related to properties in Eisenhüttenstadt, Worms, Koblenz, Bremen and Unterschleißheim. Reclassifications to non-current assets held for sale in the amount of EUR 31,000 thousand pertain to commercial real estate in Bremen.

Properties with a value of EUR 29,140 thousand were sold during the same period last year. These sales related to the following properties: Wahlstedt, Stahnsdorf, Rendsburg and Berlin-Marzahn. During the 2020 financial year, the transfer of benefits and obligations took place for the properties in Genthin, Herzberg, Bremen and Wurzen, which were considered non-current assets held for sale as at 31 December 2019.

Information about unrealised gains/losses from measurement at fair value is provided in Section D.3.

1.4 OTHER ASSETS

Financial assets are classified and recognised at the settlement date in accordance with the IFRS 9 categories. Further explanations are provided in section C.

The carrying amount of the assets amounts to EUR 17,651 thousand (previous year: EUR 18,917 thousand) and includes the accrual of rent-free periods from the leases of the department store portfolio amounting to EUR 5,295 thousand (previous year: EUR 7,143 thousand) and operating equipment of EUR 2,625 thousand (previous year: EUR 2,859 thousand). At EUR – 1,565 thousand, the year-on-year decrease in rent-free periods is in particular due to an early termination for a department store in Trier. The resulting expense was recognised in the consolidated statement of income under impairment of receivables.

The loan receivables from Taurecon Real Estate Consulting GmbH, Berlin, in the amount of EUR 1,925 thousand (previous year: EUR 2,454 thousand) and from Taurecon Beteiligungs GmbH in the amount of EUR 2,140 thousand (previous year: EUR 2,140 thousand), as well as from LKS Beteiligungsgesellschaft mbH in the amount of EUR 1,383 thousand (previous year: EUR 1,371 thousand) which are minority shareholders in some DEMIRE Group companies, are recognised as non-current.

This item also includes the capitalised rent incentives in the amount of EUR 1,935 thousand (previous year: EUR 1,311 thousand), a receivable from the purchase price adjustment for the property sold in Eisenhüttenstadt in the amount of EUR 615 thousand (previous year: EUR 0 thousand) and the interests in the companies accounted for using the equity method in the amount of EUR 583 thousand (previous year: EUR 344 thousand). This includes the investment in G+Q Effizienz GmbH, Berlin, in the amount of EUR 345 thousand (previous year: EUR 192 thousand) with a profit of EUR 153 thousand and DEMIRE Assekuranz GmbH & Co. KG, Düsseldorf, in the amount of EUR 250 thousand (previous year: EUR 164 thousand) with the assumption of annual profit of EUR 86 thousand (previous year: EUR 72 thousand).

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2. Current assets

2.1 TRADE ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

The following table shows the composition of trade accounts receivable and other receivables as at 31 December 2020:

in EUR thousands	31 Dec. 2019 gross	Impairment	31 Dec. 2019 net	31 Dec. 2020 gross	Impairment	31 Dec. 2020 net
Receivables from the sale of the investment in SQUADRA Immobilien GmbH & Co. KG	8,387	0	8,387	9,196	0	9,196
Trade accounts receivable	1,870	608	1,262	6,353	3,996	2,357
Receivables from operating costs	5,180	181	4,999	6,367	1,378	4,989
Purchase price receivables from sales of legacy portfolio	2,874	2,874	0	0	0	0
Receivables from processing value-added taxes	1,026	0	1,026	593	0	593
Purchase price receivables from sales of real estate	18,114	0	18,114	402	0	402
Creditors with net debit balances	2	0	2	0	0	0
Other	3,496	0	3,496	16,539	0	16,539
Total	**40,949**	**3,663**	**37,286**	**39,450**	**5,374**	**34,076**

In the previous year, the purchase price receivables from sales of real estate were primarily receivables from the sale of the Berlin-Marzahn property (EUR 17,600 thousand).

Other receivables in the amount of EUR 16,539 thousand (previous year: EUR 3,496 thousand) primarily relate to a receivable due from the bank due to an excessive amount being debited amounting to EUR 11,500 and a savings bank certificate from Sparkasse Oberlausitz-Niederschlesien in the amount of EUR 2,000 thousand (previous year: EUR 2,000 thousand) with a maturity date of 27 November 2021 and a fixed interest rate of 0.010% p.a.

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Impairments pursuant to IFRS 9 amounted to EUR 5,374 thousand (previous year: EUR 3,663 thousand) as at the 31 December 2020 reporting date. Impairment losses are recognised in the line item “Impairment of receivables”. Gross receivables remained at the previous year's level and amounted to EUR 39,450 thousand (previous year EUR 40,949 thousand) as at the balance sheet date.

RECONCILIATION OF IMPAIRMENTS

in EUR thousands	
Impairments pursuant to IFRS 9 as at 31 December 2019	**3,663**
Increase in impairments through profit or loss in the 2019 financial year	5,201
Utilisation of value adjustments of the legacy portfolio in the financial year	2,874
Decrease in impairments through profit or loss in the 2019 financial year	616
Impairments pursuant to IFRS 9 as at 31 December 2020	**5,374**

During the reporting year, the main increase in impairments is attributable to EUR 1,958 thousand for retail property tenants who are subject to so-called protective shield proceedings or to insolvency proceedings as a result of the coronavirus pandemic. The gross receivables from these retail property tenants amount to EUR 2,069 thousand as at the balance sheet date. On the other hand, EUR 1,475 thousand is attributable to two tenants of hotels that are either insolvent or threatened with insolvency as a result of the pandemic. The gross receivables from these hotel operators amount to EUR 1,684 thousand as at the reporting date. The other impairments of EUR 1,719 thousand are distributed across the entire portfolio and relate to a gross receivable amount of EUR 8,967 thousand. In addition to the individual value adjustments recognised, impairments included EUR 222 thousand (previous year: EUR 112 thousand) as at 31 December 2020 in expected credit losses based on the expected credit loss model.

RECONCILIATION OF IMPAIRMENTS

in EUR thousands	
Impairments pursuant to IFRS 9 as at 31 December 2018	**3,602**
Increase in impairments through profit or loss in the 2019 financial year	92
Decrease in impairments through profit or loss in the 2019 financial year	31
Impairments pursuant to IFRS 9 as at 31 December 2019	**3,663**

All trade accounts receivable are current in nature and usually due within a period of less than three months.

The calculation of impairments on trade accounts receivable is presented within the scope of the accounting and valuation principles in Section C.

2.2 TAX ASSETS

During the reporting period, the tax assets in the amount of EUR 7,490 thousand (previous year: EUR 1,530 thousand) primarily related to retained capital gains tax in the amount of EUR 7,377 thousand including the solidarity surcharge for distributions.

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2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and bank balances carried at their nominal value.

Cash and cash equivalents of EUR 101,620 thousand (previous year: EUR 102,139 thousand) includes cash on hand and bank balances carried at their nominal value. Of this, cash and cash equivalents amounting to EUR 6,735 thousand (previous year: 3,527) remained earmarked for maintenance costs as at 31 December 2020 and are subject to restrictions on disposal. Pledged bank balances amounting to EUR 200 thousand were recognised under other receivables.

3. Non-current assets held for sale

For assets held for sale, it must be determined whether they can be sold in their present state and whether their disposal is highly probable. If this is the case, assets held for sale are recognised and measured in accordance with the relevant regulations of IFRS 5. Non-current assets held for sale are generally carried at the lower of the carrying amount and the fair value less costs to sell. In accordance with the exceptions of IFRS 5.5(d), real estate that is measured using the fair value model continues to be carried at fair value. The fair value of non-current assets held for sale is equal to their selling price.

As at the reporting date, properties held for sale amounted to EUR 31,000 thousand (previous year: EUR 16,305 thousand). These commercial properties are located in Bremen. Notarised purchase agreements have been concluded and the transfer of benefits and obligations is expected to take place in the 2021 financial year. In the previous year, this primarily related to real estate in Darmstadt, Genthin, Herzberg, Bremen and Wurzen. The transfer of benefits and obligations took place for these properties in the 2020 financial year.

4. Equity

AUTHORISED CAPITAL

Authorised Capital developed as follows during the reporting period:

in EUR thousands	2019	2020
As at 1 January	36,532.42	53,888.66
Cancellation resolution of the AGM on 11 February 2019	–36,532.42	0
Resolution of the AGM on 11 February 2019 (authorisation for Executive Board to increase share capital until 10 February 2024)	53,888.66	0
Utilisation of authorised capital	0	0
Changes to the resolutions made by the AGM on 22 September 2020	0	0
As at 31 December	**53,888.66**	**53,888.66**

The shareholders are generally entitled to subscription rights. The Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for fractional amounts, for cash capital increases of up to 10% of the share capital at an issue price that is not significantly lower than the market price, to meet the obligations of option or conversion rights, and to execute capital increases against contribution in kind. The Authorised Capital had not been utilised by the reporting date.

CONDITIONAL CAPITAL I / 2019

At the Extraordinary General Meeting on 11 February 2019, Conditional Capital II / 2018, to the extent not yet used for the issue of new shares, was cancelled and Conditional Capital I / 2019 of up to EUR 53,328,662.00, divided into up to 53,328,662

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

CONDITIONAL CAPITAL I / 2020

At the ordinary Annual General Meeting of 22 September 2020, Conditional Capital I / 2019 was cancelled and Conditional Capital I / 2020 was created in the amount of up to EUR 53,328,662.00, divided into up to 53,328,662 new no-par value bearer shares with a corresponding amendment to the Articles of Association. The conditional capital increase serves to grant no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights or profit participation bonds (or combinations of these instruments) which were issued or will be issued on the basis of the authorisation resolved by the Annual General Meeting on 11 February 2019 under Agenda Item 2 to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) by the Company or its direct or indirect subsidiaries and grant a conversion or option right to new no-par value bearer shares of the Company or establish a conversion or option obligation. The new shares shall be issued at the exercise or conversion price to be determined in each case in accordance with the respective authorisation resolution of the Annual General Meeting. The conditional capital increase will only be carried out to the extent that the holders or creditors of conversion or option rights exercise these rights or the holders with conversion or option obligations fulfil their conversion or option obligations, unless cash compensation is granted or treasury shares or shares created from authorised capital are used to service this obligation. The new shares participate in the profit from the beginning of the financial year in which they are issued, and for all subsequent financial years. Provided it is legally permissible, and with the approval of the Supervisory Board, the Executive Board may decide to amend the profit entitlement schedule for the new shares, particularly, that the new shares may participate in the profit from the start of a past financial year for which no resolutions on the appropriation of profits had been made by the Annual General Meeting at the time at which the new shares were issued. The Executive Board is authorised, with the consent of the Supervisory Board, to determine the further details of the implementation of a conditional capital increase. The Conditional Capital I / 2020 had not been utilised by the reporting date.

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AUTHORISATION TO PURCHASE TREASURY SHARES

The Company was authorised, for a period of five years from the date of the resolution on 29 May 2019, to acquire its own shares up to 10% of the share capital existing on the date of the resolution or – if lower – up to 10% of the share capital existing at the time the authorisation is exercised. The authorisation may be exercised in whole or in part, once or several times. In July 2020, the Company bought back a total of 1,999,999 shares at a purchase price of EUR 8,900 thousand (EUR 4.45 per share) as part of a public share buy-back offer. The resulting transaction costs of EUR 56 thousand are recognised under capital reserves.

In addition, 5,000 shares were acquired at a purchase price of EUR 27 thousand from MAGNAT AM GmbH, Vienna (Austria), which has not been consolidated to date as a result of its minor significance (and was sold in the reporting period).

This resulted in an increase in treasury shares as at 31 December 2020 to a total of 2,004,999 shares (previous year: 0 shares). Subscribed capital amounted to EUR 107,777 thousand (previous year: EUR 107,777 thousand) and EUR 105,772 thousand after the deduction of treasury shares.

During the reporting period, capital reserves of EUR 88,404 thousand (previous year: EUR 129,852 thousand) decreased by EUR 6,978 thousand as a result of the share buy-back and also as a result of the release of capital reserves in the amount of EUR 36,740 thousand. The EUR 2,270 thousand difference between the purchase price for shares acquired in Fair Value REIT-AG and the net assets attributed to the non-controlling interests was offset against capital reserves.

The Company's Annual General Meeting on 22 September 2020 cancelled the existing resolution of 29 May 2019 to authorise the purchase of treasury shares and made a new resolution to authorise the purchase of treasury shares. According to this resolution and where legally permissible, the Company is authorised to acquire, by 21 September 2025, own shares up to 10% of the share capital existing on the date of the resolution or – if lower – up to 10% of the share capital existing at the time the authorisation is exercised. Together with other treasury shares acquired and owned by the Company or attributable to the Company, the treasury shares acquired on the basis of this authorisation may at no time exceed 10% of the Company's share capital existing at the time of the resolution or, if this value is lower, at the time the authorisation is exercised. Acquisition for the purpose of trading in treasury shares is excluded.

On 8 December 2020, the Company announced that it intended to buy back a total of 1,000,000 shares at a price of EUR 4.39 per share, as part of another public share buy-back offer. The deadline for shareholders to offer the Company their shares extended beyond the reporting date until 4 January 2021.

Furthermore, following the proposal of the Executive Board and Supervisory Board, the Annual General Meeting of 22 September 2020 resolved to distribute a dividend of EUR 0.54 (2019: EUR 0) per dividend-bearing share and to carry forward the Company's remaining accumulated profit as at 31 December 2019. The distribution amount came to EUR 57,117 thousand and EUR 459 thousand will be carried forward.

Non-controlling interests refer to the interests of shareholders outside of the group in the equity and the net profit of fully consolidated subsidiaries. The item non-controlling interests concerns the interests of third-party shareholders in the equity and net profit / loss of fully consolidated subsidiaries.

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5. Non-current liabilities

5.1 DEFERRED TAX ASSETS AND LIABILITIES

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and the tax balance sheet or for unused tax loss carryforwards (liability method). In assessing the realisability of deferred tax assets, DEMIRE considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realised. The realisability of deferred tax assets depends on whether, at the time of reversal of the temporary differences, taxable income is generated from which the temporary differences can be deducted. The basis for this assessment is the tax planning of DEMIRE. Deferred tax assets for tax loss carryforwards were recognised in the amount of EUR 5,689 thousand (previous year: EUR 6,516 thousand). It is expected that deferred taxes will be realised after the first twelve months following the reporting date, not during the twelve months immediately following the reporting date.

Deferred taxes are measured using the local tax rates expected to apply when the asset is realised or the liability is settled. The tax rates applicable on the reporting date are used as a basis. The effects of changes in tax law are recognised in profit or loss in the year in which the changes take effect. Deferred taxes relating to items recognised directly in equity are not recognised in the income statement but directly in equity. Deferred tax assets are impaired if it becomes unlikely that the future tax benefits will be realised. Deferred tax assets and liabilities are offset against each other if the claims and obligations relate to the same tax authority.

DEMIRE recognised deferred taxes for temporary differences of Fair Value REIT-AG by applying the company-specific tax rate as at the reporting date. As Fair Value REIT-AG is generally exempt from taxes, no taxes are incurred at the level of Fair Value REIT-AG as long as its status as a tax-exempt REIT (Real Estate Investment Trust) is maintained. Nevertheless, deferred taxes were recognised for Fair Value REIT-AG according to the "tax-transparent entity" approach. This approach assumes a deemed disposal of all properties directly held by Fair Value REIT-AG and indirectly held through trusts.

Deferred tax assets and liabilities consist of temporary differences in the following balance sheet items:

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Deferred tax assets on loss carryforwards	6,516	5,689
Deferred tax assets on financial liabilities	0	0
Deferred tax assets before offsetting	**6,516**	**5,689**
Deferred tax liabilities on investment properties	79,635	75,580
Deferred tax liabilities on financial liabilities	2,398	2,231
Deferred tax liabilities before offsetting	**82,031**	**77,811**
Offsetting of deferred tax assets with liabilities	– 6,516	– 5,689
Deferred tax liabilities before offsetting	**75,518**	**72,122**
Deferred tax assets before offsetting	**0**	**0**

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Pursuant to IAS 12.74, deferred tax assets on loss carryforwards are only recognised to the extent to which deferred tax liabilities exist for the same taxable entity to the same tax authorities and for the same tax type. Regarding the deferred tax assets recognised on tax loss carryforwards before offsetting in the amount of EUR 5,689 thousand (previous year: EUR 6,516 thousand), the requirements of IAS 12.74 have been met.

The following table shows the change in deferred taxes in the reporting period:

in EUR thousands	1 Jan. 2019	Statement of income	31 Dec. 2020
Investment properties	– 79,635	4,055	– 75,580
Tax loss carryforwards	6,516	– 827	5,689
Financial liabilities	– 2,398	167	– 2,231
Total	**– 75,518**	**3,396**	**– 72,122**

The item “Financial liabilities” refers primarily to deferred taxes related to the 2019 / 2024 corporate bond.

Tax loss carryforwards and deductible temporary differences that were not considered when calculating deferred taxes and that generally do not expire, amounted to EUR 6,018 thousand (previous year: EUR 3,607 thousand). In the year under review, there are unrecognised deferred tax assets in the amount of EUR 952 thousand (previous year: EUR 58 thousand).

The change in deferred taxes in the previous year and its structure can be broken down as follows:

in EUR thousands	1 Jan. 2019	Statement of income	31 Dec. 2019
Investment properties	- 65,457	– 14,178	– 79,635
Tax loss carryforwards	5,016	1,500	6,516
Financial liabilities	- 1,609	– 789	– 2,398
Total	**- 62,050**	**– 13,467**	**– 75,518**

5.2 MINORITY INTERESTS

Minority interests reported under the Group’s liabilities concern the capital of limited partners, who are mainly natural persons, in real estate funds in the legal form of a GmbH & Co. KG, totalling EUR 78,881 thousand as at the reporting date (previous year: EUR 78,682 thousand). Please refer to Section B for information about the consolidation principle used for minority interests.

5.3 FINANCIAL LIABILITIES

Financial liabilities are measured at their fair value on the date of assumption less directly attributable transaction costs and discounts. The fair value at the time of incurring the financial liabilities corresponds to the present value of the future payment obligations based on a maturity- and risk-congruent market rate. Subsequent measurement is carried out at amortised cost using the effective interest method. The effective interest rate is determined at the time of the initial recognition of the financial liabilities. Changes to the conditions relating to the amount or timing of interest and repayments result in a recalculation of the carrying amount of the financial liabilities at their present value and based on the originally determined

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effective interest rate. Any differences to the previously recognised carrying amounts of the financial liabilities are recognised through profit or loss.

The following table shows the nominal value of financial liabilities as at 31 December 2020:

FINANCIAL LIABILITIES

in EUR thousands	Fixed interest	Variable interest	TOTAL
2019 / 2024 corporate bond	592,005	0	592,005
Other financial liabilities	237,708	0	237,708
Total	**829,712**	**0**	**829,712**

The following table shows the nominal value of financial liabilities as at 31 December 2019:

FINANCIAL LIABILITIES

in EUR thousands	Fixed interest	Variable interest	TOTAL
2019 / 2024 corporate bond	590,024	0	590,024
Other financial liabilities	192,321	24,624	216,945
Total	**782,345**	**24,624**	**806,969**

The following table shows the nominal value of financial liabilities as at 31 December 2020:

FINANCIAL LIABILITIES

in EUR thousands	Fixed interest	Variable interest	TOTAL
2019 / 2024 corporate bond	600,000	0	600,000
Other financial liabilities	238,770	0	238,770
Total	**838,770**	**0**	**838,770**

The following table shows the nominal value of financial liabilities as at 31 December 2019:

FINANCIAL LIABILITIES

in EUR thousands	Fixed interest	Variable interest	TOTAL
2019 / 2024 corporate bond	600,000	0	600,000
Other financial liabilities	191,047	24,624	215,671
Total	**791,047**	**24,624**	**815,671**

The difference between the carrying amounts of financial liabilities and their nominal values is due to the subsequent measurement of financial liabilities at amortised cost using the effective interest method in accordance with IFRS 9.

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All bank loans with variable interest rates were repaid during the reporting year.

Other financial liabilities mainly comprise financial liabilities to credit institutions at a weighted average nominal interest rate of 1.31% (previous year: 1.74%). The weighted average nominal interest rate on all financial liabilities amounted to 1.71% p.a. as at 31 December 2020 (31 December 2019: 1.84% p.a.).

The corporate bond represents a significant portion of financial liabilities. The bond has a nominal interest rate of 1.875% and matures in 2024.

As at the reporting date, financial liabilities were collateralised by assets in the amount of EUR 235,199 thousand (previous year: EUR 215,671 thousand). As in the previous year, no assets of DEMIRE had been encumbered with a mortgage as a guarantee for third-party liabilities.

Generally, all loan agreements for the properties financed stipulate information requirements that DEMIRE's subsidiaries as debtors must fulfil with respect to the banks or investors as creditors. Depending on the type and scope of the loan, the information requirements range from providing key financial ratios (such as financial statements) to reporting on the compliance with covenants.

The monitoring, compliance and reporting of the covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and asset management areas and other external service providers. Depending on the specific credit agreement, the appropriate reporting on the covenants as well as the basis for the underlying business ratios are to be submitted to the creditors quarterly, semi-annually or annually. If DEMIRE fails to comply with the covenants, the creditors are entitled to demand additional collateral from the debtor. The loans are then in default. If the default persists for a longer period of time and cannot be permanently remedied, the creditors have a special right of termination. All financing obligations, including the financial covenants, were complied with during the reporting period.

2019 / 2024 CORPORATE BOND

As at the reporting date of 31 December 2020, the 2019 / 2024 unsecured corporate bond issued in October 2019 is pending for the full nominal amount of EUR 600,000 thousand.

If new financial liabilities are assumed in accordance with the terms and conditions of the 2019 / 2024 corporate bond, DEMIRE AG is obliged to comply with the requirements of the financial covenants. If these covenants are not complied with, this would lead to extraordinary terminations by the bond creditors and consequently repayment obligations on the part of the Company. It would also result in additional restrictions on the distribution of dividends. The financial covenants include, specifically, the net loan-to-value (net LTV), which may not exceed 60% during the term of the bond. A further key ratio is the net secured LTV, which may not exceed 40% during the term of the bond. Finally, the interest coverage ratio, which may be no less than 175% during the period from the placement of the corporate bond until 31 March 2021 and no less than 200% as from 1 April 2021, must also be observed. The obligation to review and calculate the financial covenants only applies in the course of further borrowings. The monitoring, compliance and reporting of the financial covenants was carried out by DEMIRE's Corporate Finance, Treasury and Asset Management departments. No financial covenants were breached for 2020 as a whole or as at the reporting date of 31 December 2020. The medium-term planning also indicates that compliance with these ratios will be maintained.

2017 / 2022 CORPORATE BOND

The 2017 / 2022 corporate bond was fully repaid early on 11 October 2019 in the course of the 2019 / 2024 corporate bond issue.

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CHANGES IN FINANCIAL LIABILITIES

The changes in financial liabilities are a result of the following effects:

in EUR thousands	Financial liabilities
31 December 2019	**806,969**
Net changes	
Proceeds from borrowings	89,925
Repayments of financial liabilities	– 71,841
Non-cash items	
Valuation effects from the calculation of effective interest rates	1,515
Residual amortisation of redeemed financial liabilities	176
Accrued interest	2,508
Other valuation effects	459
31 December 2020	**829,712**

in EUR thousands	Financial liabilities
31 December 2018	**636,572**
Net changes	
Proceeds from borrowings	704,883
Repayments of financial liabilities	– 540,885
Non-cash items	
Valuation effects from the calculation of effective interest rates	– 6,846
Residual amortisation of redeemed financial liabilities	10,183
Accrued interest	2,809
Other valuation effects	253
31 December 2019	**806,969**

Of the other financial liabilities of EUR 237,708 thousand (previous year: EUR 216,936 thousand), a total of EUR 10,327 thousand (previous year: EUR 57,223 thousand) were classified as current in the reporting period, as the maturity of these financial liabilities is expected to occur in the following period. These relate exclusively to current redemption payments.

5.4 OTHER NON-CURRENT LIABILITIES

The other non-current liabilities of EUR 535 thousand (previous year: EUR 837 thousand) mainly relate to compensation payments to minority shareholders in accordance with Section 304 AktG as part of the profit and loss transfer agreements concluded in 2017 valued at EUR 536 thousand (previous year: EUR 830 thousand). Please refer to Section C for further details.

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6. Current liabilities

6.1 PROVISIONS

Provisions have been recognised as liabilities in the reporting period for obligations to third parties that are likely to result in a future outflow of resources. The value of the provisions is reviewed at each reporting date.

DEMIRE assumes that the provisions will be fully utilised in the following 2021 financial year since they are all to be classified as current.

Provisions developed as follows during the reporting period:

in EUR thousands	31 Dec. 2019	Utilisation	Reversals	Additions	31 Dec. 2020
Staff costs	1,854	–1,257	0	2,398	2,995
Other provisions	350	0	–350	0	0
Total	**2,204**	**–1,257**	**–350**	**2,398**	**2,995**

Provisions developed as follows during the previous year:

in EUR thousands	31 Dec. 2018	Utilisation	Reversals	Additions	31 Dec. 2019
Staff costs	952	–417	–482	1,801	1,854
Other provisions	350	0	0	0	350
Total	**1,302**	**–417**	**–482**	**1,801**	**2,204**

Staff provisions mainly contain obligations for the performance-related compensation variable for the employees as well as the outstanding remuneration for a former member of the Executive Board (see Section G.2).

6.2 TRADE PAYABLES AND OTHER LIABILITIES

Liabilities are recognised at amortised cost after their initial recognition.

As at the reporting date, trade payables and other liabilities were as follows:

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Other trade payables	7,811	9,791
Purchase price liabilities	12,593	4,250
Liabilities from value-added taxes	286	2,834
Accounting and audit costs	990	890
Compensation payments	945	790
Building obligations resulting from purchase agreements	0	540
Personnel-related expenses	55	48
Debtors with net credit balances	280	0
Other	5,307	1,096
Total	**28,267**	**20,239**

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As was the case on 31 December 2019, all trade payables amounting to EUR 9,791 thousand (previous year: EUR 7,811 thousand) are current in nature.

The purchase price liability of EUR 4,250 thousand (previous year: EUR 12,593 thousand) was accounted for by a purchase price retention of EUR 4,250 thousand (previous year: EUR 5,000 thousand) for the fashion centre in Neuss acquired in the previous year. The remaining purchase price liabilities from the previous year were settled in the reporting year.

The increase in liabilities from value-added taxes is primarily due to deferrals of the same.

Compensation payments concern guaranteed dividends to non-controlling shareholders under profit and loss transfer agreements.

The building obligations resulting from purchase agreements refer to a liability connected with the sale of the property in Eisenhüttenstadt.

6.3 TAX LIABILITIES

Current income tax liabilities of EUR 4,060 thousand (previous year: EUR 4,948 thousand) are divided into trade taxes of EUR 908 thousand (previous year: EUR 836 thousand) and corporate taxes of EUR 3,152 thousand (previous year: EUR 4,112 thousand).

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7. Leases

7.1 OPERATING LEASES – DEMIRE AS LESSOR

Minimum lease payments consist of the net rents payable until the agreed end of the contract or the earliest possible termination date available to the lessee (tenant), regardless of whether a termination or non-utilisation of an extension option should 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 the fifth year.

in EUR thousands	31 Dec. 2019	**31 Dec. 2020**
Due within 1 year	85,159	81,951
Due within 2 years	68,525	72,269
Due within 3 years	60,463	56,011
Due within 4 years	44,822	48,951
Due within 5 years	41,470	30,092
Due after more than 5 years	64,512	138,335
Total future rental income	**364,950**	**427,609**

7.2 DEMIRE AS LESSEE

DEMIRE AG recognises leasehold contracts from the department store portfolio acquired in the previous year as a lessee. DEMIRE AG also rents office space, parking spaces and vehicles. Lease agreements are concluded for fixed periods of 1 to 20 years but may have options to extend. Leases contain a variety of different conditions.

Leases are accounted for at the time the lease asset is made available. The leasing rate is split into an interest and repayment portion. The rights-of-use for vehicles is amortised on a straight-line basis over the term of the lease or, if shorter, over the useful life. The rights-of-use for vehicles are reported under property, plant and equipment. The right-of-use for leaseholds is measured at fair value and recognised under investment properties.

Lease assets and liabilities are initially recognised at present value.

Payments for short-term leases and low-value leases are recognised as an expense in the statement of comprehensive income. Short-term leases are all agreements with a term of less than 12 months. Such expenses were only incurred to an immaterial extent during the reporting period and in the previous year.

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The following amounts related to leases are shown in the balance sheet:

RIGHTS-OF-USE

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Rights-of-use for rented properties	17,671	17,383
Vehicles	56	18
Total	**17,727**	**17,401**

LEASE LIABILITIES

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Non-current	18,717	18,355
Current	492	371
Total	**19,209**	**18,726**

Lease liabilities comprise the obligations from the leasehold contracts of the department store portfolio acquired in the previous year amounting to EUR 17,200 thousand (previous year: EUR 17,549 thousand), the obligations from the permanent rights-of-use for an underground car park in Ulm in the amount of EUR 1,515 thousand (previous year: EUR 1,600 thousand) and the DEMIRE vehicle fleet in the amount of EUR 11 thousand (previous year: EUR 59 thousand).

The leasehold contracts are set to expire no later than November 2044. The present value of lease liabilities acquired in 2020 is calculated using an average incremental borrowing rate of 3.02%.

The following lease-related amounts are shown in the consolidated statement of income:

AMORTISATION EXPENSES FOR RIGHTS-OF-USE

in EUR thousands	2019	2020
Rights-of-use for rented properties	0	0
Vehicles	40	39
Total	**40**	**39**

OTHER LEASE INTEREST EXPENSES

in EUR thousands	2019	2020
Interest expense (included in financial expense)	239	634

Of the lease interest expenses of EUR 634 thousand (previous year: EUR 239 thousand), EUR 584 thousand (previous year: EUR 185 thousand) is attributable to interest expenses from leasehold contracts.

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The cash outflows for leases in 2020 came to a total of EUR 1,096 thousand (previous year: EUR 641 thousand), of which EUR 933 thousand (previous year: EUR 466 thousand) is attributable to leasehold payments.

OTHER LEASE OBLIGATIONS

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Due within 1 year	492	457
Due between 1 and 5 years	1,901	1,956
Due after more than 5 years	16,816	16,313
Total	**19,209**	18,726

8. Contingent liabilities

The following contingent liabilities existed as at the reporting date for matters for which DEMIRE AG or its subsidiaries have pledged guarantees in favour of third parties.

The contingent liabilities as at 31 December 2019 consist of mortgages under Section 1191 BGB in the amount of EUR 275,047 thousand (previous year: EUR 440,433 thousand). The maximum liability for these properties is limited to the carrying amount as at the reporting date of EUR 275,047 thousand (previous year: EUR 440,433 thousand).

9. Other financial obligations and contingent liabilities

The following other financial obligations existed as at the reporting date:

OTHER FINANCIAL OBLIGATIONS RESULTING FROM PURCHASE AGREEMENTS

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Due within 1 year	42,950	0
Due between 1 and 5 years	0	0
Due after more than 5 years	0	0
Total	**42,950**	**0**

The real estate purchase agreements concluded in the 2020 financial year that were not still in effect as at the reporting date resulted in no financial obligations as at 31 December 2020. Financial obligations from the purchase agreements of the previous year in the amount of EUR 42,950 thousand primarily related to the residual purchase price for the hotel in Frankfurt am Main and were settled during the reporting year.

Obligations for modification and expansion measures, as well as maintenance and modernisation work on the properties, totalled EUR 20,479 thousand (previous year: EUR 3,700 thousand). These obligations are fixed in terms of their scope.

The purchase order commitment from commissioned maintenance amounted to EUR 5,518 thousand (previous year: EUR 3,490 thousand) as at the reporting date.

As at 31 December 2020, unused credit lines in the amount of EUR 5,000 thousand (previous year: EUR 5,000 thousand) were available for the financing of capex and reletting measures.

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F. Group segment reporting

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

The Group is divided into the two reportable business segments "Core Portfolio" and "Fair Value REIT". The focus is on the sustainable management of the respective properties. These properties are held for the purpose of generating rental income and value appreciation.

The "Core Portfolio" segment contains the commercial properties which are held by the subsidiaries of DEMIRE AG, with the exception of the real estate of Fair Value REIT. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

Fair Value REIT is listed in the General Standard and, due to its status as a REIT company, is subject to the requirements of the REIT Act. When making management decisions, these requirements must be considered. As a result, a distinction is made between the "Core Portfolio" segment and the "Fair Value REIT" segment. Due to their similar economic characteristics, internal reporting is performed on an aggregated basis.

2020

in EUR thousands	Core portfolio	Fair Value REIT	Corporate functions/ others	Group
External revenue	144,340	53,382	0	197,722
Total revenue	**144,340**	**53,382**	**0**	**197,722**
Profit/loss from fair value adjustments in investment properties	–19,900	–2,234	0	–22,134
Other income	486	412	592	1,490
Segment revenue	**124,926**	**51,560**	**592**	**177,078**
Expenses relating to the sale of real estate	–59,775	–30,157	0	–89,932
Other expenses	–37,677	–13,750	–8,065	–59,492
Segment expenses	**–97,452**	**–43,907**	**–8,065**	**–149,424**
EBIT	**27,474**	**7,652**	**–7,473**	**27,654**
Financial income	260	4	1,022	1,286
Financial expenses	–17,118	–1,629	–340	–19,086
Interests of minority shareholders	0	–3,371	0	–3,371
Income taxes	5,347	–1,628	–1,034	2,685
Net profit/loss for the period	**15,963**	**1,028**	**–7,824**	**9,166**
Significant non-cash items	**14,743**	**4,638**	**1,160**	**20,541**
Impairment losses in net profit/loss for the period	**4,564**	**1,127**	**459**	**6,150**

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31 DECEMBER 2020

in EUR thousands	Core portfolio	Fair Value REIT	Corporate functions/ others	Group
SEGMENT ASSETS	**1,223,493**	**328,550**	**73,268**	**1,625,311**
Thereof tax assets	3,410	0	4,080	7,490
Thereof additions to non-current assets	55,799	649	0	56,448
Thereof non-current assets held for sale	31,000	0	0	31,000
SEGMENT LIABILITIES	**836,652**	**181,806**	**8,812**	**1,027,270**
Thereof non-current financial liabilities	741,489	75,853	0	817,342
Thereof lease liabilities	18,715	0	10	18,726
Thereof current financial liabilities	9,659	2,711	0	12,370
Thereof tax liabilities	2,059	**0**	2,001	4,060

The column “Corporate Functions / Others” mainly contains the activities of DEMIRE AG for its subsidiaries in its function as the Group holding in areas such as risk management, finance and controlling, financing, legal, IT and compliance. The activities as the Group holding do not constitute a separate segment but rather reconcile items that cannot be allocated to the other segments.

More than 10% of total revenue was generated from one customer in the “Core Portfolio” segment, corresponding to a total of EUR 12,275 thousand (previous year: EUR 22,560 thousand) during the financial year.

In the “Core Portfolio” segment, non-cash items mainly comprise fair value adjustments in investment properties in the amount of EUR –19,900 thousand (previous year: EUR 70,500 thousand), income taxes of EUR 941 thousand (previous year: EUR –2,868 thousand), deferred taxes of EUR 4,405 thousand (previous year: EUR –8,964 thousand) and the profit/loss from investments accounted for using the equity method in the amount of EUR 246 thousand (previous year: EUR 165 thousand).

Transactions between segments are carried out on the basis of comparable external conditions.

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2019

in EUR thousands	Core portfolio	Fair Value REIT	Corporate functions/ others	Group
External revenues	118,286	28,268	1,000	147,554
Total revenue	**118,286**	**28,268**	**1,000**	**147,554**
Profit/loss from fair value adjustments in investment properties	70,500	12,523	0	83,022
Other income	3,836	323	167	4,327
Segment revenue	**192,622**	**41,114**	**1,167**	**234,903**
Expenses relating to the sale of real estate	– 28,127	– 1,200	0	– 29,327
Other expenses	– 27,452	– 14,949	– 8,005	– 50,407
Segment expenses	**– 56,579**	**– 16,149**	**– 8,005**	**– 79,734**
EBIT	**137,043**	**24,965**	**– 6,838**	**155,170**
Financial income	183	6	1,100	1,288
Financial expenses*	– 48,140	– 2,351	– 369	– 50,860
Interests of minority shareholders	0	– 7,743	0	– 7,743
Income taxes	– 12,031	– 2,327	– 3,759	– 18,117
Net profit/loss for the period	**77,054**	**12,549**	**– 9,866**	**79,738**
Significant non-cash items	**– 74,311**	**– 10,190**	**3,759**	**– 80,742**
Impairment losses in net profit/ loss for the period	**159**	**224**	**246**	**629**

* Prior-year figures were adjusted.

31 DECEMBER 2019

in EUR thousands	Core portfolio	Fair Value REIT	Corporate functions/ others	Group
SEGMENT ASSETS	**1,242,695**	**356,543**	**78,178**	**1,677,416**
Thereof tax assets	97	7	1,426	1,530
Thereof additions to non-current assets*	303,509	695	0	304,204
Thereof non-current assets, held for sale	15,637	668	0	16,305
SEGMENT LIABILITIES	**811,543**	**199,429**	**5,661**	**1,016,633**
Thereof non-current financial liabilities	691,195	46,637	0	737,832
Thereof lease liabilities	19,150	0	59	19,209
Thereof current financial liabilities	18,186	50,951	0	69,137
Thereof tax liabilities	3,145	0	1,803	4,948

* Prior-year figures were adjusted.

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G. Other disclosures

1. Financial instruments

In general, please refer to the risk report in the combined management report.

FINANCIAL RISK MANAGEMENT

The credit risk arising for DEMIRE as part of its operating activities as well as risk arising from financing activities are continuously monitored and actively managed by the Executive Board. As a result of these measures, the consolidated financial statements were prepared under the assumption of a going concern.

The Group's financial assets mainly consist of loans to companies accounted for using the equity method, other loans, trade accounts receivable and other receivables, financial receivables, other financial assets and bank deposits. The majority of trade accounts receivable consists of rent receivables. Potential defaults in this context are taken into consideration.

DEMIRE's financial liabilities comprise mainly bonds, bank loans, other loans, overdrafts and trade payables. The main purpose of these financial liabilities is to finance DEMIRE's operations.

DEMIRE is exposed to various financial risks as a result of its business activities: interest rate risk, credit risk and liquidity risk. The overarching risk management system concentrates on the continual identification and active management of typical business risks. This system accepts risks within a certain range if they offer the opportunity for commensurate returns. The goal is to limit the exposure to peak risks so that DEMIRE's continuance is not jeopardised.

The Executive Board identifies, evaluates and hedges financial risk in close collaboration with the risk manager and in coordination with DEMIRE AG's Supervisory Board.

Loan agreements exist in the Group that contain certain financial covenants stipulated by the creditors. Non-compliance with these financial covenants could lead to extraordinary terminations of these agreements by the creditors. The financial covenants concern financial ratios of the respective real estate portfolio, particularly the debt service coverage ratio (DSCR), the interest coverage ratio (ICR) and the loan-to-value (LTV) debt ratio. The calculations are based on the specifications set by the creditors in the loan agreement. The monitoring, compliance and reporting of the financial covenants specified in the loan agreements for the properties financed are carried out by DEMIRE's management, treasury and portfolio management areas and by external service providers. Depending on the type of financing, the financial covenants are reported to the creditors on a quarterly, semi-annual or annual basis, or the creditors are provided with the underlying economic ratios. Should DEMIRE fail to comply with the financial covenants, the creditors would be entitled to demand additional guarantees from DEMIRE. The loans are then in default. If the default persists for a longer period of time and cannot be permanently remedied, the creditors have a special right of termination.

All financing obligations, including the financial covenants, were complied with during the reporting period.

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FOREIGN CURRENCY RISK

There is no foreign currency risk for the existing portfolio of commercial real estate in Germany because all transactions are conducted in euros.

INTEREST RATE RISK

To finance its German commercial real estate, the DEMIRE Group uses liabilities with fixed interest loans to a degree customary for the industry, as well as tradeable instruments that contain options for conversion into shares of the Company or of Fair Value REIT-AG. This involves both loans with fixed interest rates and tradable instruments.

Interest rate risk relating to cash flows exists with respect to liquid funds placed in accounts. The Company does not anticipate significant negative effects from interest rate changes over the long term because the liquid funds on the reporting date are only available until investments are made and will subsequently be tied up in projects according to plan.

As at 31 December 2020, all loans with variable interest rates had been repaid. DEMIRE is therefore not exposed to any interest rate risk from debt financing.

Since transaction prices for real estate increase when interest rates are low, the level of interest rates also has an impact on the purchase prices of newly acquired real estate. In addition, interest rates play an important role in the valuation of investment properties.

The interest rate policy is evaluated at regular intervals and in close consultation with the Supervisory Board of DEMIRE AG.

CREDIT RISK

The reported financial instruments represent the maximum credit risk and default risk. Counterparty risk is uniformly assessed and monitored within the framework of Group-wide risk management. The aim is to minimise the risk of defaults. Counterparty risk is not insured. There are generally no significant concentrations of credit risk at DEMIRE. Rental deposits amounting to EUR 1,124 thousand (previous year: EUR 1,050 thousand) are available as security in the event a tenant defaults. For an analysis of the impaired receivables, please refer to Section E.2.1.

LIQUIDITY RISK

Liquidity management serves the purpose of ensuring the Group's solvency at all times. In principle, there is the risk that the Company may not have sufficient liquidity at all times during the year to meet its current obligations, and that the refinancing of expiring financial liabilities may not be obtained or may only be obtained at less favourable conditions than planned. Additional liquidity requirements from events beyond DEMIRE's control may also result, first and foremost, from the operating and other risks listed below. The funds available at the reporting date and the planned cash flows in 2020 are sufficient for the current needs of the operating activities.

CAPITAL MANAGEMENT AND CONTROL

The primary objective of the Group's capital management is to ensure that DEMIRE's debt eligibility and its financial substance are maintained in the future. The capital structure is managed according to economic and regulatory requirements. Capital management is carried out by DEMIRE through dividends and/or financing. DEMIRE strives for a capital structure that is appropriate for the business risk and in doing so is also subject to the minimum capital requirements of the German Stock Corporation Act, the compliance of which is monitored by DEMIRE AG's Executive Board. The requirements were met both in the reporting year and in the previous year.

DEMIRE monitors its capital using the equity ratio, which is also an important indicator for investors, analysts and banks. For a detailed explanation, please refer to the combined management report.

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OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are classified and accounted for at the date of acquisition according to the categories of IFRS 9. The accounting policies are presented in section C of the Notes.

The classification of financial instruments required by IFRS 7 is in line with the respective items in the consolidated balance sheet. The tables below present the carrying amounts, valuations and fair values of the financial assets and liabilities for each individual category of financial instruments and reconcile these values to the measurement categories. Under IFRS 9, the relevant measurement category for DEMIRE is “at amortised cost”.

Other financial liabilities (other liabilities) are non-derivative financial liabilities that are subsequently measured at amortised cost. Differences between the amount received and the expected repayment amount are spread over the term through profit or loss. DEMIRE allocates financial liabilities and other liabilities to this category.

31. DECEMBER 2020

in EUR thousands	Measurement category	Carrying amount under IFRS 9	Fair value
Trade accounts receivable and other receivables	At amortised cost	34,075	34,075
Cash and cash equivalents	At amortised cost	101,620	101,620
Bonds	At amortised cost	592,005	588,174
Other non-current financial liabilities	At amortised cost	227,380	231,073
Minority interests	At amortised cost	78,881	78,881
Trade payables	At amortised cost	10,681	10,681
Other liabilities	At amortised cost	8,767	8,767
Current financial liabilities	At amortised cost	10,327	10,327
Compensation payments to minority shareholders	At amortised cost	1,326	1,326

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in EUR thousands	Measurement category	Carrying amount under IFRS 9	Fair Value
Trade accounts receivable and other receivables	At amortised cost	36,771	36,771
Cash and cash equivalents	At amortised cost	102,139	102,139
Bonds	At amortised cost	590,024	611,046
Other non-current financial liabilities	At amortised cost	149,808	150,545
Minority interests	At amortised cost	78,682	78,682
Trade payables	At amortised cost	10,041	10,041
Other liabilities	At amortised cost	17,286	17,286
Current financial liabilities	At amortised cost	67,139	67,139
Compensation payments to minority shareholders	At amortised cost	1,774	1,774

Fair value is the amount at which financial assets and liabilities could be exchanged between independent business partners on the valuation date. For the purpose of determining the fair value of the bond and other non-current financial liabilities, please refer to Section C. Due to the short maturity of cash and cash equivalents, trade accounts receivable and trade payables and other current receivables and liabilities, it is assumed that the respective fair value corresponds to the carrying amount. The lease liabilities of EUR 18,726 thousand (previous year: EUR 19,209 thousand) are not recognised in accordance with IFRS 9, but in accordance with IFRS 16.

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS IN 2020

in EUR thousands	Net gains/losses	Of which from interest
Assets		
At amortised cost	– 4,512	991
Equity and liabilities		
At amortised cost	– 19,392	– 19,086

NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS IN 2019

in EUR thousands	Net gains/losses	Of which from interest
Assets		
At amortised cost	2,127	1,109
Equity and liabilities		
At amortised cost	– 51,336	– 50,860

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The following table shows the future maturities in accordance with IFRS 7.B11(a) for interest and repayments of liabilities at the balance sheet date as well as liabilities to minority interests:

AS AT 31 DECEMBER 2020

in EUR thousands	2021	2022	2023	2024	2025	after 31 Dec. 2025
2019/2024 corporate bond	11,250	11,250	11,250	611,281	0	0
Bank liabilities	11,211	11,234	11,226	133,526	56,473	26,338
Minority interests	0	78,881*	0	0	0	0
Lease liabilities	1,084	1,066	1,065	1,065	1,065	20,646
Trade payables	11,440	0	0	0	0	0
Other liabilities	12,474	0	0	0	0	0
Total	**47,732**	**102,431**	**23,541**	**745,872**	**57,538**	**46,984**

AS AT 31 DECEMBER 2019

in EUR thousands	2020	2021	2022	2023	2024	after 31 Dec. 2024
2019/2024 corporate bond	11,404	11,250	11,250	11,250	611,281	0
Bank liabilities	66,472	8,836	8,800	8,764	88,662	44,610
Minority interests	0	78,682*	0	0	0	0
Lease liabilities	1,104	1,083	1,065	1,064	1,064	13,829
Trade payables	10,041	0	0	0	0	0
Other liabilities	20,161	0	0	0	0	0
Total	**109,182**	**99,851**	**21,115**	**21,078**	**701,007**	**58,439**

* The disclosure of the maturities of liabilities to minority shareholders was based on the earliest possible termination date and thus the earliest possible payment obligation, which must be disclosed in accordance with IFRS 7.B11 (a). This is not based on the actual due date, but it takes into account a possible due date derived from the earliest possible termination date.

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The company's liquidity management considers these liabilities to minority shareholders to be due after 5 years, provided the minority shareholders have not given notice of termination. This is a result of a long history spanning several years, which shows only a small number of terminations.

Liabilities from minority interests are reported as non-current at the balance sheet date from ongoing limited partnership contributions, as settlement is neither expected nor can be demanded within twelve months after the balance sheet date (IAS 1.69). If the minority shareholder has not given effective notice of termination by the balance sheet date, such notice can only be given on the following balance sheet date. In turn, the settlement balance is only due for payment six months after its binding agreement (on the termination date). Thus, in the case of limited partnership contributions that are still ongoing as at the reporting date, a payout is due no earlier than 18 months after the reporting date..

2. Related party disclosures

RELATED COMPANIES AND PERSONS

Companies and persons are considered to be related if they have the ability to control DEMIRE and its subsidiaries or exercise significant influence over their financial and operating policies. The existing control relationships were taken into account to determine the degree of significant influence that related companies and persons have on the Company's financial and operating policies. As at the reporting date, AEPF III 15 S. à r. l. Luxembourg/Luxembourg held 58.6% of DEMIRE and is thus the direct parent company. The ultimate parent company is BRH Holdings GP Ltd., Grand Cayman, Cayman Islands. The consolidated financial statements of DEMIRE AG are the largest and the smallest scope of consolidation in which DEMIRE AG is included.

The group of related companies includes the fully consolidated subsidiaries, joint ventures and associated companies accounted for using the equity method.

Due to their significant influence, the following key personnel of the parent company are considered to be related persons as defined by IAS 24:

— members of DEMIRE's Executive Board (see Section G.4.a) and their close relatives and
— members of DEMIRE's Supervisory Board (see Section G.4.b) and their close relatives.

As at 31 December 2020, the provision for the remaining compensation for a former member of the Executive Board was EUR 1,920 thousand (previous year: EUR 420 thousand).

LEGAL TRANSACTIONS WITH RELATED COMPANIES AND PERSONS

In the financial year under review, transactions with related parties were exclusively carried out at customary market conditions.

The transactions, revenues and rendering of services between DEMIRE AG and its subsidiaries are settled in the same manner as those between unrelated parties and eliminated in the context of consolidation. Therefore, they are not explained in the Notes.

As in the prior year, no transactions were concluded with companies accounted for using the equity method in the reporting period.

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3. Auditor's fee

The auditor's fee for PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, charged in the financial year with regard to DEMIRE consists of the following:

in EUR thousands	2019	2020
Auditing services thereof for the previous year EUR 241 thousand (2019: EUR 195 thousand)	546	745
Other assurance services	100	81
Tax consultation services	0	0
Other services	0	0
	646	**826**

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has been appointed as the auditor starting in the 2018 financial year.

In the previous year, fees paid to the subgroup auditor at that time, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, were also incurred for auditing services in the amount of EUR 222 thousand (of which EUR 22 thousand related to previous years) as well as for other assurance services in the amount of EUR 3 thousand for the Fair Value REIT subgroup. In addition, EUR 30 thousand was charged in the 2020 financial year for auditing services performed in the previous year by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn.

In addition to the auditing services, other assurance services (non-audit services) were provided in the 2019 and 2020 financial years, primarily in connection with the granting of comfort letters within the scope of the issue of the new 2019 / 2024 bond.

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4. Executive board, supervisory board and employees

a. EXECUTIVE BOARD

The following were members of the Executive Board during the reporting period and comparable prior-year period:

Mr Ingo Hartlief (FRICS) (Chairman of the Executive Board since 20 December 2018)

Mr Tim Brückner (Chief Financial Officer since 1 February 2019)

Mr Ralf Kind (CEO/CFO until 3 January 2019)

In the 2020 financial year, DEMIRE AG recognised variable remuneration in the amount of EUR 332 thousand (previous year: EUR 240 thousand), fixed remuneration of EUR 703 thousand (previous year: EUR 1,083 thousand) and share-based payments of EUR 67 thousand (previous year: EUR 159 thousand) for the members of the Executive Board.

in EUR thousands	2019	2020
Short-term benefits	1,323	1,036
Post-employment benefits	0	0
Other long-term benefits	0	0
Benefits related to termination of employment	0	0
Share-based remuneration	159	67
Total	**1,482**	**1,103**

As at the reporting date, EUR 226 thousand (previous year: EUR 461 thousand) of share-based payments and EUR 333 thousand (previous year: EUR 920 thousand) of bonus payments were still outstanding.

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

in EUR thousands	Fixed remuneration	Performance-based remuneration	Share-based remuneration	TOTAL 2020
Ingo Hartlief (FRICS)	414	190	19	623
Tim Brückner	289	143	48	480
Total	**703**	**333**	**67**	**1.103**

The remuneration of the active Executive Board members in the prior year consisted of the following:

in EUR thousands	Fixed remuneration	Performance-based remuneration	Share-based remuneration	Total 2019
Ingo Hartlief (FRICS)	835*	190	126	1.151
Tim Brückner	245	50	33	328
Total	**1.080**	**240**	**159**	**1.479**

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

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A former Executive Board member received a gross basic salary of EUR 3 thousand in 2019 under an Executive Board contract that was prematurely terminated with effect from 3 January 2019. The amount of any remaining compensation to which this Executive Board member may still be entitled is open, as these issues are currently the subject of pending legal proceedings; however, a provision amounting to EUR 1,920 thousand has been recognised. Reference is made to the explanations in the remuneration report contained in the combined management report.

No loans or advances were granted to members of the Executive Board and no contingencies were assumed for the benefit of Executive Board members.

b. SUPERVISORY BOARD

The members of DEMIRE AG's Supervisory Board, their professions and Supervisory Board remuneration received during the past financial year are listed in the table below.

NAME

in EUR thousands	Position	Profession	Period	2019	2020
Prof. Dr Alexander Goepfert	Chair	Attorney-at-Law	Since 27 June 2018	90	90
Frank Hölzle	Vice Chair	Managing director	Since 14 February 2017	60	60
Prof. Dr Kerstin Hennig	Member	Professor	Since 29 May 2019	17.5	30
Dr Thomas Wetzel	Member	Attorney-at-Law	Since 14 February 2017 to 29 May 2019	12.5	0
Total				**180**	**180**

Supervisory Board members were also reimbursed for travel expenses in the amount of EUR 0.7 thousand (previous year: EUR 15 thousand).

The members of the Executive Board were not granted any loans or advances, and no contingencies were assumed for their benefit.

c. EMPLOYEES

The number of employees is listed in the following table:

in EUR thousands	31 Dec. 2019	31 Dec. 2020
Executive Board members	2	2
Permanent employees	41	37
Trainees	0	0
Total	**43**	**39**

The average number of employees in the 2020 financial year was 39 (previous year: 38).

d. SHARE-BASED PAYMENTS

2015 STOCK OPTION PROGRAMME

In the 2015 financial year, share-based payments were issued in the form of subscription rights (stock options) to the Executive Board of DEMIRE AG as well as to a selected group of persons within the DEMIRE Group. The stock option programme is an option plan, which is settled with equity instruments (equity-settled share option plan). The option plan only provides for the possibility of settling the stock option programme in shares of DEMIRE AG. Accounting for the share-based payments issued is in accordance with IFRS 2.

The dilutive effect of the outstanding stock options is taken into account as an additional dilution in the calculation of earnings per share, provided that the

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stock options and the underlying conditions result in a calculated dilution for the existing shareholders.

The exercise of subscription rights is subject to the Company's share price in XETRA trading on the Frankfurt Stock Exchange (or a comparable successor system) being at least 10% higher than the basic price on the trading day preceding the exercise of the subscription rights.

A total of 1,000,000 share options were allocated. A total of 1,000,000 stock options were granted, of which 800,000 were granted in the first tranche to members of the Executive Board and 200,000 to selected DEMIRE AG and Group employees. The fair value of each option from the first tranche was EUR 2.74. In a second tranche, adjusted for those share options returned by employees who left (90,000 share options), a total of 60,000 new options were issued. The fair value of each option from the second tranche was EUR 1.99. As at the reporting date, the first tranche still contains an entitlement to 400,000 stock options for one former member of the Executive Board and to 110,000 stock options for selected employees. In the reporting period, there were no changes in the number of shares issued in comparison to the previous period.

The option term is nine years from the issue date. The first four years constitute a vesting period.

In the reporting period, no further expenses arose from this stock option programme. In the previous year, these expenses amounted to EUR 4 thousand.

2017 AND 2018 VIRTUAL STOCK OPTION PROGRAMMES

The 2017 and 2018 Virtual Stock Option Programmes concerned a former Executive Board member. A provision was formed to the amount of the potential outstanding compensation.

2019 VIRTUAL STOCK OPTION PROGRAMME

This stock option programme was issued to Mr Ingo Hartlief (FRICS) with effect from 1 January 2019 and to Mr Tim Brückner with effect from 1 February 2019. Under this share programme, each member of the Executive Board is annually granted performance share units (PSUs) with an allocation amount of EUR 310 thousand for Mr Ingo Hartlief (FRICS) and EUR 185 thousand for Mr Tim Brückner. The number of PSUs granted is determined based on the allocation amount divided by the average share price of DEMIRE AG 60 trading days prior to the grant date. The grant is made annually, with the first grant made on the date mentioned above.

The PSUs are paid out after a performance period of four years from the grant date, depending on whether performance targets are reached. The performance targets consist of 50% annual stock price increases and 50% relative total shareholder return (TSR). The relative TSR compares the development of DEMIRE's TSR with the return of the EPRA / NAREIT Developed Europe Index UK over the four-year performance period. The entitlement is forfeited if the respective member of the Executive Board resigns from office during the performance period.

As at 31 December 2020, the provision for the virtual stock option programme, which has applied since 2019, amounts to EUR 226 thousand (previous year: EUR 159 thousand). In addition to the 2019 tranche, the 2020 and 2021 tranches were also taken into account. The 60-day average price before granting the 2019 tranche is EUR 4.21 for Mr Ingo Hartlief (FRICS) and EUR 4.33 for Mr Tim Brückner. With regard to the 2020 and 2021 tranches, a 60-day average of EUR 5.08 was used, which corresponds to the price on the last reporting date.

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5. Subsequent events

On 8 December 2020, the Company announced that it intended to buy back up to 1,000,000 shares at a price of EUR 4.39 per share, as part of another public share buy-back offer. As at the expiration of the acceptance period on 4 January 2021, DEMIRE AG had bought back a total of 259,729 shares.

Due to contractual provisions regarding rent obligations during the coronavirus lockdown, the rent obligations for one retail property tenant were reduced by 50% for the duration of the lockdown. The resulting effect for 2021 amounts to EUR 244 thousand.

On 26 February 2021, DEMIRE acquired a stake in the office building on Frankfurt's Theodor-Heuss-Allee and became an equal partner with the RFR Group. DEMIRE secured a right of first refusal through the transaction. The value of the entire transaction comes to over EUR 270 million. The parties to the transaction expect it to be finalised during the second quarter of this year.

On 4 March 2021, the majority shareholders sent a letter to the Company asking that it consider distributing a substantial dividend in the amount of the retained earnings for the year 2020 as well. The Executive Board and Supervisory Board reviewed this request and will propose a dividend of EUR 0.62 per share at the Annual General Meeting.

6. Declaration of conformity with the german corporate governance code in accordance with Section 161 AktG

The Declaration of Conformity with the German Corporate Governance Code was issued on 4 March 2021 and made permanently available to shareholders on the website of DEMIRE AG under the section titled “Company”.

Frankfurt am Main, 16 March 2021
DEMIRE Deutsche Mittelstand Real Estate AG

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

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RESPONSIBILITY STATEMENT

As a member of the Executive Board of DEMIRE Deutsche Mittelstand Real Estate AG, I hereby affirm that, to the best of my knowledge, the consolidated financial statements give a true and fair view of the Group's net assets, financial and earnings position in accordance with the applicable accounting principles, the Group management report, which is combined with the Company's management report, and that the Group management report gives a true and fair view of the development and performance of the business, including the business results and the position of the Group, together with a description of the principal opportunities and risks associated with the Group's expected development.

Frankfurt am Main, 16 March 2021

Ingo Hartlief (FRICS)
(CEO)

Tim Brückner
(CFO)

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INDEPENDENT AUDITOR'S REPORT

The audit opinion shown below also includes a "Report on the audit of the electronic versions of the financial statements and the management report pursuant to Section 317 (3b) HGB created for the purposes of disclosure" ("ESEF Report"). The subject matter of the audit (ESEF documents to be audited) underlying the ESEF Report is not attached. The audited ESEF doc-uments can be consulted in, or retrieved from, the Federal Gazette.

To DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINION

We have audited the consolidated financial statements of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31. Dezember 2020, the consolidated statement of comprehensive income, the consolidat-ed statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1. Januar to 31. Dezember 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DEMIRE Deutsche Mittelstand Real Estate AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sections 289f and 315d HGB.

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

— the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and

— the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINION

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Fi-nancial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) letter (f) of the EU Audit Regulation, we declare that we have not provided nonaudit services prohibited

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under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of investment properties
2. Presentation, measurement and related disclosures of financial liabilities

Our presentation of these key audit matters has been structured in each case as follows:

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

Hereinafter, we present the key audit matters:

1. Recoverability of investment properties

1. Investment properties amounting to EUR 1,426,291 thousand (87.8% of total assets) were recognised in the Company's consolidated financial statements as of 31 December 2020. The Company exercises the option set out in IAS 40.30 of accounting for investment properties using the fair value model in accordance with IFRS 13. Accordingly, changes in market value realised when properties are sold, as well as unrealised changes in the fair value (market value), are recognised at fair value through profit or loss. In the past financial year, EUR -22,134 thousand in unrealised changes in market value were recognised through profit or loss in the consolidated statement of income.

When determining the fair value of investment property, it is assumed that the current use corresponds to the highest and best use of the property.
When determining the fair value of investment property, it is assumed that the current use corresponds to the highest and best use of the property. Fair value is determined by using a model based on projections of net cash inflows from the management of the properties which are derived using the discounted cash flow method. This model was created by the executive directors with the support of an external advisory firm.

This model was created by the executive directors with the support of an external advisory firm. A market value is determined for properties with no positive net cash inflows (usually vacant buildings) using a liquidation value method. Undeveloped land is usually measured based on an indirect comparison of indicative land values. To the fullest extent possible, data directly observable on the market are used for measurement purposes (sources include property market reports prepared by expert committees and public and subscription-based market databases). The measurement of investment properties is based on a large number of relevant parameters, which are in general subject to uncertainties with regard to estimates and judgements. The most significant measurement parameters are expected cash flows, the assumed vacancy rate and the discount and capitalisation rate. Even slight changes in the measurement parameters can result in material changes in fair value. In our view, this matter was of particular significance for our audit, because the measurement of investment properties is in general subject to substantial judgement and estimation uncertainties and there is the risk that the changes in fair value which are recognised through profit or loss do not fall within an appropriate range.

2. As part of our audit, in collaboration with specialists with the relevant skills and expertise from Valuation, Modeling & Analytics, we assessed the measurement models used for investment properties with respect to their compliance with IAS

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40 in conjunction with IFRS 13, the correctness and completeness of the property portfolio data used and the appropriateness of the valuation parameters used, such as the expected cash flows (market rent per m^2, planned maintenance per m^2), the assumed vacancy rate and the discount and capitalisation rate. We also carried out analytical audit procedures and tests of details with respect to the material parameters having an influence on value. Furthermore, we examined the plausibility of calculations based on a comparison of results at the level of the individual properties as well as at the portfolio level against our expectations to the change in value. As part of our audit procedures, we prepared a comparison calculation for specific properties on a sample basis using the discounted cash flow method. The valuation method for investment properties is appropriately designed and suitable for calculating fair values in accordance with IFRS. The underlying assumptions reflect the current market level.

3. The Company’s disclosures relating to investment properties are contained in sections C and E.1.3 of the notes to the consolidated financial statements.

2. Presentation, measurement and related disclosures of financial liabilities

1. Financial liabilities amounting to EUR 829,712 thousand (51.0% of total assets) were recognised in the Company’s consolidated financial statements as of 31 December 2020. The financial liabilities relate to the 2019 / 2024 corporate bond amounting to EUR 592,005 thousand and financial liabilities to credit institutions and third parties in the amount of EUR 237,708 thousand.

   The vast majority of financial liabilities have fixed interest rates. There were no hedging activities made for interest volatilities. Financial liabilities are initially recognised at fair value, taking into account transaction costs as well as premiums and discounts. The fair value at the grant date is equivalent to the present value of future payment obligations based on a market rate of interest for obligations featuring the same term and level of risk. In case of derivatives requiring separate accounting on initial recognition, these are accounted for separately from the underlying contract. There was no derivative requiring separate accounting for the bond issued. Subsequent measurement is carried out at amortised cost using the effective interest method. The effective interest rate is determined at the date on which the financial liabilities are recognised initially. The matters presented above were of particular significance for our audit due to the amount of financial liabilities and the risk related therewith.

2. We involved specialists with the relevant skills and expertise from our Corporate Treasury Solutions (CTS) department in the audit of the accounting treatment and measurement of the financial liabilities. For the audit of financial liabilities, related agreements were selected according to specific riskoriented criteria and we evaluated whether the relevant measurement parameters and any embedded derivatives were properly recorded. In addition, a recalculation of amortised costs was carried out on a sample basis and analytical audit procedures were carried out for all financial liabilities. As part of our audit of the fair values disclosed in the notes to the financial statements for the financial liabilities, which are valued at amortised cost, we assessed the valuations based on the relevant market data (yield curves) and the base data used on a selective sample basis. We obtained bank confirmations to assess whether all financial liabilities were recognised in full.

   The reporting of the financial liabilities by the Company’s legal representatives is appropriate. The valuation method applied and the underlying assumptions and valuation parameters are, in our opinion, appropriate overall.

3. The Company's disclosures relating to financial liabilities are contained in sections C, E.5.3 and G.1 of the notes to the consolidated financial statements.

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OTHER INFORMATION

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

The other information comprises further the remaining parts of the annual report

– excluding crossreferences to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

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

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

— contains material inconsistencies with the consolidated financial statements, the group management report or the knowledge gained from our audit, or
— otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional require-ments of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabili-ties, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MAN-AGEMENT REPORT

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

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

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

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

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the Group audit. We are solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these

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assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the audit of the electronic versions of the consolidated financial statements and the group management report pursuant to Section 317 (3b) HGB created for the purposes of disclosure

AUDIT OPINION

We carried out an audit pursuant to Section 317 (3b) HGB to determine with reasonable assurance whether the versions of the consolidated financial statements and the group management report created for the purposes of disclosure in the attached file DEMIRE Deutsche Mittelstand Real Es-tate_AG_KA+KLB_ESEF-2020-12-31.zip (hereinafter referred to as "ESEF documents") comply with the requirements of Section 328 (1) HGB in all material respects with regard to the electronic re-porting format ("ESEF format"). In accordance with German legal requirements, this audit only covers the transfer of information from the consolidated financial statements and the group management report into the ESEF format, and therefore does not include the information included in these versions or other information in the abovementioned file.

In our opinion, the versions of the consolidated financial statements and the group management report created for disclosure purposes in the abovenamed file comply in all material respects with the requirements of Section 328 (1) HGB relating to electronic reporting. We cannot issue any audit opinion on the information included in these versions or on the information included in the abovenamed file that goes beyond this audit opinion and the audit opinions included in the above "Report on the audit of the consolidated financial statements and of the group management report" for the accompanying consolidated financial statements and group management report for the financial year from 1 January to 31 December 2020.

BASIS FOR THE AUDIT OPINION

We carried out our audit of the versions of the consolidated financial statements and the group management report included in the abovenamed file in compliance with Section 317 (3b) HGB, taking into consideration the draft of the IDW auditing standard: Auditing electronic versions of financial statements and management reports pursuant to Section 317 (3b) HGB created for the purposes of disclosure (IDW EPS 410) and the draft of the International Standard on Assurance Engagements 3000 (Revised). Our responsibilities according to these standards are described in further detail in the section "Responsibilities of the Group auditor for auditing ESEF documents". Our auditing firm applied the requirements of the quality assurance system of the IDW quality assurance standard: Quality assurance requirements for auditing firms (IDW QS 1).

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RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD REGARDING ESEF DOCUMENTS

The Company's executive directors are responsible for issuing ESEF documents with the electronic versions of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4, item 1 HGB and for issuing the consolidated financial statements in accordance with Section 328 (1) sentence 4, item 2 HGB.

Furthermore, the Company's executive directors are responsible for the internal controls deemed necessary in order to facilitate the preparation of ESEF documents free from material infringements, whether due to fraud or error, of the requirements pursuant to Section 328 (1) HGB in terms of the electronic reporting format.

The Company's executive directors are also responsible for submitting to the publishers of the Federal Gazette the ESEF documents together with the auditor's report and the accompanying audited consolidated financial statements and audited group management report, as well as other documents requiring disclosure.

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the accounting process.

RESPONSIBILITIES OF THE GROUP AUDITOR FOR AUDITING THE ESEF DOCUMENTS

We aim to obtain sufficient assurances as to whether the ESEF documents are free from material infringements, whether due to fraud or error, of the requirements pursuant to Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material infringements, whether due to fraud or error, of the requirements pursuant to Section 328 (1) HGB, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- Obtain an understanding of internal controls relevant to the audit of ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents fulfils the technical specifications for this file as outlined in the requirements of the Delegated Regulation (EU) 2019/815 in the version valid as at the reporting date.

- Assess whether the ESEF documents enable the reproduction of the content of the audited consolidated financial statements and the audited management report as an XHTML file.

- Evaluate whether the use of Inline XBRL technology (iXBRL) for the ESEF documents facilitates the creation of an appropriate and fully machinereadable XBRL copy of the XHTML version.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as Group auditor by the Annual General Meeting on 22 September 2020. We were engaged by the Supervisory Board on 16 November 2020. We have been the Group auditor of DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, without interruption since the 2018 financial year.

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

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RESPONSIBLE AUDITOR

The German Public Auditor responsible for the engagement is Dr Frederik Mielke.

Berlin, 16 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr Frederik Mielke	pp Patrick Franke
(Auditor)	(Auditor)

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SHAREHOLDINGS

APPENDIX 1 OF THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE OF SHAREHOLDINGS PURSUANT TO SECTION 313 (2) HGB

GERMANY

	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
DEMIRE Apolda Wurzen GmbH, Berlin	94.9	2,089,022.24	– 882,123.57
DEMIRE HB HZ B HST GmbH, Berlin	94.9	11,854,720.56	– 1,601,205.33
DEMIRE Leipzig Am alten Flughafen 1 GmbH, Leipzig	94.9	3,282,959.28	0.00
DEMIRE Immobilien Management GmbH i. L., Berlin	100	– 164,835.83	-403,518.83
Panacea Property GmbH, Berlin [1]	51	6,971.07	– 7,352.87
Fair Value REIT-AG, Frankfurt am Main	84.35	85,128,804.43	4,159,518.85
IC Fonds & Co. Büropark Teltow KG i.L., Munich	65.9	0.00	– 75,884.12
IC Fonds & Co. SchmidtBank-Passage KG, Munich [2]	45.78	6,570,099.09	– 388,183.16
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG, Munich [2]	43.24	12,474,916.05	1,521,190.58
BBV Immobilien-Fonds Nr. 8 GmbH & Co. KG, Munich [2]	50.56	6,843,143.54	1,145,595.06
GP Value Management GmbH, Munich	84.35	204,114.36	21,658.40
BBV 6 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV 10 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV 14 Geschäftsführungs-GmbH & Co. KG, Munich	84.35	25,000.00	0.00
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG, Munich [2]	44.76	6,884,364.87	634,226.02
IC Fonds & Co. Gewerbeobjekte Deutschland 15. KG, Munich [2]	40.78	13,824,665.07	1,016,621.74
FVR Beteiligungsgesellschaft Erste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Zweite mbH & Co. KG, Frankfurt am Main	100	10,627,432.43	0.00
FVR Beteiligungsgesellschaft Dritte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Vierte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Fünfte mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Sechste mbH & Co. KG, Frankfurt am Main	100	10,627,433.43	0.00
FVR Beteiligungsgesellschaft Siebente mbH Co. KG, Frankfurt am Main	100	10,627,433.43	0.00

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GERMANY

	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
FVR Beteiligungsgesellschaft Achte mbH & Co. KG, Frankfurt am Main	100	8,750,356.15	0.00
FVR Beteiligungsgesellschaft Neunte mbH & Co. KG, Frankfurt am Main	100	100.00	0.00
DEMIRE Holding II GmbH, Frankfurt am Main	100	42,874,212.91	11,119,284.28
DEMIRE Unterschleißheim Ohmstraße 1 GmbH, Frankfurt am Main	100	– 341,875.12	11,988,707.30
DEMIRE Meckenheim Merl GmbH, Frankfurt am Main	100	10,171,667.71	0.00
Schwerin Margaretenhof 18 GmbH, Frankfurt am Main	94.9	– 58,597.05	170,631.99
DEMIRE Holding III GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Worms Liebenauer Straße GmbH, Frankfurt am Main	94	311,144.45	2,500,827.10
DEMIRE Schwerin Am Margaretenhof 22–24, Berlin	94	332,392.18	146,825.47
DEMIRE Holding IV GmbH, Frankfurt am Main	100	–7,974,993.70	0.00
DEMIRE Holding V GmbH, Frankfurt am Main	100	– 5,456,202.83	0.00
DEMIRE Holding VI GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VII GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding VIII GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Eschborn Frankfurter Straße GmbH, Frankfurt am Main	94	174,124.26	149,124.26
DEMIRE Bad Kreuznach Brückes Hochstr. GmbH, Frankfurt am Main	94	75,376.69	0.00
DEMIRE Holding IX GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Düsseldorf Wiesenstraße 70 GmbH, Frankfurt am Main	94	178,616.70	160,720.70
DEMIRE Bad Oeynhausen Dr. Neuhäußer Straße 4 GmbH, Frankfurt am Main	94	37,528.89	0.00
DEMIRE Lichtenfels Bamberger Straße 20 GmbH, Frankfurt am Main	94	206,863.96	0.00
DEMIRE Holding I GmbH, Frankfurt am Main	100	179,729.60	71,187.60
DEMIRE Assekuranzmakler GmbH & Co. KG, Düsseldorf	47.5	1,050.00	0.00
G+Q Effizienz GmbH, Berlin	49	704,765.96	312,922.79
DEMIRE Kassel Kölnische Str. Mauerstr. Spohrstr. GmbH, Leipzig	94.9	829,739.13	0.00
DEMIRE Betriebsvorrichtungen Nr. 2 GmbH, Düsseldorf	100	73,640.19	148,763.89
DEMIRE Limbach Oberfrohna Moritzstraße 13 GmbH, Frankfurt am Main	94	25,000.00	0.00

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GERMANY

	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
DEMIRE Betriebsvorrichtungen Nr. 1 GmbH, Frankfurt am Main	100	– 193,830.40	– 46,198.72
DEMIRE Holding XI GmbH, Frankfurt am Main	100	18,980.41	0.00
DEMIRE Holding X GmbH, Frankfurt am Main	100	25,000.00	0.00
DEMIRE Holding XII GmbH, Frankfurt am Main	100	– 6,382,107.68	– 1,077,377.27
DEMIRE Holding XIII GmbH, Frankfurt am Main	100	– 106,926.83	– 13,227.06
DEMIRE AN BN R PM FR FL GmbH, Frankfurt am Main	94.9	39,395,085.67	0.00
DEMIRE Ulm Bahnhofplatz Olgastr. Zeitblomstr. GmbH, Frankfurt am Main	94	– 18,593,744.98	– 321,434.22
DEMIRE Kempten Bahnhofstr. Hirschstr. Alpenstr. GmbH, Frankfurt am Main	94	– 3,733,460.83	101,302.20
DEMIRE Köln Max-Glomsda-Straße 4 GmbH, Frankfurt am Main	100	– 81,504.66	261,034.92
DEMIRE Bad Vilbel Konrad Adenauer Allee 1 – 11 GmbH, Frankfurt am Main	100	– 2,824,479.35	-860,484.23
DEMIRE Essen Hatzper Str. Theodor-Althoff-Str. GmbH, Frankfurt am Main	100	– 288,924.58	603,031.34
DEMIRE Aschheim Max-Planckstraße GmbH, Frankfurt am Main	100	–703,405.18	– 264,855.37
DEMIRE Neuss Breslauer Straße GmbH, Frankfurt am Main (formerly: DEMIRE Ankauf 5 GmbH, Frankfurt am Main)	100	770,681.40	824,425.03
DEMIRE Frankfurt Gutleutstraße 85 GmbH, Frankfurt am Main (formerly: DEMIRE Ankauf 6 GmbH, Frankfurt am Main)	100	– 651,673.87	– 651,165.35
DEMIRE Ankauf 7 GmbH, Frankfurt am Main	100	– 10,956.94	– 14,972.19
DEMIRE Ankauf 8 GmbH, Frankfurt am Main	100	– 10,956.94	– 14,972.19
DEMIRE Ankauf 9 GmbH, Frankfurt am Main	100	– 10,927.17	– 14,540.66
DEMIRE Ankauf 10 GmbH, Frankfurt am Main	100	– 10,926.81	– 14,982.00
DEMIRE Trier Celle GmbH, Frankfurt am Main	94.9	– 5,373,323.58	– 2,584,119.32
DEMIRE Goslar, Rosentorstraße 1 GmbH, Frankfurt am Main	94.9	– 63,363.32	142,023.07
DEMIRE Memmingen, Königsgraben 3 GmbH, Frankfurt am Main	94.9	– 401,167.55	76,554.10
DEMIRE Offenburg Lindenplatz 3 GmbH, Frankfurt am Main	94.9	– 408,194.11	161,137.36
DEMIRE BT HB DO HCLZ KS KO GmbH, Frankfurt am Main (formerly: Reubescens S.à.r.l, Luxemburg)	94	– 3,175,703.32	1,765,788.02
DEMIRE Darmstadt Artillerie Str. 9 GmbH, Frankfurt am Main (formerly: Blue Ringed S. à r. l., Luxemburg)	94	– 241,368.27	3,482,703.96
DEMIRE Leonberg Neue Ramtelstraße GmbH, Frankfurt am Main (formerly: GO Leonberg ApS, Kopenhagen)	94	– 1,604,050.64	38,230.47
DEMIRE Ludwigsburg Uhlandstraße 21 GmbH, Frankfurt am Main (formerly: GO Ludwigsburg ApS, Kopenhagen)	94	– 3,055,903.57	– 236,577.05

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DENMARK

COMPANY	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
GO Bremen ApS, Copenhagen	94.00	– 14,660,489.65	236,020.22

SWITZERLAND

COMPANY	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
Sihlegg Investments Holding GmbH, Wollerau	94.00	– 2,422,133.26	– 270,138.62

CYPRUS

COMPANY	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
Denston Investments Ltd., Nicosia	94.00	– 1,847,684.03	– 573,907.69

NETHERLANDS

COMPANY	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
MAGNAT Investment I B. V., Hardinxveld Giessendamm [1, 3]	100.00	2,329,986.00	168,242.00

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ROMANIA

COMPANY	Share in capital %	Equity 31 Dec. 2020 in EUR	Net profit/loss 2020 in EUR
SC Victory International Consulting s. r. l., Bucharest [1, 3]	100.00	911,512.00	– 25,891.50

1 Not fully consolidated due to its insignificance for the Group
2 Fully consolidated because de facto control is exercised through quorum majority at the shareholder meeting
3 Equity and net profit/loss as at 31 December 2018

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REAL ESTATE VALUATION PARAMETERS

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	31 Dec. 2019	31 Dec. 2020
Average market rent (in EUR per m² per year)	92.41	98.69
Range of market rents (in EUR per m², per year)	30.15 – 224.64	39.03 – 301.61
Lettable space as at reporting date (in m²)	1,103,060	970,439
Vacant space as at reporting date (in m²)	113,582	87,735.91
Value-based vacancy rate according to EPRA (in %)	9.42	6.90
Average vacancy rate based on lettable space (in %)	10.30	9.00
Range of vacancy rates based on lettable space (in %)	0.00 – 100	0.00 – 74.60
Weighted average lease term – WALT (in years)	4.78	4.90

The year-on-year reduction in total lettable space and vacant space resulted from the disposal of the real estate in Darmstadt (5,538 m²), Limbach-Oberfrohna (2,562 m²), Wurzen (3,424 m²), Genthin (1,275 m²), Herzberg (1,177 m²), Eisenhüttenstadt (29,259 m²), Appen (212 m²), Koblenz (2,379 m²), Worms (2,166 m²), Meschede (1,095 m²), Unterschleißheim (15,663 m²) and the properties in Bremen (totalling 9,786 m²).

The basis for rental income planning is the rental payments contractually agreed with the tenants as well as prevailing customary local market rents for unleased space on the valuation date. The contractually agreed monthly rents per m² on the valuation date for the various types of use are shown in the following table:

CONTRACTUAL RENTS

in EUR per m² per year		2019	2020
Office	Min.	3.52	3.54
	Max.	19.63	20.06
	Avg.	8.63	8.62
Retail	Min.	3.20	4.00
	Max.	19.71	17.57
	Avg.	8.79	9.00
Other	Min.	2.35	3.16
	Max.	10.05	25.14
	Avg.	2.83	4.26
Total	Min.	2.35	3.16
	Max.	19.71	25.14
	Avg.	**7.55**	**7.91**

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SENSITIVITY ANALYSIS OF REAL ESTATE VALUATION AS AT 31 DECEMBER 2020

APPENDIX 3 OF THE CONSOLIDATED FINANCIAL STATEMENTS

TOTAL

in EUR

DISCOUNT RATE	CAPITALISATION RATE					
	+ 0.50%	in %	± 0.00%	in %	- 0.50%	in %
+ 0.50%	– 133,900,000	– 9%	– 54,910,000	– 4%	+ 40,710,000	+ 3%
± 0.00%	– 82,970,000	– 6%	—	—	+ 99,970,000	+ 7%
– 0.50%	– 29,330,000	– 2%	+ 57,490,000	+ 4%	+ 162,770,000	+ 12%

OFFICE

in EUR

DISCOUNT RATE	CAPITALISATION RATE					
	+ 0.50%	in %	± 0.00%	in %	- 0.50%	in %
+ 0.50%	– 87,440,000	– 10%	– 35,410,000	– 4%	+ 27,550,000	+ 3%
± 0.00%	– 54,560,000	– 6%	—	—	+ 66,120,000	+ 7%
– 0.50%	– 20,170,000	– 2%	+ 37,200,000	+ 4%	+ 106,540,000	+ 12%

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RETAIL

in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	**in %**	**±0.00%**	**in %**	**-0.50%**	**in %**
+0.50%	–32,400,000	–9%	–13,940,000	–4%	+8,060,000	+2%
±0.00%	–19,430,000	–5%	—	—	+22,760,000	+6%
–0.50%	–5,740,000	–2%	+14,390,000	+4%	+38,600,000	+11%

LOGISTICS

in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	**in %**	**±0.00%**	**in %**	**-0.50%**	**in %**
+0.50%	–6,600,000	–9%	–2,900,000	–4%	+1,500,000	+2%
±0.00%	–3,900,000	–5%	—	—	+4,600,000	+6%
–0.50%	–1,000,000	–1%	+3,100,000	+4%	+7,900,000	+10%

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OTHERS

in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+ 0.50%	in %	± 0.00%	in %	- 0.50%	in %
+ 0.50%	– 7,460,000	– 11%	– 2,660,000	– 4%	+ 3,600,000	+ 5%
± 0.00%	– 5,080,000	– 7%	—	—	+ 6,490,000	+ 9%
– 0.50%	– 2,420,000	– 3%	+ 2,800,000	+ 4%	+ 9,730,000	+ 14%

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A difference in the market rent led to the following changes:

TOTAL

in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10%	1,277,700,000	– 132,800,000	– 9%
– 5%	1,343,940,000	– 66,560,000	– 5%
± 0%	1,410,500,000	—	—
+ 5%	1,476,650,000	+ 66,150,000	+ 5%
+ 10%	1,543,220,000	+ 132,720,000	+ 9%

RETAIL

in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10%	326,590,000	– 34,130,000	– 9%
– 5%	343,480,000	– 17,240,000	– 5%
± 0%	360,720,000	—	—
+ 5%	377,550,000	+ 16,830,000	+ 5%
+ 10%	394,690,000	+ 33,970,000	+ 9%

OFFICE

in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10%	818,300,000	– 84,510,000	– 9%
– 5%	860,410,000	– 42,400,000	– 5%
± 0%	902,810,000	—	—
+ 5%	944,910,000	+ 42,100,000	+ 5%
+ 10%	987,320,000	+ 84,510,000	+ 9%

LOGISTICS

in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
– 10%	67,500,000	– 8,500,000	– 11%
– 5%	71,800,000	– 4,200,000	– 6%
± 0%	76,000,000	—	—
+ 5%	80,300,000	+ 4,300,000	+ 6%
+ 10%	84,500,000	+ 8,500,000	+ 11%

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OTHERS

in EUR

MARKET RENT	VALUE	ABSOLUTE DELTA	RELATIVE DELTA
–10%	65,310,000	–5,660,000	–8%
–5%	68,250,000	–2,720,000	–4%
±0%	70,970,000	—	—
+5%	73,890,000	+2,920,000	+4%
+10%	76,710,000	+5,740,000	+8%

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AS AT 31 DECEMBER 2019

TOTAL

in EUR

DISCOUNT RATE						**CAPITALISATION RATE**
	+0.50%	**in %**	**±0.00%**	**in %**	**-0.50%**	**in %**
+0.50%	–133,980,000	–9%	–56,770,000	–4%	+36,060,000	+2%
±0.00%	–81,180,000	–6%	—	—	+97,200,000	+7%
–0.50%	–25,490,000	–2%	+58,950,000	+4%	+161,260,000	+11%

OFFICE

in EUR

DISCOUNT RATE						**CAPITALISATION RATE**
	+0.50%	**in %**	**±0.00%**	**in %**	**-0.50%**	**in %**
+0.50%	–91,610,000	–9%	–38,010,000	–4%	+26,390,000	+3%
±0.00%	–56,120,000	–6%	—	—	+67,600,000	+7%
–0.50%	–18,930,000	–2%	+39,650,000	+4%	+110,700,000	+11%

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RETAIL

in EUR

DISCOUNT RATE	CAPITALISATION RATE					
	+ 0.50%	in %	± 0.00%	in %	- 0.50%	in %
+ 0.50%	– 34,200,000	– 8%	– 15,200,000	– 4%	+ 8,000,000	+ 2%
± 0.00%	– 20,420,000	– 5%	—	—	+ 24,030,000	+ 6%
– 0.50%	– 5,460,000	– 1%	+ 15,520,000	+ 4%	+ 40,880,000	+ 10%

LOGISTICS

in EUR

DISCOUNT RATE	CAPITALISATION RATE					
	+ 0.50%	in %	± 0.00%	in %	- 0.50%	in %
+ 0.50%	– 5,700,000	– 8%	– 2,600,000	– 4%	+ 1,000,000	+ 1%
± 0.00%	– 3,200,000	– 4%	—	—	+ 3,800,000	+ 5%
– 0.50%	– 600,000	– 1%	+ 2,700,000	+ 4%	+ 6,700,000	+ 9%

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OTHERS

in EUR

DISCOUNT RATE						CAPITALISATION RATE
	+0.50%	in %	±0.00%	in %	-0.50%	in %
+0.50%	–2,470,000	–9%	–960,000	–3%	+670,000	+2%
±0.00%	–1,440,000	–5%	—	—	+1,770,000	+6%
–0.50%	–500,000	–2%	+1,080,000	+4%	+2,980,000	+10%

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SCHEDULE OF NON-CURRENT ASSETS

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in EUR thousand

	GOODWILL		OTHER INTANGIBLE ASSETS		OPERATING AND OFFICE EQUIPMENT		TECHNICAL EQUIPMENT		ADVANCE PAYMENTS	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Acquisition costs at the beginning of the financial year	7,246	7,246	222	224	1,023	1,173	1	0	0	0
Accumulated depreciation / amortisation / impairment as at the beginning of the financial year	463	463	121	126	559	728	0	0	0	0
Carrying amounts as at the beginning of the financial year	6,783	6,783	101	98	464	445	1	1	0	0
Additions	0	0	0	0	61	1	0	1	4,512	0
Reclassifications	0	0	0	0	85	0	0	0	–4,512	2,011
Disposals	0	0	0	1	0	24	0	0	0	2,011
Depreciation / amortisation	0	0	3	0	165	119	0	1	0	0
Acquisition costs at the end of the financial year	7,246	7,246	222	223	1,173	1,150	0	1	0	0
Accumulated depreciation / amortisation / impairment as at the end of the financial year	463	463	124	126	728	847	0	1	0	0
Carrying amounts as at the end of the financial year	6,783	6,783	98	97	445	303	1	0	0	0

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FUNDAMENTAL COMPANY DATA

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Name of the reporting company	DEMIRE Deutsche Mittelstand Real Estate AG
Company's registered office	Frankfurt am Main
Company's legal form	German stock corporation (AG)
Country in which the company is registered as a legal entity	Germany
Address of the registered office	Robert-Bosch-Straße 11, Langen
Headquarters	Robert-Bosch-Straße 11, Langen
Description of the nature of the company's business and its main activities	DEMIRE focuses on the German commercial real estate market and is active as an investor in and portfolio manager of secondary locations. DEMIRE itself carries out the acquisition, sale, management and leasing of commercial properties.
Name of the parent company	AEPF III 15 S. à. r. l. Luxembourg
Name of the ultimate parent company of the group of companies	BRH Holdings GP Ltd., Grand Cayman, Cayman Islands

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EPRA DISCLOSURES

General overview

DEMIRE AG supplements its reporting in accordance with International Financial Reporting Standards (IFRS) with the best practice recommendations of the European Public Real Estate Association (EPRA).

EPRA net initial yield

The EPRA net initial yield compares the annualised rental income (excluding non-allocable property expenses) with the market value of the property portfolio as at the balance sheet date. The "topped up" calculation includes hypothetical rents for expiring rent-free periods.

OVERVIEW OF EPRA KEY FIGURES

in EUR thousand	31 Dec. 2019	31 Dec. 2020
EPRA Net Asset Value (EPRA NAV)*	684,641	625,850
EPRA-Triple Net Asset Value (EPRA NNNAV)*	594,151	556,457
EPRA Net Reinstatement Value (EPRA NRV)*	818,887	755,346
EPRA Net Tangible Assets (EPRA NTA)*	688,128	629,809
EPRA Net Disposal Value (EPRA NDV)*	587,718	557,176
EPRA net initial yield (%)	5.2%	4.9%
EPRA "topped up" net initial yield (%)	5.2%	5.0%
EPRA vacancy rate (%)	9.4%	6.9%

in EUR thousand	2019	2020
EPRA earnings	-3,669	27,847
EPRA cost ratio incl. direct vacancy costs (%)	37.1%	36.9%
EPRA cost ratio excl. direct vacancy costs (%)	33.2%	33.1%

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EPRA NAV & EPRA NNNAV

The **EPRA Net Asset Value** (EPRA NAV) indicates the intrinsic value of a real estate company. The value is calculated on the basis of Group equity (before minorities) adjusted for effects arising from exercising options, convertible bonds and other equity rights, as well as for the market values of derivative financial instruments and deferred taxes, i.e. adjusted for items that have no influence on the long-term development of the Group.

EPRA NET ASSET VALUE (EPRA NAV)

in EUR thousand

		LESS TREASURY SHARES		
	31 Dec. 2019	31 Dec. 2020	Change	in %
Net asset value (NAV) in the reporting period	613,351	557,956	-55,395	-9.0%
Market value of derivative financial instruments	0	0	0	0.0%
Deferred taxes	75,518	72,122	-3,396	-4.5%
Goodwill resulting from deferred taxes	-4,738	-4,738	0	0.0%
Basic EPRA NAV	684,131	625,340	-58,791	-8.6%
Number of shares outstanding, in thousands (basic)	107,777	105,772	-2,005	-1.9%
Basic EPRA NAV per share	6.35	5.91	-0.44	-6.9%
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0%
Diluted EPRA NAV	684,641	625,850	-58,791	-8.6%
Number of shares outstanding, in thousands (basic)	108,287	106,282	-2,005	-1.9%
Diluted EPRA NAV per share	6.32	5.89	-0.43	-6.8%

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EPRA NET ASSET VALUE (NAV / EPRA NNNAV)

in EUR thousand

	31 Dec. 2019	31 Dec. 2020	Change	in %
Net asset value (NAV)	613,351	557,956	-55,395	-9.0%
Market value of derivative financial instruments	0	0	0	0.0%
Deferred taxes	75,518	72,122	-3,396	-4.5%
Goodwill resulting from deferred taxes	-4,738	-4,738	0	0.0%
EPRA NAV (basic)	**684,131**	**625,340**	**-58,791**	**-8.6%**
Number of shares outstanding (in thousands) (basic)	107,777	105,772	-2,005	-1.9%
EPRA NAV per share (EUR) (basic)	6.35	5.91	-0.44	-6.9%
Effect of the conversion of convertible bonds and other equity instruments	510	510	0	0.0%
EPRA NAV (diluted)	684,641	625,850	-58,791	-8.6%
Number of shares outstanding (in thousands) (diluted)	108,287	106,282	-2,005	-1.9%
EPRA NAV per share (EUR) (diluted)	**6.32**	**5.89**	**0.43**	**-6.8%**
Market value of derivative financial instruments	0	0	0	0.0%
Fair value adjustments in liabilities (bonds)	-21,022	3,831	24,853	–
Deferred taxes	-69,468	-73,224	-3,756	5.4%
EPRA NNNAV (diluted)	**594,151**	**556,457**	**-37,694**	**-6.3%**
EPRA NNNAV per share (EUR) (diluted)	**5.49**	**5.24**	**-0.25**	**-4.6%**

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EPRA NRV, EPRA NTA, EPRA NDV

The KPI **EPRA Net Tangible Assets** (EPRA NTA) represents the intrinsic value of a company adjusted for deferred taxes in relation to fair value movements on investment properties, the fair value of financial instruments and all intangible assets.

The KPI **EPRA Net Disposal Value** (EPRA NDV) represents the intrinsic value of a company adjusted for all deferred taxes in relation to fair value movements, goodwill reported on the balance sheet and changes in the market value of fixed interest rate liabilities.

The KPI **EPRA Net Reinstatement Value** (EPRA NRV) represents the intrinsic value of a company adjusted for fair value movements and the fair value of financial instruments.

NEW REPORTING STANDARD (EPRA NAV)

in EUR thousand	31 Dec. 2019			31 Dec. 2020		
	EPRA NRV	EPRA NTA	EPRA NDV	EPRA NRV	EPRA NAV	EPRA NNNAV
IFRS shareholders' equity	613,351	613,351	613,351	557,956	557,956	557,956
plus::						
I) Hybrid financial instruments	2,173	2,173	2,173	2,173	2,173	2,173
Diluted NAV	**615,524**	**615,524**	**615,524**	**560,129**	**560,129**	**560,129**
plus:*						
II. a) Revaluation of IP (when applying the IAS 40 cost option)	0	0	0	0	0	0
II. b) Revaluation of IPUC (when applying the IAS 40 cost option)	0	0	0	0	0	0
II. c) Revaluation of other assets	0	0	0	0	0	0
III.) Revaluation of leases held as finance leases	0	0	0	0	0	0
IV.) Revaluation of real estate inventory	0	0	0	0	0	0
Diluted NAV at market value	**615,524**	**615,524**	**615,524**	**560,129**	**560,129**	**560,129**

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NEW REPORTING STANDARD (EPRA NAV)

in EUR thousand		31 Dec. 2019			31 Dec. 2020	
Less:*						
V) Deferred taxes on valuation gains of investment properties	79,633	78,833	x	75,584	75,321	x
VI) Market value of derivative financial instruments	0	0	x	0	0	x
VII) Goodwill as a result of deferred taxes	-4,738	-4,738	-4,738	-4,738	-4,738	-4,738
VIII. a) Goodwill in accordance with IFRS	x	-2,045	-2,045	x	-2,045	-2,045
VIII. b) Intangible assets in accordance with IFRS	x	-98	x	x	-97	x
plus:*						
IX) Market value of fixed-interest liabilities (bonds)	x	x	-21,022	x	x	3,831
X) Revaluation of intangible assets at fair value (optional)	0	x	x	0	x	x
XI) Land transfer tax/ acquisition costs	128,469	652	x	124,371	1,240	x
Deferred taxes						
NAV	**818,887**	**688,128**	**587,718**	**755,346**	**629,809**	**557,176**
Number of shares (fully diluted)	108,287	108,287	108,287	106,282	106,282	106,282
NAV per share	**7.56**	**6.35**	**5.43**	**7.11**	**5.93**	**5.24**

*plus= assets (+) liabilities (-), whether on or off the balance sheet
*less= assets (-); liabilities (+) (part of balance sheet)

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EPRA net initial yield (NIY)

The KPI **EPRA Net Initial Yield** (EPRA NIY) is calculated as the annualised rental income divided by the fair value of the completed property portfolio, plus any anticipated ancillary acquisition costs for an investor.

The EPRA net initial yield compares the annualised rental income (excluding non-allocable property expenses) with the market value of the property portfolio as at the balance sheet date. The "topped up" calculation includes hypothetical rents for expiring rent-free periods.

EPRA NET INITIAL YIELD/TOPPED UP (EPRA NIY)

in EUR thousand

	31 Dec. 2019	31 Dec. 2020	Change	in %
Investment property	1,493,912	1,426,291	-67,621	-4.5%
Shares in companies accounted for using the equity method	343	596	253	73.8%
Real estate held for sale	16,305	31,000	14,695	90.1%
Real estate portfolio (net)	**1,510,559**	**1,457,887**	**-52,672**	**-3.5%**
Estimated ancillary acquisition costs	75,528	72,894	-2,634	-3.5%
Real estate portfolio (gross)	**1,586,087**	**1,530,781**	**-55,306**	**-3.5%**
Annualised cash rental income	89,936	85,171	-4,764	-5.3%
Non-allocable real estate operating costs	-7,728	-9,705	-1,977	25.6%
Annualised net cash rental income	**82,208**	**75,466**	**-6,742**	**-8.2%**
Rent-free periods	73	462	389	> 100%
Annualised "topped up" net rental income	**82,281**	**75,928**	**-6,352**	**-7.7%**
EPRA net initial yield	**5.2%**	**4.9%**	**-30 bp**	**-5.8%**
EPRA "topped up" net initial yield	**5.2%**	**5.0%**	**-20 bp**	**-3.8%**

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EPRA earnings

EPRA earnings represents the net income generated from core operational activities. This figure is adjusted in particular for measurement effects, deferred taxes and profits or losses on disposal recognised in net income.

EPRA EARNINGS

in EUR thousand

	31 Dec. 2019	31 Dec. 2020	Change	in %
Net profit/loss for the period	79,738	9,166	-70,572	-88.5%
Profit/loss from fair value adjustments in investment properties	-83,022	22,134	105,157	–
Profit/loss from the sale of real estate and real estate companies	-16,803	1,046	17,848	–
Profit/loss from companies accounted for using the equity method	-171	-247	-76	>100%
Profit/loss from the sale of real estate inventory	0	0	0	0.0%
Taxes on sales earnings	-73	-1	72	-99.2%
Impairment of goodwill	0	0	0	0.0%
Valuation result of financial instruments	0	0	0	0.0%
Acquisition costs for share deals and for shares in non-controlling joint ventures	0	0	0	0.0%
Deferred taxes on EPRA adjustments	13,466	-3,397	-16,863	0.0%
Non-controlling interests	3,196	-855	-4,052	–
EPRA earnings	**-3,669**	**27,847**	**31,516**	**–**
Number of shares outstanding (basic)	107,777	105,772	-2,005	-1.9%
EPRA earnings per share (EPS basic)	-0,03	0,26	0,30	–
Number of shares outstanding (diluted)	108,287	106,282	-2,005	-1.9%
EPRA earnings per share (EPS diluted)	-0.03	0.26	0.30	–

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EPRA cost ratios

As a ratio of EPRA costs to gross rental income, the EPRA cost ratio provides a statement on the cost efficiency of a real estate company – once including and once excluding direct vacancy costs.

EPRA COST RATIOS

in EUR thousand

	31 Dec. 2019	31 Dec. 2020	Change	in %
Administrative and operational costs according to IFRS	**30,152**	**32,015**	**1,863**	**6.2%**
General and administrative expenses	13,017	13,368	351	2.7%
Other operating expenses	874	1,366	492	56.3%
Operating expenses to generate rental income	35,886	38,608	2,722	7.6%
Income from utility and service charges	-19,625	-21,327	-1,701	8.7%
Amortisation and depreciation	168	293	125	>100%
EPRA costs (incl. vacancy costs)	30,320	32,308	1,988	6.6%
Direct vacancy costs	**-3,168**	**-3,370**	**-202**	**6.4%**
EPRA costs (excl. vacancy costs)	27,153	28,938	1,785	6.6%
Rental income	**81,799**	**87,509**	**5,710**	**7.0%**
EPRA cost ratio (incl. vacancy costs) in %	37.1%	36.9%	-20 bp	-0.4%
EPRA cost ratio (excl. vacancy costs) in %	**33.2%**	**33.1%**	**-10 bps**	**-0.3%**

EPRA capital expenditures

The acquisitions relate to a total of ten properties in 2019. These included an office property portfolio consisting of four properties, a department store portfolio with five properties and a distribution centre in Neuss. A property was purchased in Frankfurt in 2020.

The investments in the existing portfolio and "Other" mainly relate to value-enhancing conversion and expansion measures on various properties in our portfolios.

The DEMIRE Group had no interests in joint ventures in the 2020 financial year.

EPRA CAPITAL EXPENDITURE ANALYSIS

in EUR thousand	2019	2020
Acquisitions	299,941	43,082
Development portfolio*	0	0
Existing portfolio	3,412	4,550
Other**	851	8,815

* DEMIRE AG does not engage in real estate development
** Rent incentives

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EPRA vacancy rate

The EPRA vacancy rate is the ratio of market rent for vacant space to the market rent for the total space in the portfolio (as at the balance sheet date).

The decrease in the EPRA vacancy rate as at 31 December 2020 compared to the same date of the previous year is due to strong letting performance and sales with relevant vacant space.

EPRA VACANCY RATE*

in EUR thousand

	31 Dec. 2019	31 Dec. 2020	Change	in %
Estimated market rent vacancy	9,621,311	6,609,917	-3,011,394	-31.3%
Estimated market total portfolio	101,951,078	95,769,298	-6,181,780	-6.1%
EPRA vacancy rate in %	9.4%	6.9%	-2.5 pp	-26.9%

* excl. real estate held for sale

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EPRA like-for-like rental development

Like-for-like rental income is rental income from properties in a portfolio that have been held continuously within two comparison periods. Changes from portfolio additions and disposals are therefore not included. In a comparison of the periods, the organic component of the change in rental income from letting activities becomes particularly clear.

LIKE-FOR-LIKE DEVELOPMENT 31 DECEMBER 2020

31 Dec. 2020	TOTAL PORTFOLIO		Like-for-like Portfolio				
in EUR thousand				31 Dec. 2019	31 Dec. 2020	in EUR mio.	in %
	Market value	Annualised contractual rents	Market value	Annualised contractual rents	Annualised contractual rents	L-f-L development	L-f-L development
Office	933.8	54.3	933.8	53.5	54.3	0.7	1.3%
Retail	360.7	23.0	360.7	25.4	23.0	-2.4	-9.3%
Logistics & Others	147.0	8.3	103.3	6.5	6.5	0.0	0.1%
Total	1441.5	85.6	1397.8	85.5	83.8	-1.7	-1.9%

LIKE-FOR-LIKE DEVELOPMENT 31 DECEMBER 2019

31 Dec. 2019	TOTAL PORTFOLIO		Like-for-like Portfolio				
in EUR thousand				31 Dec. 2019	31 Dec. 2020	in EUR mio.	in %
	Market value	Annualised contractual rents	Market value	Annualised contractual rents	Annualised contractual rents	L-f-L development	L-f-L development
Office	971.5	55.7	260.4	44.4	44.4	0.1	0.1%
Retail	406.5	27.8	360.7	17.1	17.1	0.0	0.1%
Logistics & Others	110.4	6.5	110.4	6.4	6.5	0.1	1.6%
Total	**1488.4**	**90.0**	**731.5**	**67.8**	**68.0**	**0.2**	**0.3%**

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