hamborner REIT
ZUKUNFT BRAUCHT SUBSTANZ

COVERING A AND B

ANNUAL REPORT
2017

KEY FIGURES AT A GLANCE (IFRS)

€ thousand		2017	2016	2015
FROM THE INCOME STATEMENT				
Income from rents and leases		74,085	61,818	52,447
Net rental income		65,357	56,008	47,455
Operating result		29,362	27,655	23,634
Financial result		–14,855	–14,309	–13,293
EBITDA		62,764	54,462	45,936
EBDA		47,909	40,153	32,643
EBIT		32,538	31,730	27,068
Funds from operations (FFO)		44,733	36,078	29,209
Net profit for the year		17,683	17,421	13,775
FROM THE STATEMENT OF FINANCIAL POSITION				
Total assets		1,173,503	1,006,760	786,644
Non-current assets		1,114,033	922,819	752,046
Equity		548,159	561,311	406,074
Equity ratio	in %	46.7	55.8	51.6
REIT equity ratio	in %	59.0	67.8	61.5
Loan-to-value (LTV)	in %	39.6	30.1	35.0
ON HAMBORNER SHARES				
Number of shares outstanding		79,717,645	79,717,645	62,002,613
Basic = diluted earnings per share	in €	0.22	0.26	0.25
Funds from operations (FFO) per share	in €	0.56	0.45	0.47
Stock price per share (Xetra)	in €			
Highest share price		9.94	10.76	11.41
Lowest share price		8.77	8.36	8.20
Year-end share price		9.90	9.04	9.61
Dividend per share	in €	0.45	0.43	0.42
Dividend yield in relation to the year-end share price	in %	4.5	4.8	4.4
Price/FFO ratio		17.6	20.0	20.4
Market capitalization		789,205	720,648	595,845
THE HAMBORNER PORTFOLIO				
Number of properties		74	69	69
Fair value of property portfolio		1,362,600	1,115,010	899,816
Vacancy rate (including rent guarantees)	in %	1.4	1.3	1.9
Weighted remaining term of leases in years		6.6	6.7	6.9
OTHER DATA				
Net asset value (NAV)		808,944	768,486	564,707
Net asset value per share	in €	10.15	9.64	9.11
Number of employees including Management Board		36	34	33

COVERING **A** AND **B**

We systematically continued our growth strategy and the optimisation of our portfolio in 2017. Our investment in properties with intrinsic value at attractive locations in A and B cities in Germany is paying off. This is reflected in both the positive development in the value of our portfolio and our financial performance indicators, which are explained for you in detail in this annual report.

We do not achieve these good results by ourselves: We would like to thank our shareholders for their trust and, most especially, our team for their tireless efforts.

PROPERTY ACQUISITIONS IN 2017

COLOGNE

PURCHASE PRICE €48.9 MILLION
TYPE OFFICE
TRANSFER OF OWNERSHIP JANUARY 2017

HALLSTADT

PURCHASE PRICE €40.4 MILLION
TYPE RETAIL CENTRE
TRANSFER OF OWNERSHIP MARCH 2017

BERLIN

PURCHASE PRICE €16.2 MILLION
TYPE RETAIL CENTRE
TRANSFER OF OWNERSHIP MARCH 2017

RATINGEN

PURCHASE PRICE €34.4 MILLION
TYPE OFFICE
TRANSFER OF OWNERSHIP JULY 2017

HANAU

PURCHASE PRICE €37.5 MILLION
TYPE RETAIL CENTRE
TRANSFER OF OWNERSHIP AUGUST 2017

KIEL

PURCHASE PRICE €22.2 MILLION
TYPE OFFICE
TRANSFER OF OWNERSHIP NOVEMBER 2017

PASSAU

PURCHASE PRICE €14.9 MILLION
TYPE RETAIL CENTRE
TRANSFER OF OWNERSHIP DECEMBER 2017

A CITY TOUR WITH HAMBORNER

Our portfolio includes a whole range of properties in German A cities: High-yielding assets in excellent locations. But we also invest in attractive properties in B cities. Using our experience and expertise, here we identify properties distinguished by a good risk / return profile: "Covering A and B".

Join us on a city tour – and discover the character and strengths that set our new properties in Hanau, Hallstadt and Ratingen apart.

HANAU

PAGE 39

It all adds up: A fairy tale past as a royal seat plus dynamic development as a technology site equals a growing community with good quality of living.

RATINGEN

PAGE 83

More and more companies from the major Rhine cities are crossing the city limits and setting up in Ratingen. No wonder: The prospering community scores points with its centrality and medium-sized city charm.

HALLSTADT

PAGE 131

Hallstadt knows something about quality of living: financially comfortable, scenically beautifully and conscious of tradition. Perhaps that's why it is being sought out by more and more young people.

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HANS RICHARD SCHMITZ
MEMBER OF THE MANAGEMENT BOARD OF HAMBORNER REIT AG

DR RÜDIGER MROTZEK
MEMBER OF THE MANAGEMENT BOARD OF HAMBORNER REIT AG

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS, LADIES AND GENTLEMEN,

With this publication of our 2017 annual report, we look back on an eventful year and are delighted to be able to report on another successful financial year for HAMBORNER REIT AG.

The 2017 financial year focused on the systematic continuation of our growth strategy and the targeted optimisation of our property portfolio. Despite the continued high demand on the market for German commercial property, we were able to invest €214.5 million in a total of seven modern, high-quality properties. At the same time, the opportunities afforded by the market environment were seized on and portfolio optimisation was further advanced by the sale of two properties no longer consistent with strategy. As a result of changes in the property portfolio and an increase in the market value of our properties, the fair value of our portfolio rose by around €248 million to a total of €1,363 million.

The company's successful growth and its positive business performance are also reflected in the development of our key performance indicators. The acquisitions of the past year and the increased value of the portfolio led to growth in NAV of €40.4 million to €808.9 million. NAV per share climbed by 5.3% to €10.15. Income from rents and leases climbed by 19.8% to €74.1 million in total. FFO, the key operating earnings indicator, rose by 24.0% to €44.7 million in the past financial year. FFO per share increased to €0.56, thus exceeding the previous highest value of €0.54 from 2014. The improvement illustrates that the capital increases in 2015 and 2016 have already contributed to the company's value-adding growth. Furthermore, the investments carried out in the course of 2017 and at the start of 2018, not to mention the remaining scope for acquisitions, mean additional potential for further increases in rental income and FFO in the current financial year. We have every confidence for the rest of the year.

Given the success of 2017 and our positive business prospects, we will be proposing an increase in the dividend of €0.02 to €0.45 per share for the 2017 financial year at the Annual General Meeting on 26 April 2018. Based on the share price at the end of 2017, this means a dividend yield of 4.5%.

At this point we would again like to thank all our investors for their confidence and, of course, our tenants and business partners for the outstanding cooperation. We hope that you will accompany us on our journey ahead as well.

Dr Rüdiger Mrotzek

Hans Richard Schmitz

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* also part of the management report

DR ECKART JOHN VON FREYEND
CHAIRMAN OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN,

Our expectation that HAMBORNER REIT AG would again have a very successful financial year was proved completely true. Despite further increases in purchase prices, HAMBORNER was able to identify and acquire attractive properties on the market. Taking into account the properties already notarised but not yet transferred, the value of the portfolio was around €1.4 billion at the end of 2017. In the opinion of the Supervisory Board, the rental income resulting from this and the remaining scope for investment will continue to contribute to the growth of HAMBORNER in the 2018 financial year.

Changes in the Supervisory Board and Management Board

The Supervisory Board elected Ms Bärbel Schomberg as its Deputy Chairwoman and extended the appointment of the two members of the Management Board for a further five years at its meeting on 9 March 2017.

At the Annual General Meeting on 10 May 2017, at the proposal of the Supervisory Board based on a corresponding recommendation by the Nomination Committee, Dr Andreas Mattner was elected to the company's Supervisory Board.

At the meeting on 14 November 2017, I informed the Supervisory Board that, having reached the age of 75, I will be resigning as Chairman after eleven very successful years and stepping down from the Supervisory Board at the end of the 2018 Annual General Meeting.

Monitoring management and cooperation with the Management Board

In the 2017 reporting year, we regularly advised the Management Board and intensively monitored its work. In doing so, we received detailed information on all significant business transactions and forthcoming decisions. The Management Board reported comprehensively and in a timely manner, both in writing and verbally, on the strategic direction of the company and all relevant aspects of business planning including financial, investment and personnel planning. The Supervisory Board was also informed about the economic situation, the profitability of the company and the course of transactions, including the risk position and risk management. In particular, the investment of the funds from the 2016 capital increase in the property portfolio was discussed intensively with the Management Board.

There were five meetings of the Supervisory Board in the 2017 financial year. We also passed resolutions on six investment decisions outside meetings on account of their urgency. Furthermore, in my capacity as the Chairman of the Supervisory Board, I was in regular contact with the Management Board in order to remain informed of key transactions, forthcoming decisions and the current developments in the business situation.

Main activities of the Supervisory Board

The revenue, earnings and personnel development of the company, the financial position, the letting rate and the status of purchases and sales were explained in detail by the Management Board in all meetings and then discussed together. Furthermore, we intensively discussed various specific issues with the Management Board in our meetings.

At the accounts meeting of 9 March 2017, the Supervisory Board approved the separate IFRS financial statements and the annual financial statements of HAMBORNER REIT AG under German commercial law as at 31 December 2016, following its own review and discussion of significant aspects with the auditor Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf. We endorsed the Management Board's proposal for the appropriation of profits. We also adopted the agenda for the 2017 Annual General Meeting. The Management Board was again granted non-vested share commitments and a bonus in the context of performance-based remuneration. Furthermore, the fixed remuneration of the Management Board was adjusted for the 2017 financial year.

There was a further meeting of the Supervisory Board after the Annual General Meeting on 10 May 2017, at which Dr Mattner was elected to the Audit Committee and, in place of Mr Böge, to the Nomination Committee.

At the meeting on 19 July 2017, the strategic development of HAMBORNER REIT AG was discussed intensively with the Management Board, and with external speakers, for the whole day. In particular, this discussion focused on the price development of properties and the future digitisation of business processes.

The meeting on 27 September 2017 addressed the status report of the Management Board on the development of the investments in the 2009 financial year. The Supervisory Board also developed a skills profile for the body as a whole.

The planning meeting on 14 November 2017 focused on the company's budget and medium-term planning for 2018 to 2022. The planned revenue and earnings trend was discussed intensively with the Management Board. The declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG was also adopted.

Report by the committees

Some of the work of the Supervisory Board is performed by committees. There were three committees again in the 2017 financial year. The Executive Committee met twice, in each case with the Nomination Committee. The meeting on 24 January 2017 debated and resolved Management Board matters, prepared the resolution of the Supervisory Board on the dividend for the 2016 financial year and discussed the vacancy on the Supervisory Board. On 24 February 2017 the candidate to be appointed to the Supervisory Board was named and the successor to the vacant position of Deputy Chairman of the Supervisory Board was discussed.

The Audit Committee met four times in the 2017 financial year with the auditor in attendance on each occasion. It discussed the 2016 annual financial statements in detail and the 2017 quarterly and half-year reports were explained by the Management Board. The Audit Committee also discussed the preparations for the Supervisory Board's proposal to the Annual General Meeting for the appointment of the auditor for the 2017 financial year. Furthermore, it issued the audit mandate and determined the focus of the audit. In addition, the Committee discussed the results of an internal audit that was outsourced to a third-party audit firm and also stipulated the audit issues for the next audit. The work of the Audit Committee in the 2017 financial year focused on the first mandatory invitation to tender for the audit for the 2018 financial year. The three audit firms remaining in the selection process presented their offers on 30 August 2017. Based on this, the committee resolved its recommendation to the Supervisory Board on 7 November 2017.

In addition to the two above meetings, the Nomination Committee met on 14 November 2017. This meeting discussed the procedure for the succession of the position vacant on the Supervisory Board at the 2018 Annual General Meeting. The Supervisory Board was informed comprehensively about the activities of the committees by the respective chairman at the start of each meeting.

Attendance at meetings

Attendance by Supervisory Board members at Supervisory Board and committee meetings in the 2017 financial year

Name	Member since	Total number of meetings (5)	Meetings of the Audit Committee (4)	Meetings of the Executive Committee (2)	Meetings of the Nomination Committee (3)
Dr Eckart John von Freyend (Chairman)	2007	5 / 5	–	2 / 2	3 / 3
Bärbel Schomberg (Deputy Chairwoman)	2011	5 / 5	–	2 / 2	3 / 3
Claus-Matthias Böge	2015	5 / 5	4 / 4	1 / 2	1 / 2
Christel Kaufmann-Hocker	2010	5 / 5	4 / 4	–	–
Dr Helmut Linssen	2015	5 / 5	–	2 / 2	3 / 3
Dr Andreas Mattner	10 May 2017	3 / 4	2 / 2	–	1 / 1
Mechthilde Dordel	2010	5 / 5	–	–	–
Wolfgang Heidermann	2013	5 / 5	4 / 4	–	–
Dieter Rolke	2012	5 / 5	–	–	–

Corporate governance and the declaration of compliance

The Supervisory Board and the Management Board again intensively discussed the further development of internal corporate governance in the year under review. We report on this, together with the Management Board, in the corporate governance report for 2017 in accordance with item 3.10 of the German Corporate Governance Code (Code). There were no conflicts of interest within the meaning of item 5.5.3 of the Code among our members. A declaration of independence in accordance with item 7.2.1 of the Code was obtained from the auditor.

The Supervisory Board and the Management Board published an updated declaration of compliance with the Code in accordance with section 161 AktG in December 2017. This declaration of compliance can be accessed by the public on the company's homepage at www.hamborner.de in the section Investor Relations / Corporate Governance.

Adoption of the 2017 HGB annual financial statements (HGB) and approval of the IFRS separate financial statements

On 7 March 2018, in the presence of the auditor, first in the Audit Committee and then in the meeting of the Supervisory Board, the Supervisory Board examined and discussed in detail the annual financial statements under German commercial law and the separate IFRS financial statements of the company in accordance with section 325(2a) of the German Commercial Code, together with the management report and the proposal for the appropriation of profits. In preparation, all members of the Supervisory Board received copies of the audit reports early. The certifying auditors reported at length on the audit results and were available to the Supervisory Board to answer supplementary questions and provide information in the discussion.

There were no objections to the HGB and IFRS financial statements presented, with the result that the Supervisory Board approved them at its meeting on 7 March 2018. The 2017 annual financial statements under German commercial law prepared by the Management Board were thus adopted. The Supervisory Board has endorsed the proposal of the Management Board for the distribution of the unappropriated surplus.

Unqualified audit opinion

The annual financial statements of the company as at 31 December 2017 prepared by the Management Board in accordance with the rules of the German Commercial Code, the German Stock Corporation Act and the German REIT Act plus the financial statements prepared in accordance with the International Financial Reporting Standards (IFRS), the management report and the proposal for the appropriation of profits were audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf.

The Supervisory Board had commissioned the audit in line with the resolution of the Annual General Meeting of 10 May 2017. The auditor issued unqualified audit opinions for both sets of financial statements.

Our thanks

The Supervisory Board wishes to thank the Management Board and all employees and express its appreciation for their strong personal commitment and their work. Together, they again achieved a very positive result in the past financial year as a result of their ongoing dedication.

Personally, I would like to express my thanks for eleven years of always constructive support for our work. I wish the company and its owners every continued success and can only say goodbye and good fortune!

Duisburg, 7 March 2018

The Supervisory Board

Dr Eckart John von Freyend
Chairman

MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT BOARD

Dr Rüdiger Mrotzek, Hilden
born 1957,
member of the Management Board since 8 March 2007,
appointed until 7 March 2023,
responsible for Finance / Accounting, Controlling, Taxes, Portfolio Management, Transaction Management, HR, IT, Risk Management and Controlling, Investments

Hans Richard Schmitz, Duisburg
born 1956,
member of the Management Board since 1 December 2008,
appointed until 31 December 2022,
responsible for Asset Management, Technology / Maintenance, Legal, Investor Relations / Public Relations, Corporate Governance, Insurance, Corporate Services

SUPERVISORY BOARD

Dr Eckart John von Freyend, Bad Honnef
– Chairman –
Partner in Gebrüder John von Freyend Vermögens- und Beteiligungsgesellschaft m.b.H.

Bärbel Schomberg, Königstein
– Deputy Chairwoman –
(from 9 March 2017)
Managing Partner at Schomberg & Co. Real Estate Consulting GmbH

Claus-Matthias Böge, Hamburg
Managing Director of CMB Böge Vermögensverwaltung GmbH

Christel Kaufmann-Hocker, Düsseldorf
Independent management consultant

Dr Helmut Linssen, Issum
Member of the Management Board of the RAG Foundation

Dr Andreas Mattner, Hamburg (from 10 May 2017)
Managing Director
ECE Projektmanagement G.m.b.H.

Mechthilde Dordel, Oberhausen*
Clerical employee of HAMBORNER REIT AG

Wolfgang Heidermann, Raesfeld*
Technician of HAMBORNER REIT AG

Dieter Rolke, Oberhausen*
Clerical employee of HAMBORNER REIT AG

* Employee representative

CORPORATE GOVERNANCE

The term corporate governance means a responsible approach to company management and control geared towards the creation of sustainable value added. Key aspects of good corporate governance include efficient cooperation between the Management Board and the Supervisory Board, respecting shareholder interests and transparent corporate communications.

In this section, in line with the recommendations of item 3.10 of the German Corporate Governance Code (Code) as amended on 7 February 2017, the Management Board and the Supervisory Board have reported on the adoption of corporate governance guidelines at HAMBORNER.

CORPORATE GOVERNANCE REPORT

Compliance and the implementation of good corporate governance are matters of high importance at HAMBORNER. Using a number of information and communications channels, our shareholders, all other capital market participants, financial market analysts, press and media representatives and employees are informed regularly and comprehensively about the position of the company in a timely manner.

In particular, this is done by the annual report, the half-year financial report and the regular quarterly reports. We also publish ad hoc disclosures, reports on changes in voting rights and directors' dealings notifications in line with the requirements of capital market law. Furthermore, we publish press releases on current issues concerning the company and regularly take part in financial market events or visit our investors in roadshows. We use the Internet primarily to disseminate significant information and post all important documents on our website in a timely manner.

Further information and the corporate governance declaration can be found on our homepage www.hamborner.de under Corporate Governance.

Our annual, half-yearly and quarterly reports, together with detailed explanations of the corresponding months under review, can also be viewed and downloaded from the Investor Relations section of our homepage from the time of their publication. In addition, we make other information about the company and information published by it available here to all interested parties, including notifications in accordance with the German Securities Trading Act and the German Securities Prospectus Act, press releases and up-to-date company presentations. Our financial calendar shows the publication dates of financial reports and the date of the Annual General Meeting. Information on our planned roadshows and participation in conferences is also posted here.

German Corporate Governance Code

Since the German Corporate Governance Code became effective in 2002, the Management Board and Supervisory Board of HAMBORNER REIT AG have regularly discussed its recommendations and suggestions and – as far as possible and necessary – implemented them in a timely manner. Our goal here is to ensure good, responsible, transparent and sustainable corporate development in the interests of all stakeholders.

The Corporate Governance Code was the subject of the Supervisory Board meeting on 14 November 2017. It intensively discussed the latest changes to the Code and their implementation at HAMBORNER, and approved the declaration of compliance to be issued for the current financial year.

The Government Commission on the German Corporate Governance Code resolved an amendment to the Code on 7 February 2017 and published the new version of the Code in the electronic Federal Gazette on 24 April 2017. In particular, the amendments to the Code mainly concern Supervisory Board and compliance issues.

Composition of the Supervisory Board

At its meeting on 27 September 2017, the Supervisory Board of HAMBORNER REIT AG revised the objectives for its composition in accordance with the recommendations of the Corporate Governance Code and adopted a profile of skills and expertise for the Supervisory Board as a whole.

This profile stipulates that the Supervisory Board of HAMBORNER REIT AG must be composed in such a way that its members as a whole have the knowledge, skills and professional experience necessary to perform their supervisory duties properly. The Supervisory Board as a whole should cover all areas relevant to HAMBORNER's business activities. This includes specific knowledge of the property industry, knowledge of accounting, auditing, controlling, financing, capital markets, risk management, technology, legal issues, compliance and corporate governance. Individual members can complement each other's areas of specialisation.

The current composition of the Supervisory Board fulfils all the defined goals. The members of the Supervisory Board have the necessary professional and personal qualifications and, as a whole, satisfy the skills profile in full. Moving ahead as well, the objectives for the composition of the Supervisory Board will be used as the basis for nominations to the Annual General Meeting, and it will continue to seek to satisfy the skills profile for the body as a whole.

According to a further recommendation of the Corporate Governance Code, the Supervisory Board should, in its opinion, have an appropriate number of independent members. Within the meaning of the Code, a supervisory board member is not to be considered independent in particular if he / she has personal or business relations with the company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which can give rise to a substantial and not merely temporary conflict of interests.

Taking into account the current composition of the Supervisory Board, the majority of the shareholder representative members are independent, namely Eckart John von Freyend, Bärbel Schomberg, Claus-Matthias Böge, Christel Kaufmann-Hocker and Dr Andreas Mattner. Only Dr Helmut Linssen, as the representative for the RAG Foundation which holds 12.45% of shares, cannot be considered independent. In the opinion of the Supervisory Board, the employee representatives on the Supervisory Board – Mechthilde Dordel, Wolfgang Heidermann and Dieter Rolke – are independent. A majority independence of the Supervisory Board will also be maintained in future.

Back in 2015, the Supervisory Board of HAMBORNER REIT AG implemented the recommendations of the Code with regard to the length of service on the Supervisory Board and defined a standard limit specific to the company. Furthermore, a target for the gender quota for the Supervisory Board of the company was set at 30%. The Supervisory Board currently consists of three women and six men, and thus already meets the defined target in full.

Gender quota for the Management Board and following management levels

The Supervisory Board has also set a target for the gender quota of the Management Board of 30% to be met by 30 June 2017. As there have been no changes or additions to Management Board recently, its gender quota is not fulfilled at this time. The Supervisory Board of HAMBORNER has therefore extended the deadline for this target until 30 June 2022.

The Management Board has also addressed the stipulations of the law on the non-discriminatory participation of women and men in management positions and has set a gender quota target of 20% each for the two management levels below the Management Board, though this was not met by the original deadline of 30 June 2017. The deadline for this target was also extended until 30 June 2022.

Compliance management system

The updated version of the Code highlights the existing legal obligation of the Management Board to establish an appropriate compliance management system in line with the risk situation. Furthermore, the Code recommends disclosing the main principles of this system, thereby making it transparent to the public.

The Management Board of HAMBORNER REIT AG is fully committed to compliance and has developed a comprehensive compliance management system to ensure that HAMBORNER's business activities are always in compliance with the law and its internal policies and regulations. At the same time, responsible conduct is to be permanently established in the thoughts and actions of employees. The compliance management system is based on three pillars: prevention, information and response.

In particular, the preventive measures include the regular training of all employees and a detailed compliance policy that applies to both the Management Board and all employees, regardless of their level in the hierarchy. The policy clarifies legal provisions, defines internal principles of conduct and serves as a guideline. It is intended to protect employees against legal violations and breaches of contractual obligations, help to avoid conflicts between business and private interests and to protect the company against material losses and reputational damage.

A further fundamental component of all efforts to ensure legally compliant conduct and to avert damage to the company is that information about possible misconduct reaches the Management Board and the Supervisory Board. For this reason, the Management Board has implemented the new recommendation of the Corporate Governance Code and developed a whistleblower system that enables the reporting of compliance violations. The whistleblower system is the second pillar of the compliance management system at HAMBORNER REIT AG.

The company has appointed the lawyer Dr Thomas Stohlmeier as an external ombudsman to serve as a neutral contact for employees and business partners in the event of compliance violations. The ombudsman can be reached via HAMBORNER REIT AG's electronic whistleblower system and receives information on possible misconduct or legal violations within the company's sphere of influence. The system can be reached via the HAMBORNER homepage and guarantees the anonymity of the whistleblower throughout the entire process if so desired.

The third pillar of the compliance management system is an immediate response and clear consequences in the event of misconduct. Disciplinary measures will be taken following the full investigation of a compliance violation by the ombudsman. The measures are clearly defined in the compliance policy. They take into account the respective legal situation and are based on the severity of the violation and the damage done to the company.

Declaration of compliance

The Management Board and the Supervisory Board issued the following declaration of compliance in accordance with section 161 AktG in December 2017. This states that the company has complied with the respective recommendations of the German Corporate Governance Code in effect in the reporting year with minor exceptions. Please see the comments on the deviations from the recommendations of the Code in the text of the declaration of compliance:

Current declaration of compliance from December 2017
Declaration by the Management Board and the Supervisory Board
of HAMBORNER REIT AG
on the recommendations of the
Government Commission for the German Corporate Governance Code
in accordance with section 161 of the German Stock Corporation Act

"The Management Board and the Supervisory Board of HAMBORNER REIT AG declare that HAMBORNER REIT AG has complied with the recommendations of the Government Commission for the German Corporate Governance Code (Code) as amended on 7 February 2017, with the exception of the recommendation in item 4.2.1 sentence 1, since issuing its last declaration of compliance in December 2016, and will continue to do so in future."

Explanation: Item 4.2.1 sentence 1 of the Code recommends that the Management Board should have a chairman or spokesperson. A chairman or spokesperson has not and will not be appointed as the Management Board consists of just two people.

The Management Board and the Supervisory Board will publish the next declaration of compliance in December 2018.

Duisburg, December 2017

Management Board Supervisory Board

Both the current declaration of compliance and all declarations for previous years can be accessed on our website at www.hamborner.de in the section Investor Relations / Corporate Governance.

Cooperation between the Management Board and the Supervisory Board

The Management Board and Supervisory Board work together closely for the good of the company. The Management Board informs the Supervisory Board regularly, promptly and comprehensively about the business and risk situation and answers all relevant questions on company planning. The strategic orientation and ongoing development of the company are discussed jointly between the Supervisory Board and the Management Board. In accordance with the Rules of Procedure and the company's Articles of Association, key Management Board decisions require the approval of the Supervisory Board.

No consultancy or other service or work agreements were concluded between the company and individual members of the Supervisory Board in the 2017 financial year. There were no potential or actual conflicts of interests on the part of members of the Management Board and the Supervisory Board that would have required immediate disclosure to the Supervisory Board in the reporting period.

Details of the cooperation and sharing of information between the Management Board and the Supervisory Board can be found on our website as part of the corporate governance declaration.

Directors' dealings

In accordance with Article 19 of the Market Abuse Regulation, the members of the Management Board and the Supervisory Board, and persons closely related to them, are required to report transactions in financial instruments of the company as soon as the total transactions by one person amount to or exceed €5,000 within one calendar year. The company was notified of the following transactions in the 2017 reporting year:

2017	Person subject to disclosure requirements	Function	Financial instrument	No.	Price	Total volume	Type of transaction
11 May 2017	Dr Eckart John von Freyend	Supervisory Board	Shares	2,000	€9.5430	€19,086	Purchase
11 May 2017	Hans Richard Schmitz	Management Board	Shares	2,286	€9.3500	€21,374	Purchase
4 July 2017	Doris Weihermann	Natural person closely related to person with management responsibilities	Shares	1,892	€8.9500	€16,933	Purchase
4 July 2017	CMB Beteiligungs KG	Legal entity closely related to person with management responsibilities	Shares	1,000	€8.9780	€8,978	Purchase
22 December 2017	Dr Andreas Mattner	Supervisory Board	Shares	1,020	€9.8520	€10,049	Purchase

The company did not receive any further notifications of transactions by management personnel in accordance with Article 19 of the Market Abuse Regulation in the reporting year.

All notifications can be viewed at all times on our website www.hamborner.de under Investor Relations / Notifications with the filter Directors' Dealings.

In accordance with the provisions of Article 19(5) of the Market Abuse Regulation, the company keeps a list of all persons who perform management duties and persons closely related to them.

Individual members of the Management Board and the Supervisory Board of the company neither directly nor indirectly hold more than 1% of the shares issued by the company. There were therefore no reportable holdings in accordance with item 6.2 of the German Corporate Governance Code as at 31 December 2017.

In compliance with the requirements of Article 18 of the Market Abuse Regulations, a list of insiders including all relevant people with access to inside information is kept at the company.

The mandates of members of the Management Board and the Supervisory Board are shown in the notes to the IFRS financial statements on pages 121/122 and related party information can be found on page 120.

Risk management and internal audit

Good corporate governance also includes the responsible handling of risks by the company. Systematic risk management within the framework of our value-oriented corporate governance ensures that risks are recognised and assessed early on and that risk positions are optimised. The company's risk detection system is also subject to review by the auditor. It is developed on an ongoing basis and adapted in line with changing economic conditions. Please see the risk report for details of risk management and the current risk position.

Furthermore, key business processes were submitted to an internal audit in the financial year under review. This audit was conducted by a third-party firm.

The auditor Deloitte

The auditor proposed for election for the 2017 financial year at the Annual General Meeting, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, submitted its declaration of independence in accordance with item 7.2.1 of the Code in a letter dated 9 March 2017. It was agreed with the auditor that the Chairman of the Audit Committee should be informed immediately of any grounds for exclusion or a lack of impartiality arising during the audit if these are not immediately rectified. Furthermore, it was agreed that the Chairman of the Supervisory Board and the Chairman of the Audit Committee should be informed immediately if specific findings or incidents arise in performing the audit of the financial statements which could be of significance for the proper performance of the duties of the Supervisory Board. This includes the discovery of facts containing inaccuracies in the declarations on the Code issued by the Management Board and the Supervisory Board.

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, has been HAMBORNER REIT AG's auditor since the 2008 financial year. The responsible audit partners taking part in our audit have been Mr Künemann and Mr Neu since the 2015 financial year. Mr Neu was also the auditor with overall responsibility.

The auditor is only appointed for one year. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed as the auditor for the tenth time at the 2017 Annual General Meeting. For this reason, the company was required for the first time to publicly tender the mandate to audit the HGB financial statements for 2018 and IFRS separate financial statements as well as the review of the half-yearly financial report as at 30 June 2018. The tender procedure was the responsibility of the Audit Committee, which resolved a reasoned recommendation to the Supervisory Board at its meeting on 7 November 2017. The Supervisory Board will propose an audit firm for election at the Annual General Meeting on 26 April 2018 and explain the recommendation of the Audit Committee.

REMUNERATION REPORT

(also part of the management report)

The principles of transparent corporate governance are intended to promote and strengthen the confidence of national and international investors and customers, employees and the public at large in the management and monitoring of listed companies. To this end, the German Corporate Governance Code stipulates the disclosure of the remuneration granted to members of the Management Board and members of the Supervisory Board.

Remuneration of the members of the Management Board

Management Board remuneration consists of fixed remuneration and short-term and long-term variable remuneration.

The system of Management Board remuneration is geared in particular to providing incentives for successful management of the company designed to create sustainable value added. The remuneration system motivates the members of the Management Board to dedicate themselves to and for the company in the long term.

A further aim is that remuneration is consistent with the size and economic situation, success and future prospects of the company. On the one hand, special achievements should be rewarded appropriately, while on the other the failure to achieve targets should result in a tangible reduction in remuneration.

In order to gear the remuneration of the members of the Management Board towards the goal of sustainable value added, some of their pay is granted as long-term, share-based remuneration with a retention period ending during the third year after being granted.

More than 50% of variable remuneration is set on the basis of multi-year target parameters. The remuneration of members of the Management Board is also closely linked to the interests of shareholders in an attractive long-term investment in that half of long-term share-based remuneration is pegged to the price performance of HAMBORNER shares relative to the EPRA / NAREIT Europe ex UK Index over several years.

In calculating the attainment of goals for variable remuneration components, adjustments are narrowly limited to extraordinary, previously unknown issues.

The system and amount of Management Board remuneration are set and regularly reviewed by the full Supervisory Board at the proposal of the Executive Committee of the Supervisory Board. The remuneration system was last reviewed on 9 March 2017 in conjunction with the renewal of the Management Board agreements for a further five years. Minor adjustments were made. The system was approved by a large majority at the Annual General Meeting on 10 May 2017.

The remuneration system is identical for both members of the Management Board and consists of the following components:

Fixed remuneration
Fixed remuneration amounts to €240 thousand (from 2018: €276 thousand) and is paid in twelve equal instalments. The amount of fixed remuneration is reviewed by the Supervisory Board every two years.

Short-term variable remuneration (bonus)
In the event of 100% attainment of targets, the short-term variable remuneration (bonus) will amount to €125 thousand, dependent on the achievement of the FFO per share stipulated in the budget and personal targets. The bonus will not be paid if targets are missed by more than 50%. The bonus is capped at 200% of the regular amount, i.e. a maximum of €250 thousand. Furthermore, the Supervisory Board can adjust the bonus for target achievement by up to 20% in either direction in light of the personal performance by the member of the Management Board.

Long-term share-based remuneration
Non-vested share commitments are granted. The annual target amount for individual Management Board members on 100% target achievement is €130 thousand (from 2018: €150 thousand). The Supervisory Board can adjust this target amount by up to 20% in either direction based on the personal performance by the member of the Management Board.

Half of the set target amount (LTI 1) is linked to development in absolute FFO and FFO per share and to the like-for-like development in the value of the portfolio over the past three years. The Supervisory Board determines the degree of target attainment, which can vary between 0% and 200% (cap). The attainment of goals determines the actual cash value of the commitment and the resulting number of share commitments.

For the other half of the set target amount (LTI 2), the Supervisory Board will initially grant a number of share commitments equivalent to the cash value of half of the target amount on the commitment date. The Supervisory Board also determines a target system (target value for 100% and target corridor) for the performance in the price of HAMBORNER shares relative to the EPRA / NAREIT Europe ex UK Index. After the end of the retention period, the Supervisory Board determines the relative performance of HAMBORNER shares as against the index. This results in a degree of target attainment that can vary between 0% and 200% (cap). If targets are achieved by more than 100%, the number of share commitments is increased in proportion to the extent by which targets are exceeded. In the event of targets being achieved by less than 100%, a number of share commitments corresponding to the shortfall will be forfeit.

The value in excess of the cap will be disregarded if the closing price at the settlement date amounts to more than 200% (cap) of the closing price on the respective commitment date. Thus, the maximum amount for short-term variable remuneration and long-term, share-based remuneration of the members of the Management Board totals €846 thousand in each case (from 2018: €1,020 thousand).

The members of the Management Board receive the equivalent value of their share commitments in cash after the retention period.

Obligation to hold shares in the company

Each member of the Management Board is required to hold 200% of his fixed remuneration in shares of the company while serving as a member of the Management Board. This is determined as the average value of fixed remuneration for the last four years. This must be documented annually. The members of the Management Board already fulfilled this obligation at the end of 2015.

Pension

HAMBORNER provides each member of the Management Board with a company pension in the form of an employer-funded defined contribution pension by way of reinsured provident fund. This commitment is valid for the duration of the service agreement with a respective annual amount of €30 thousand.

Termination benefits for the Management Board

Members of the Management Board are appointed for a maximum of five years. In the event of the Supervisory Board revoking the appointment of a member of the Management Board, the member of the Management Board will receive the present value (basis: 2%) of his gross fixed annual salary that would have arisen by the regular end of his contract as compensation for early termination, whereby compensation cannot exceed the value of total remuneration including benefits for two years, assuming 100% attainment of targets.

Furthermore, the member of the Management Board will receive a pro rata temporis bonus to be determined at the discretion of the Supervisory Board until the date of dismissal. If the member of the Management Board still has share commitments subject to the retention period as at the time of his or her departure, they expire at the end of the second trading day after publication of the results for the past financial year. The company will settle the commitment in cash at this time.

In the event of a change of control – i.e. if one or more shareholders acting in concert acquire 30% or more voting rights in HAMBORNER REIT AG or HAMBORNER becomes a dependent company by concluding a company agreement within the meaning of section 291 AktG – each member of the Management Board has the right to terminate his employment agreement if the change of control would mean a significant change to his position, such as through a change in the strategy of the company or a change in the activities of the member of the Management Board.

In exercising this right of termination, each member of the Management Board has a claim to compensation in the amount of the total annual remuneration to the end of his original service agreement, not to exceed total remuneration for three years. The share-based remuneration components committed in the past remain unaffected. Any retention periods end on the day of departure. The company will settle the commitment in cash at this time.

There is no claim to compensation if the respective member of the Management Board receives benefits from third parties in connection with the change of control. There is also no right to termination if the change of control occurs within twelve months of the member of the Management Board retiring.

The remuneration granted to active members of the Management Board on the basis of existing service agreements for the 2017 financial year broke down as follows:

	Dr Rüdiger Mrotzek				Hans Richard Schmitz			
€ thousand	**2017**	**2017 (min.)**	**2017 (max.)**	**2016**	**2017**	**2017 (min.)**	**2017 (max.)**	**2016**
Fixed remuneration	240	240	240	210	240	240	240	210
Benefits	30	30	30	28	21	21	21	21
Total	270	270	270	**238**	261	261	261	**231**
Short-term variable remuneration	*125	0	300	***125**	*125	0	300	***125**
Long-term variable remuneration	130	0	546	**130**	130	0	546	**130**
LTI 1 (2016) Plan ending 2019	–	–	–	65	–	–	–	65
LTI 2 (2016) Plan ending 2019	–	–	–	65	–	–	–	65
LTI 1 (2017) Plan ending 2020	65	0	312	–	65	0	312	–
LTI 2 (2017) Plan ending 2020	65	0	234	–	65	0	234	–
Total	525	270	1,116	**493**	516	261	1,107	**486**
Pension cost	30	30	30	30	30	30	30	30
Total remuneration under GCGC	555	300	1,146	**523**	546	291	1,137	**516**
Performance-based adjustment of short-term variable remuneration	74	0	0	68	74	0	0	68
Total remuneration	629	300	1,146	**591**	620	291	1,137	**584**

* based on 100% attainment of goals

14,146 virtual share commitments were approved for the Management Board for the 2017 financial year. They are subject to a retention period. Their fair value as at the grant date was €130 thousand.

The table below shows the remuneration allocated for the 2017 financial year:

	Dr Rüdiger Mrotzek		Hans Richard Schmitz	
€ thousand	**2017**	**2016**	**2017**	**2016**
Fixed remuneration	240	210	240	210
Benefits	30	28	21	21
Total	270	**238**	261	**231**
Short-term variable remuneration	199	193	199	193
Long-term variable remuneration	150	173	150	173
Other	–	–	–	–
Total	619	**604**	610	**597**
Pension cost	30	30	30	30
Total remuneration	649	**634**	640	**627**

Other

No loans were granted to members of the Management Board by the company. No members of the Management Board received benefits or corresponding commitments from third parties in the past financial year for their work as members of the Management Board.

The total remuneration for former members of the Management Board of the company and their surviving dependents amounted to €312 thousand in the 2017 financial year. The pension provisions recognised for this group of people amount to €3,997 thousand in accordance with IFRS (€3,009 thousand in accordance with HGB).

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated in Article 13 of the Articles of Association. The remuneration of the Supervisory Board takes into account the size of the company and the duties and responsibilities of the members of the Supervisory Board.

Accordingly, the members of the Supervisory Board receive fixed annual remuneration payable at the end of a financial year of €22.5 thousand. The Chairman of the Supervisory Board receives double this remuneration, his deputy one and a half times this amount. In addition, each member of the Supervisory Board receives a fee of €0.5 thousand for attendance at meetings.

Members of the Supervisory Board on the Executive or Audit Committee receive additional annual remuneration of €5.0 thousand for each committee, payable at the end of the financial year. The Chairman of the committee receives double this additional remuneration.

Members of the Supervisory Board on the Nomination Committee receive additional annual remuneration of €2.5 thousand if it convenes in the financial year, payable at the end of the financial year. The Chairman of the committee receives double this additional remuneration.

Members of the Supervisory Board who have been on the Supervisory Board or committee for only part of the financial year receive their remuneration pro rata temporis.

The relevant remuneration of the Supervisory Board for the 2017 financial year is as follows:

€ thousand	2017			2016		
	Fixed remunera-tion	Attend-ance fees	Total	Fixed remunera-tion	Attendance fees	Total
Dr Eckart John von Freyend	60.0	2.5	62.5	60.0	3.5	63.5
Claus-Matthias Böge	38.4	2.5	40.9	30.0	3.5	33.5
Christel Kaufmann-Hocker	27.5	2.5	30.0	27.5	3.5	31.0
Dr Helmut Linssen	30.0	2.5	32.5	30.0	3.5	33.5
Dr Andreas Mattner	19.4	1.5	20.9	0.0	0.0	0.0
Robert Schmidt	0.0	0.0	0.0	48.7	3.0	51.7
Bärbel Schomberg	39.2	2.5	41.7	30.0	3.5	33.5
Mechthilde Dordel	22.5	2.5	25.0	22.5	3.5	26.0
Wolfgang Heidermann	27.5	2.5	30.0	27.5	3.5	31.0
Dieter Rolke	22.5	2.5	25.0	22.5	3.5	26.0
Total	287.0	21.5	308.5	**298.7**	**31.0**	**329.7**

In addition, in accordance with Article 13(3) of the Articles of Association, the company reimburses the members of the Supervisory Board for expenses incurred in the execution of their office. As in the previous year, the members of the Supervisory Board received no further remuneration or benefits beyond this in the reporting year for services provided personally, including in particular consulting or mediation services. The members of the Supervisory Board received no loans or advances from the company.

D&O insurance

The company has taken out D&O insurance for the members of the Management Board and members of the Supervisory Board. This covers losses as a result of work as a member of the executive and supervisory bodies of the company.

The sum insured is €15.0 million per claim and not more than €30.0 million per insurance year. In accordance with section 93(2) AktG and item 3.8 of the Code, deductibles for members of the Management Board and Supervisory Board have also been agreed, amounting to at least 10% of the claim and up to at least one and a half times the annual fixed remuneration of the officer. The insurance cover does not apply in the event of wilful intent, such that cover previously granted lapses retroactively where applicable in the event of (subsequent) discovery and benefits provided must be reimbursed to the insurer. The annual insurance premium currently amounts to around €24 thousand plus insurance tax.

The detailed sustainability report can be accessed on our website www.hamborner.de under HAMBORNER REIT / Sustainability.

SUSTAINABILITY AT HAMBORNER

The success of a company is not measured by its revenue and income alone. Profitable growth is only possible in the long term by accepting responsibility for the environment and society.

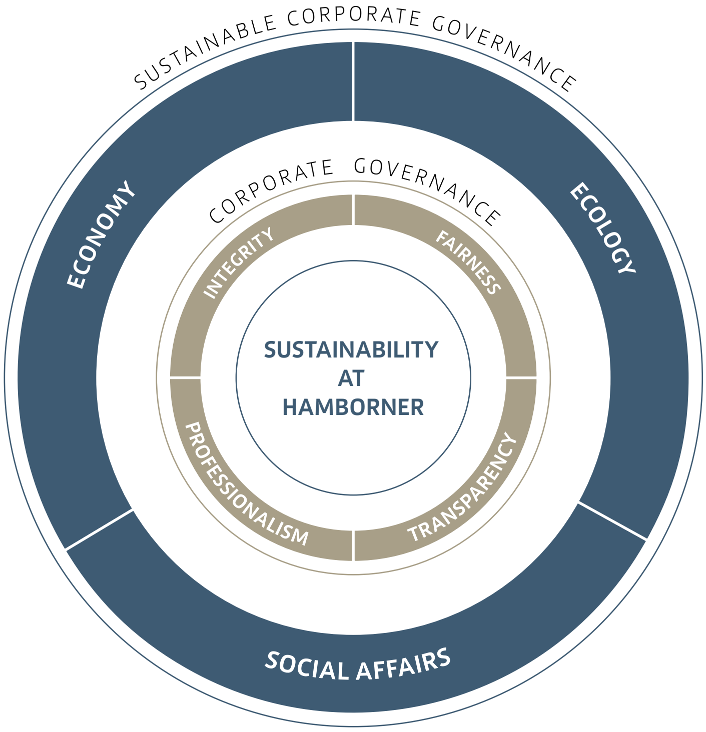
As an SDAX company, HAMBORNER REIT AG is today an established player on the German capital market and a reliable partner in the property industry. In this capacity, we have the obligation to act responsibly – not just in business terms, but in respect of society and the environment as well. HAMBORNER bases its implementation of sustainable management on the specifications and guidelines of the German Property Federation (ZIA) and the Global Reporting Initiative (GRID) in addition to complying with the recommendations of the Government Commission for the German Corporate Governance Code. HAMBORNER is also a member of the Institut für Corporate Governance der deutschen Immobilienwirtschaft.

The standards of the ZIA and GRID also define the content of our sustainability report. After presenting an independent sustainability report for the first time in 2013, we published the fifth report in November 2017. The report was prepared in accordance with the fourth generation of the Global Reporting Initiative reporting standard (G4).

Our disclosure of sustainability information is therefore still based on current and internationally recognised standards. In line with G4 reporting, there is a stronger focus on – and comprehensive analysis of – the key aspects and indicators relevant to sustainability at HAMBORNER. In addition, the recommendations of the ZIA Sustainability Code are still included in our reporting.

STRATEGIC SUSTAINABILITY CONCEPT

The following diagram illustrates the sustainability concept of HAMBORNER REIT AG:



The four principles of integrity, fairness, transparency and professionalism form the essential foundation of our sustainable corporate governance in each of the three sustainability dimensions, "economy", "ecology" and "social affairs". Compliance with these principles is a precondition for our sustainable business success and the basis of actions in respect of the environment and society.

SPECIAL ISSUES IN 2017

Detailed information and economic, ecological and social analyses in relation to the issue of sustainability at HAMBORNER can be found in our sustainability report. At this point we would therefore like to only briefly describe the most important aspects in sustainability in the 2017 financial year.

Portfolio optimisation and modernisation

We continued to systematically optimise and modernise our portfolio in 2017. We still pursue the strategy of acquiring larger properties while at the same time selling smaller ones with more intensive management requirements. In expanding our portfolio we strictly adhered to economic, ecological and sociocultural criteria that were applied to development projects, new buildings and the acquisition of existing properties. All the properties acquired in 2017 were selected taking into account aspects relevant to sustainability and satisfy modern building and energy standards.

The issue of sustainability is becoming more and more important, not just when acquiring new properties but also in the management of our property portfolio. Over the course of 2017, for instance, we increased our modernisation and maintenance spending year-on-year and modernised several properties in our portfolio. The comprehensive overhaul of the ventilation, heating and refrigeration systems of our property in Bad Homburg is particularly noteworthy.

In total, HAMBORNER invested around €7.2 million in the modernisation and maintenance of its property portfolio in 2017 (previous year: around €4.6 million).

LEED platinum certification: Ratingen office property

The office property in Ratingen, which has been in HAMBORNER's portfolio since the middle of 2017, was awarded LEED certification from the US Green Building Council. The American LEED model is an internationally recognised certification system and stands for Leadership in Energy and Environmental Design. The system sets global standards for the development and planning of green buildings, and defines standards for environmentally friendly, energy-efficient and resource-friendly construction. As part of the certification process, the office property in Ratingen was awarded "Platinum" with 82 points, the highest seal of quality that can be given to a sustainable building.

Property acquired in Ratingen

HAMBORNER SHARES

General situation on the stock market

2017 was an extremely positive year for the stock markets – one of the most successful years in history. The stock markets benefited from the persistently good state of the global economy and low interest rates.

After the DAX ended 2016 at 11,481 points, the German benchmark index continued to rise in the first half of 2017, reaching its interim high at around 12,950 points in mid-June. Following a brief correction, the DAX fell below 12,000 points by the end of August. Driven by solid economic data, good corporate figures and the consistently expansive monetary policy of central banks, share prices rose again in the months that followed, and the DAX reached a new all-time high at 13,525 points at the beginning of November. As at the end of the year, the German stock markets were weighed down in particular by the appreciation of the euro and growing uncertainty over the formation of a government in Germany. The DAX ended 2017 at 12,917 points – its sixth consecutive year in positive territory. It rose by 12.5% over the course of the year as a whole. The indexes that follow the DAX, the MDAX and the SDAX, also posted significant growth of 18.1% and 24.9% respectively in the past year.

+12.5%
DAX in 2017

+24.9%
SDAX in 2017

In recent years property shares have benefited in particular from the positive influence of low interest rates and the search for viable investment options. This trend continued over 2017. There were significant price increases in the property sector despite growing uncertainty over ongoing interest rate developments.

The DIMAX property index compiled by the bank Ellwanger & Geiger, which tracks 53 listed property stocks, climbed by 25.1% in 2017. The FTSE EPRA / NAREIT Europe ex UK Index, which is published by the European Public Real Estate Association in Brussels, gained 11.5% (previous year: 1.5%) over 2017.

In the opinion of a vast majority of exchange experts, a positive development is expected on the stock markets in 2018 as well. The projected scenario assumes moderate economic growth and rising corporate profits with further potential for share prices. The financial markets are also likely to be affected by political and monetary policy decisions this year. After the US Fed announced three further interest hikes for 2018, the markets are anxiously waiting to see how European monetary policy will respond.

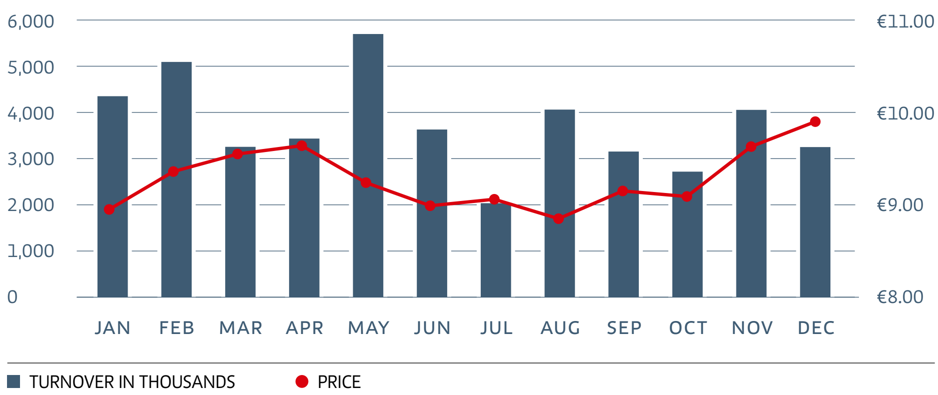
HAMBORNER REIT AG shares

HAMBORNER shares are traded on the stock markets of Frankfurt / Main and Düsseldorf in addition to the electronic trading system Xetra. The shares are listed under the securities identification number 601300 (ISIN: DE0006013006). They meet the international transparency requirements of Deutsche Börse's Prime Standard.

+25%
Increased trading volume in HAMBORNER shares in 2017

The company has commissioned HSBC Trinkaus & Burkhardt AG, Düsseldorf, as its designated sponsor. This ensures that HAMBORNER shares can be traded at all times on the basis of ongoing bid and ask prices. At around 44.7 million, the trading volume of our shares was significantly higher than the previous year's level in the 2017 financial year (around 35.8 million). Accordingly, average trading volume climbed to around 176 thousand shares per day (previous year: around 140 thousand).

Development of HAMBORNER shares



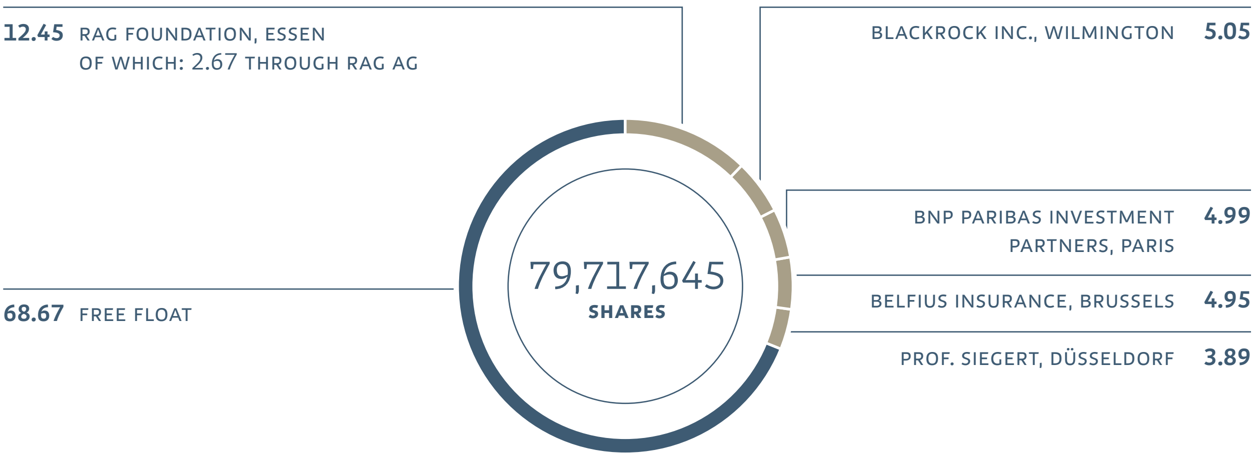
Price performance of HAMBORNER shares in 2017

In line with the general development of the stock market, the price performance of HAMBORNER shares was highly gratifying in 2017. After being quoted at €9.04 at the end of 2016, the price of shares went on to rise further in the opening months of trading in 2017, climbing to their highest point for the year of €9.94 in early May. The shares were therefore above NAV, which was €9.72 as at the end of the first quarter of the year. In the weeks the followed, in line with the general industry trend, the share price was pulled down by resurgent uncertainty concerning a possible increase in interest rates in the euro area. The shares fell to their low for the year of €8.77 by the end of August. However, the price of HAMBORNER shares rose significantly by the end of the year, ultimately closing at €9.90 as at 29 December 2017. This corresponds to an increase of 9.5% compared to the price at the end of 2016. Taking into account the dividend paid, the total return in 2017 was 14.3%.

Market capitalisation as at the end of the year was €789.2 million (previous year: €720.6 million).

Shareholder structure as at 31 December 2017

[in %]



HAMBORNER shares at a glance

		2017	2016	2015
Issued capital	€ million	**79.7**	79.7	62.0
Market capitalisation*	€ million	**789.2**	720.6	595.8
Year-end share price	€	**9.90**	9.04	9.61
Highest share price	€	**9.94**	10.76	11.41
Lowest share price	€	**8.77**	8.36	8.20
Dividend per share	€	**0.45**	0.43	0.42
Total dividend	€ million	**35.9**	34.3	26.0
Dividend yield*	%	**4.5**	4.8	4.4
Price / FFO ratio*		**17.6**	20.0	20.4

* Basis: Xetra year-end share price

Dividend development at HAMBORNER

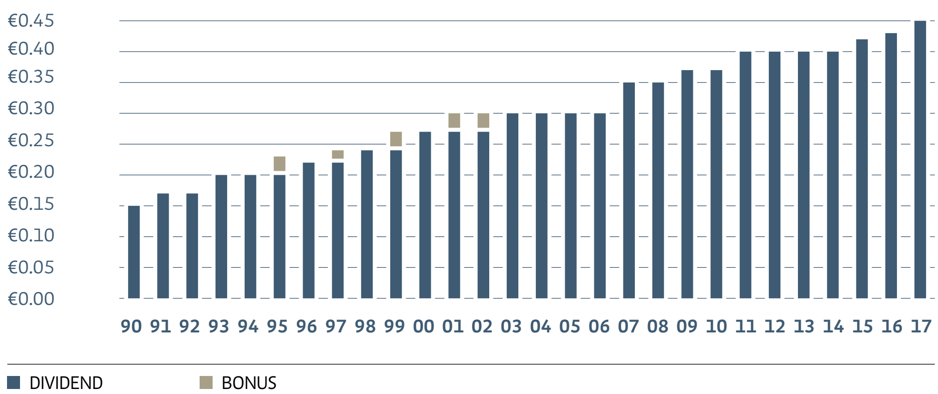
4.5 %
dividend yield

45 cents
dividend proposal to the 2018 Annual General Meeting

A dividend of €0.45 per share will be proposed to the Annual General Meeting on 26 April 2018 for the 2017 financial year. Based on the share price at the end of 2017, this represents a dividend yield of 4.5%.

HAMBORNER has steadily increased its dividend in past years.

Dividend development



If the company's situation permits, we also intend to maintain high distribution ratios in future.

Investor and public relations

Active, continuous and transparent communication with the capital market is a matter of high importance at HAMBORNER. In our investor relations work we therefore regularly report on strategy, current business developments and our company's prospects for the future. Our goal is to give our investors a solid, transparent impression of our company, enable a fair company valuation and shore up confidence in the company.

In 2017, we held roadshows in Germany, other European financial centres, the United States, Canada and the United Arab Emirates in addition to attending a number of capital market and specialist conferences at home and abroad. Investors were also able to speak directly with the Management Board in a great number of individual interviews and in quarterly conference calls. Several interested investors were also able to form a personal impression of our properties as part of individual property tours in 2017. Furthermore, the Management Board and the investor relations team reported to private investors on development of the company at special events as well, and answered questions in many personal talks and telephone calls.

Analysts and investors were also provided with information on the company not just in a direct dialogue but on the Internet, too. Our homepage www.hamborner.de now offers clear access to current company data and publication at all times. Those interested can also use the contact form in the Investor Relations section to subscribe to our newsletter and receive information on HAMBORNER REIT AG directly by e-mail. Furthermore, we provide details of our publication dates and roadshow and conference planning in advance in the financial calendar on our website.

Visit our website at www.hamborner.de

Public relations work remains an important element in our communications concept. We have continued our ongoing dialogue with the financial, industry and business press and the relevant associations. We report openly, promptly and reliably on our investments, the situation of the company or market opinion in press releases and interviews. In doing so, we have observed a growing response in the media in recent years.

We look forward to our active investor relations work in 2018 and providing information on the performance of HAMBORNER REIT AG promptly, transparently and comprehensively. We will also continue to seek a dialogue with our shareholders and are happy to receive your questions, requests and suggestions.

Contact for Investor Relations

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TRANSPARENT EPRA REPORTING

HAMBORNER REIT AG has been a member of EPRA since 2010. The European Public Real Estate Association is an organisation based in Brussels that represents the interests of the major European property companies to the public and supports development and market presence of the European property corporations. As in previous years, HAMBORNER reports in line with the standards recommended by EPRA to achieve the utmost transparency and comparability in determining key performance indicators.

Overview of EPRA figures

€ thousand	31 Dec. 2017	31 Dec. 2016
EPRA NAV	808,944	768,486
EPRA NNNAV	783,159	735,973
EPRA earnings	44,733	36,078
EPRA net initial yield	4.8%	5.1%
EPRA topped-up net initial yield	4.8%	5.1%
EPRA vacancy rate	1.7%	1.5%
EPRA cost ratio (including direct vacancy costs)	20.1%	18.4%
EPRA cost ratio (not including direct vacancy costs)	19.9%	18.1%

NAV / NNNAV

HAMBORNER has commissioned Jones Lang LaSalle GmbH, Frankfurt / Main, (JLL) to calculate the fair value of its property portfolio. Since the net asset value (NAV) was calculated for the first time in 2007 using the current fair values of properties, the properties have subsequently been measured each year. The measurement method used is consistent with the principles of the International Valuation Standards.

€ thousand	31 Dec. 2017	31 Dec. 2016
NAV*	808,944	**768,486**
– Derivative financial instruments	–2,515	–5,513
– Hidden reserves on financial liabilities	–23,270	–27,000
NNNAV	783,159	**735,973**
NAV per share in €	10.15	**9.64**
NNNAV per share in €	9.82	**9.23**

* See page 69 for NAV calculation

Net profit for the period

The figure "EPRA earnings" shows a property company's ability to make distributions from its sustainable operating income by adjusting net income for any measurement effects or the result of disposal activities. This indicator is therefore similar to the funds from operations (FFO) figure we report (see p. 68).

	€ thousand	31 Dec. 2017	31 Dec. 2016
	Earnings per IFRS income statement	17,683	**17,421**
+	Changes in value of investment property*	30,226	22,732
–	Profit or losses on disposal of investment properties	–3,176	–4,075
	EPRA earnings = FFO	44,733	**36,078**
	EPRA earnings per share in € = FFO per share in €	0.56	**0.45**

* Depreciation, impairment losses and reversals of impairment losses on property are recognised here on account of the recognition of property at depreciated cost.

Net initial yield

Net initial yield is calculated on the basis of annualised rental income as at the end of the reporting period less property costs that cannot be reallocated to tenants and divided by the market value of the portfolio including incidental costs of acquisition. Topped-up net initial yield also takes into account adjustments for rental incentives, such as rent-free periods.

	€ thousand	31 Dec. 2017	31 Dec. 2016
	Fair value of investment property portfolio (net)	1,362,600	1,115,010
+	Incidental costs of acquisition	98,750	80,690
	Fair value of investment property portfolio (gross)	1,461,350	**1,195,700**
	Annualised rental income	77,897	66,847
–	Non-transferable property costs	–7,946	–6,174
	Annualised net rental income	69,951	**60,673**
+	Adjustments for rental incentives	11	11
	Topped-up annualised rental income	69,962	**60,684**
	Net initial yield	4.8%	**5.1%**
	Topped-up net initial yield	4.8%	**5.1%**

Vacancy rate

The EPRA vacancy rate is calculated using the annualised rent for vacant space at standard market rents for the portfolio as a whole as at the end of the reporting period.

€ thousand	31 Dec. 2017	31 Dec. 2016
Annualised standard market rent for vacant space	1,354	1,020
Annualised standard market rent for portfolio as a whole	77,939	66,707
Vacancy rate	1.7%	**1.5%**

Cost ratio

The cost ratio is intended to allow comparisons of the relevant operating costs and administrative costs of listed property companies. The relevant costs include all expenses from the IFRS financial statements (not including depreciation, interest, or taxes) for the management of the property portfolio that cannot be reallocated or passed on. The relevant costs calculated thusly are then compared to the (possibly adjusted) income from rents and leases of the company.

€ thousand		2017	2016
	Administrative / operating expenses per IFRS income statement	41,311	32,469
+	Net service charge costs / fees	4,653	2,417
–	Other operating income / recharges intended to cover overhead expenses less any related profits	–266	–252
–	Investment property depreciation	–30,226	–22,732
–	Ground rent costs	–608	–559
	EPRA costs (including direct vacancy costs)	14,864	**11,343**
–	Direct vacancy costs	–152	–203
	EPRA costs (excluding direct vacancy costs)	14,712	**11,140**
	Gross rental income less ground rent costs	73,881	**61,614**
	EPRA cost ratio (including direct vacancy costs)	20.1%	**18.4%**
	EPRA cost ratio (excluding direct vacancy costs)	19.9%	**18.1%**

In the reporting year, as in the previous year, no costs were capitalised in connection with the administration of the property portfolio. General contractors are usually commissioned for the planning and performance of larger modernisation work eligible for capitalisation. To the extent that the company's own employees render key services in connection with these measures, the corresponding personnel expenses would be capitalised.

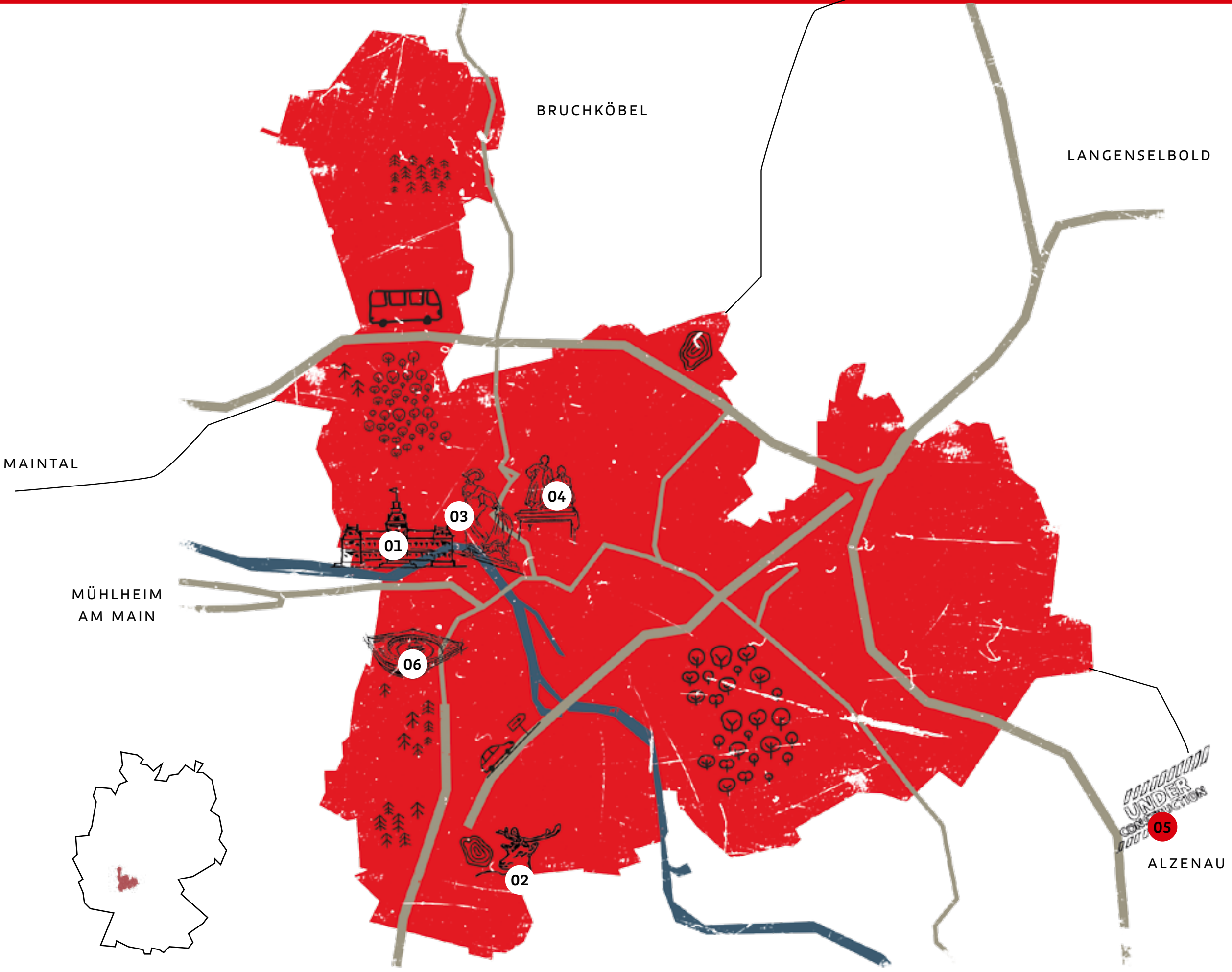
FAIRY TALE TOWN HANAU

HANAU

1,800
ship movements take place each year at the second largest German port on the Main-Danube shipping route.

Around
100
stands at Hanau's weekly market offer fruit, vegetables, meat, fish, cheese, eggs and much more.

238
fairy tales were collected by Jacob and Wilhelm Grimm during their lifetime.



MORE THAN FAIRY TALES

Following in the footsteps of the Brothers Grimm or strolling through a baroque setting? Historic locales and charming parks dot the modern cityscape of Hanau.

01 PHILIPPSRUHE PALACE

Situated on the banks of the River Main and surrounded by a beautiful park, Philippsruhe Palace is just one baroque gem to be found in the town. As the largest and best-preserved castle in the Rhine-Main area, Philippsruhe is one of Hesse's most important cultural and architectural monuments. This atmospheric setting is also the venue of the annual Philippsruhe Palace Concerts.

02 ALTE FASANERIE WILDLIFE PARK

Pheasants have been kept on the grounds of the Klein-Auheim district since 1705. Today the spacious park is home to around 40 Central and Northern European species of animal, including European bison, eagle owls, Arctic foxes and wolves.

03 PAPER THEATRE MUSEUM

The stage of the Paper Theatre Museum is tiny. Anyone planning to attend one of the regular performances should bring opera glasses. The permanent exhibition comprises 20 complete stages. Scenery and stage designs made out of paper were highly popular in Europe from the beginning of the 19th century. It is said that even Goethe built his own paper stage to rehearse his plays.

04 BROTHERS GRIMM NATIONAL MONUMENT

The famous brothers have been immortalised as a double statue more than six metres high in the new town marketplace. They are considered the founding fathers of German philology, and are the starting point for the German Fairy Tale Route that ends in Bremen.

05 FRAUNHOFER SCIENCE PARK

Ground was broken in summer 2017. In 2019, the Fraunhofer Project Group for Materials Recycling and Resource Strategies will commence its work in this new building. The research group is working on a key issue for the future: the efficient use of raw material resources. Its researchers are in excellent company in Hanau: A number of companies in the field of recyclables and materials are based here.

06 RONDO RETAIL CENTRE IN STEINHEIM

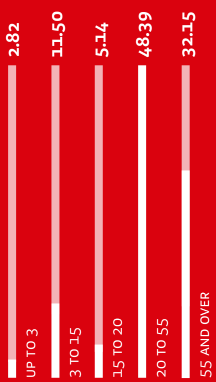
What goes around: In 2017, the retail centre opened its doors as a place for residents (and others) to shop, eat and have fun.

Hanau has it

The former seat of the noble family of Hanau's lords and counts is a historical treasure trove. Picturesque half-timbered façades and magnificent baroque buildings bear witness to many centuries of Hanau's history. The Hanau resident most in love with history was probably Prince William of Hesse-Kassel: In 1779, he even had artificial medieval ruins built – including an apartment inside decked out in nothing but the very latest fashions. Perhaps this was the earliest example of something every visitor still notices today: People in Hanau know how to combine tradition with modern lifestyles. Take, for example, a refreshing apple wine – a regional speciality of legendary standing in Hesse. Hanau is home to the world's biggest *bembel*, a traditional jug for serving the drink. And every year in August, Hanau's Steinheim district hosts the heady *Bundesäppelwoifest* – Germany's national apple wine festival.

The economic and cultural centre of the Main-Kinzig region benefits from its location in the dynamic Rhine-Main area. The town has grown steadily in recent years. Hanau's economy has also made a name for itself: many major companies in materials technology, medical and dental technology and chemistry have branches here. A romantic fairy tale town and a vital technology site – a balancing act that Hanau pulls off in style.

AGE GROUPS IN %



01

134.6

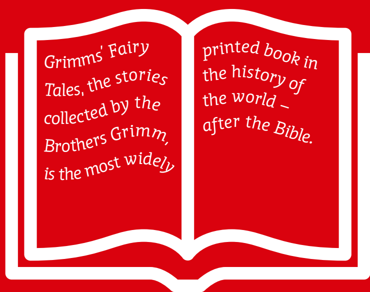
Retail Centrality Index

02

16 newborns in one day. The Hanau Clinic set this new record for a single day on 12 September 2016.

+9.1 %

population forecast by 2030



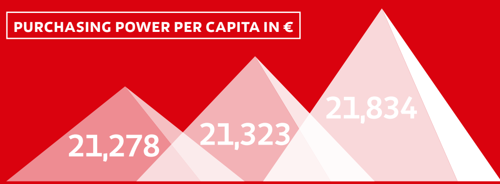
After 63 years of living together, the Americans left the military base in 2008. Around 300 retired US Army members stayed behind in Hanau. They must have felt welcome: There were already 96 marriages between American soldiers and women from Hanau in 1947.

EDUCATION

11 SCHOOLS

1 VOCATIONAL ACADEMY

PURCHASING POWER PER CAPITA IN €



03

01 The Brothers Grimm keep watch over Hanau. Would they be able to recognise their tranquil home town in today's modern technology site?

02 The historic charm of the alleyways of the old town.

03 Hanau is a mature and growing city with established industry.

RONDO STEINHEIM

The Rondo retail centre in Hanau's Steinheim neighbourhood cordially invites you to go shopping with its slogan "Warm. Versatile. Local". The Rondo is truly close to Hanau's heart: Its citizens even chose its name.

NEIGHBOURHOOD REVITALISATION

For ten years the approximately 31,800 m² lot of a former furniture store lay idle at the gateway to Steinheim. The Rondo opened its doors to Steinheim in the middle of 2017, offering a range of shopping opportunities that is revitalising the entire area. In the same year, the property was awarded the "Retail Star" prize in the new building category for its unique architecture.

SHOPPING AND LEISURE

15 shops provide the people of Steinheim and other visitors with everything the heart desires: groceries and household goods, fashion, a drugstore and pharmacy, service providers like banks and hairdressers in addition to food options in the café, restaurant, or sports bar. The state-of-the-art, light-flooded building, designed around a central pond, makes an inviting ensemble.

500

free parking spaces placed close to the building ensure that shoppers don't have far to go.

01 ATTRACTIVE DESIGN
The central water area invites shoppers to linger in the café. They can even go ice-skating in winter. There are regular activities for the whole family around the pond.

02 E-MOBILITY CHARGING STATION
Shopping and refuelling: There are three charging stations with two slots each for e-car owners.

03 FREE WI-FI
Visitors can use free wi-fi around the café.

04 NEIGHBOURHOOD SHOPPING
The Rondo is located in the direct vicinity of a large residential area.

05 THE "RONDO-EXPRESS"
Bus number 13 brings visitors from all over Steinheim straight to the Rondo every 30 minutes.

02 MANAGEMENT REPORT

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BASIC INFORMATION ON THE COMPANY

BUSINESS MODEL OF THE COMPANY

Concentration on the asset classes large-scale retail, high street and office

As a listed stock corporation in the form of a real estate investment trust (REIT), HAMBORNER REIT AG operates in the property sector and has positioned itself as an asset manager for profitable commercial properties. The company has an attractive, diversified property portfolio that consists essentially of large-scale retail properties, high street properties and high-quality office buildings at established office locations. The company has generated stable rental income in recent years with its portfolio distributed throughout Germany and a high occupancy rate by market standards.

CORPORATE STRATEGY AND GOALS

The corporate strategy of HAMBORNER is geared towards value-adding growth through the yield-driven expansion of its commercial property portfolio in the fields of large-scale retail, high street commercial properties and offices, while at the same time maintaining its regional diversification. Its objective is to safeguard the profitability of the property portfolio in the long term by acquiring high-yield properties. To increase profitability, it also sells properties with below-average absolute fair values and properties at locations with less promising prospects, replacing them with properties with a higher fair value and better cost / income structures. Through this objective, the company intends to generate high yields and reduce its portfolio risks with the aim of achieving a consistent and attractive dividend distribution in future.

Specifically, HAMBORNER's strategic objectives are to be achieved with the following measures:

Focus on large-scale retail properties in high-footfall locations, high street properties and high-quality office buildings

HAMBORNER's property portfolio concentrates on a balanced mix of the following three property classes: large-scale retail properties in locations with high footfall that afford tenants an excellent market positioning, high street properties located in pedestrianised areas or good central locations in cities with high purchasing power and high quality office buildings.

Large-scale retail properties offer a steady cash flow, thus forming the basis for ongoing dividend distributions. High street properties in prime locations offer potential for appreciation in value. Office properties usually have fully index-linked rents and therefore offer greater protection against inflation, though this cannot be ruled out.

Growth and expansion of the company's property portfolio

The company plans to expand its property portfolio on an ongoing basis by acquiring further commercial properties. The future investment volume per property is expected to be in a range of between €10 million and €100 million. The company also plans to optimise its portfolio through targeted measures. To ensure long-term profitability, portfolio properties with a low fair value or at locations with less-promising prospects will be sold. These are essentially properties with a fair value of less than €5 million that incur high costs in proportion to their rental income. The aim is to replace these properties with ones with a higher fair value and at more attractive locations with better cost / income structures.

€10 million to
€100 million
investment volume per property

This active portfolio and acquisition management is limited to just the company's own portfolio. Project development by the company itself is not part of its business strategy. It also does not perform services for third parties.

Focus on medium-sized cities and regions in Germany with long-term growth prospects

HAMBORNER's strategy is to hold commercial properties throughout Germany. It is not currently planning to acquire assets outside Germany. The company plans to purchase commercial properties in south and southwest Germany in particular in future as these regions promise long-term growth and allow the company to increase the regional diversity of its portfolio. However, acquisition opportunities throughout the whole of Germany are considered.

In terms of the size classes of cities, the focus is on large-scale retail properties and high street properties in cities of more than 60,000 people and office properties in cities with populations of more than 100,000.

In the opinion of the company, focusing on properties in medium-sized cities has the advantage that market prices in these regions are less volatile and higher returns are usually possible here than in conurbations. The company also believes that there is also a better selection of suitable properties and that the competition for these properties is generally not quite as high as in the major urban centres. The developments in market prices, cash flows from rental operations and the returns generated in these target markets are therefore also more stable overall and can be planned better. However, the company also does not rule out the acquisition of commercial properties in major German conurbations given good purchase opportunities in terms of sustainability.

Leveraging acquisition opportunities while retaining a healthy financing structure and ongoing distributions of attractive dividends

As a REIT company, HAMBORNER, among other things, must distribute 90% of its HGB net income for the financial year and maintain a REIT equity ratio of at least 45%. In addition, the company is managed according to the performance indicators funds from operations (FFO) and net asset value (NAV) per share.

The REIT equity ratio is to be kept at around 50 %

HAMBORNER's healthy financing structure with its relatively low loan-to-value ratio (LTV) and high equity ratio helps it to leverage acquisition opportunities in the current market environment. As the company is a REIT and must distribute most of its profits, the company plans to finance the growth of its property portfolio with a balanced mix of equity and debt capital moving ahead. The company strives to maintain a REIT equity ratio above the legally required minimum of 45% at around 50%.

MANAGEMENT SYSTEM

The company's management system is geared towards contributing to the achievement of its goals. It extends from standardised investment analyses for individual properties to integrated budget and medium-term planning at company level (earnings, assets and cash flow planning). Monthly controlling reports provide a timely indication of any deviations from planning; corresponding variance analyses are used to devise alternative courses of action.

FFO and NAV per share key management control parameters

Our management at company level is based on the performance indicators calculated using IFRS figures of funds from operations (FFO) and net asset value (NAV) per share. In particular, key operating value drivers and factors influencing development of FFO include rental income, the vacancy rate, personnel expenses, maintenance and interest expenses. Improvements in efficiency due to growth are expressed by the operating cost ratio, i.e. the ratio of administrative and personnel expenses to rental income. The like-for-like development in the value of the portfolio significantly influences NAV per share as a performance indicator. Controlling reports and scorecards ensure internal transparency of developments in key ratios over the year. The remuneration of the Management Board is also based in part on FFO per share (please see also the comments in the remuneration report). The calculation of the FFO and NAV figures is shown in the economic report.

ECONOMIC REPORT

ECONOMIC ENVIRONMENT

The German economy had its strongest growth in six years in 2017, with gross domestic product rising by 2.2%. According to Federal Statistical Office, the positive stimulus came from within Germany in particular as a result of higher private and public sector spending but also due to a significant increase in gross investment.

It also states that consumer prices rose at an annual average of 1.8% in 2017 compared to previous years. In turn, the significant increase was largely due to higher energy prices (up 3.1%). Even adjusting for energy products, the rate of inflation would have been 1.4%. The development on the German labour market remained positive in 2017. At 44.3 million, the number of people in employment was 0.6 million higher than the previous year's level. An average of 2.5 million people were unemployed over the year according to the Federal Employment Agency. This corresponds to an average unemployment rate of 5.7% (previous year: 6.1%).

SITUATION ON THE PROPERTY MARKET IN GERMANY

Retail property market

According to information from the Federal Statistical Office, in 2017 retail companies in Germany generated sales of 2.3% (in real terms, adjusted for inflation) and 4.2% (nominally, not adjusted for inflation) higher than in 2016. Sales again grew very strongly in the Internet and mail order segment (up 7.7% in real terms) and for textiles, clothing, footwear and leather goods retailers (up 4.2% in real terms), while food retailer sales increased by approximately 1.5% in real terms.

Despite good economic conditions, actors on the German retail rental market are still playing it cautious. Consumer confidence is at a high level, and consumers are in a buying mood. However, all this does not mean that many retailers are not worried about online retail and profound structural changes. The rising share of online commerce in combination with declining foot traffic in some areas is impacting high street retail. Making a long-term commitment to a site is therefore currently a big step for many tenants, who consider rentals very carefully and thoroughly examine alternatives on the market. Key trends currently include the renegotiation of rent, shorter lease terms, increased use of sales-based rent, pop-up stores for test purposes, changing store concepts from purely being a sales space to being a showroom and the "gastronomisation" of pedestrian zones and shopping centres.

According to BNP Paribas Real Estate Deutschland, total take-up in German cities was 11% below the previous year's level at around 660,000 m² in 2017, while the number of leases and openings has declined only very slightly by 4% to just over 1,300, indicating a consistently high rate of turnover for city locations. The turnover rate, which is also moderate by long-term standards, is primarily due to the average size per rental, which has fallen by a third to 500 m² since 2014. More than 44% of deals even have a total area of no more than 200 m². Measured against the five-year average and currently as well, one in four square metres of take-up is generated at one of the top ten locations. The biggest retail markets are most favoured by international labels in particular: These are the cities where international retailers prefer to touch down in Germany, or use them to attract attention. They are therefore responsible for a striking 41% of deals in this category. The B cities contribute 16% of the volume. However, most sales are accounted for by other cities (58%). The analysis of the top ten locations illustrates the fact that the high cost of rent at the major shopping destinations is difficult for many retailers to manage and increasingly leading to space optimisation. As a result, take-up in the top major cities has fallen much more sharply (down 24%) than the number of lettings (down 13%). The structural change in the retail sector in Germany is reflected in the industry structure of lettings and openings in particular: While food outlets accounted for more than 13% of registered deals between 2013 and 2016, they accounted for approximately 18% in 2017 – almost five percentage points more. Despite this, textiles again took the lion's share of lettings and openings, but at just over 26% of deals they are seven percentage points lower than the average for recent years. The top two are complemented by the personal care / health care market segment, which includes drugstores, perfumeries and opticians (just under 10%).

According to Jones Lang LaSalle GmbH (JLL), the trend reversal in rents in pedestrian zones continued in 2017: While rents in the ten biggest cities dipped by 1%, an average year-on-year decline in prime rents of 2.6% was observed at the level of all 185 retail markets analysed in Germany. In particular, the strongest declines were seen at smaller regional centres close to other high-performing retail markets. By contrast, there were also increases in cities of high local retail relevance.

Overall, the retail rental market was contracting while there was a rising trend on the retail investment market (for details regarding this, please see page 50). In this specific situation of opposing demand trends on the rental and investment market for retail property, careful location and market analysis is becoming increasingly important. In particular, the calculation or correct assessment of a realistic, longer-term rent represents a "key success factor" for the sustainable profitability of retail property investments.

Office space market

Growth in employment is leading to rising demand for space from companies, directly affecting the office rental markets in the services sector. According to JLL, take-up at the big seven German office locations (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart) amounted to around 4.2 million m² in 2017, once more even higher than the record level of the previous year at almost 7%. However, the rental volume could have been even higher, but many companies in search of new space were unable to find anything due to the low level of supply on the market. The shortage of supply is significant in city centre locations especially. Unlike in previous cycles, completion numbers for new buildings and supply have not kept pace with rising demand, and are only starting to react now.

Two markets scored above 900,000 m²: Berlin (955,000 m²) and Munich (995,000 m²) were neck and neck and by far the markets with the highest sales among the big seven. Frankfurt (up 36%) and Munich (up 28%) reported the strongest year-on-year sales growth, according to JLL. Only Stuttgart (down 36%) and Cologne (down 30%) reported declines in sales.

Major deals above 10,000 m² continued or even stepped up their positive development, with JLL putting their current share at around 23%. There was also strong demand from flexible workspace providers over 2017. In addition to classic business centres, above all providers of co-working space were renting new offices. While flexible workspace providers still make up less than 1% of office space overall, they accounted for roughly 5% or around 212,000 m² of take-up in 2017, set to rise to around 7% in 2018.

The heavy take-up of space by companies has restarted a decline in available space. According to JLL, the vacancy rate in the big seven dropped to 4.7% at the end of 2017, its lowest level in 15 years. Vacancy rates range from 2.7% in Stuttgart to 3.5% in Berlin and 7.9% in Düsseldorf. The vacancy volume has thus almost matched the sales volume. The last time that these two values came so close was in 2001. Significant space bottlenecks are already being seen on some sub-markets of the big seven. Highly sought-after locations such as the city centre, the Schwabing-Nord sub-market or Westend in Munich, Mitte 1A in Berlin and downtown Stuttgart current have vacancy rates with a one before the decimal point.

According to JLL statistics, approximately 860,000 m² of new office space was built in the whole of 2017. Construction volumes are therefore around 22% below the value for the previous year and three times lower than in 2002.

Eager demand combined with declining space is inevitably leading to higher prices. Prime rents rose at all the big seven except Düsseldorf (average: 4.1%) as at the end of 2017, according to JLL. The highest increases were reported in Berlin (up 11%), Stuttgart (up 5%), Munich and Hamburg (both up 4%).

German property investment market

The general conditions for the German commercial property investment market were also positive in 2017. In addition to consistently low interest rates, a flourishing economy and strong rental markets have created brisk demand for investment products. According to JLL, the transaction volume on the German commercial property market has risen to a new all-time high of just under €57 billion, beating the old record from 2015 by almost €2 billion. This represents an increase of around 7% compared to 2016. However, as purchase prices have risen more than the transaction volume, according to JLL, it is only nominally a new record.

In addition to product shortages, 2017 as an investment year was defined by many investors turning to B cities and the strong increase in forward deals.

The largest share of investments in 2017, according to JLL, was accounted for by office properties (share of around 44%), followed by retail properties at around 20% and warehouse / logistics properties at around 15%. According to CBRE GmbH, the retail property segment was dominated by retail centre properties (around 44%) and inner-city commercial properties (around 30%). The shopping centre segment took third place with a share of around 20%.

Approximately 65% of the commercial transaction volume related to individual transactions in 2017 according to JLL. Germany has established itself as an international marketplace for commercial properties. Over the year as a whole, foreign investors accounted for approximately 50% of the transaction volume, according to JLL. Generally, foreign investors are looking for large-volume investment opportunities especially in Germany: seven of the ten largest transactions in 2017 were performed by international investors. In particular, Asian investors have greatly stepped up their activities in recent years.

According to JLL, around €31 billion had been invested in the big seven investment strongholds of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart by the end of 2017. This marks a slight improvement of 5% over the previous year. The frontrunner is now Berlin, with a transaction volume in excess of €7.7 billion and a year-on-year increase of 56%, followed by Frankfurt at €7.1 billion, where more than half of the volume for the year was registered in the final quarter alone. The two Rhine cities of Düsseldorf (32%) and Cologne (41%) were also up significantly compared to 2016, while Hamburg, Munich and Stuttgart experienced more hefty decreases.

On average for the big seven, prime yields for office properties fell by 29 basis points as against the end of 2016 to 3.27%. Berlin dropped down below 3% and ended the year at 2.90%. Despite the ongoing debate over online retail, inner-city commercial buildings in the top shopping locations of major cities remain a popular albeit very rare investment product. Against this backdrop, yields dropped to 2.93% across the big seven. Net initial yields for individual retail and shopping centres were also down again at the end of the year at 5.30% and 3.90%, respectively. Well-positioned retail parks with a significant share of food tenants are still right at the top of investors' shopping lists, which is why prime yields here fell again by 10 basis points to 4.60%. However, logistics properties offered up the strongest decline in yields. Prime yields here decreased by 60 basis points over the course of 2017, to currently only 4.50%.

BUSINESS PERFORMANCE

HAMBORNER has again enjoyed a highly successful financial year. The excellent operating performance of recent years continued and was largely in line with expectations. Much of the financial year focused on the expansion of the property portfolio and using the funds raised by the capital increase in the previous year. In terms of purchase prices, €214.5 million was invested in the acquisition of seven properties in Berlin, Hallstadt, Hanau, Kiel, Cologne, Passau and Ratingen. At the same time, the company disposed of two smaller properties no longer consistent with strategy in 2017. As a result of changes in the property portfolio and also of an increase in the market value of our properties on a like-for-like basis (up 2.9%), the fair value of the property portfolio rose by €247.6 million to €1,362.6 million as at 31 December 2017. Furthermore, in the financial year the company signed three purchase agreements to acquire properties in Bonn, Düsseldorf and Cologne with a total purchase price of €43.7 million. Ownership had not yet been transferred as at the end of the reporting period.

HAMBORNER also had a successful year in 2017 in terms of its rental performance. With a total rental volume of 56,189 m², new rentals accounted for 12,954 m² and follow-up leases or renewals with existing tenants for 43,235 m².

The positive business performance is also reflected in the result of operations, net asset situation and financial position as presented below.

REPORT ON RESULT OF OPERATIONS, NET ASSET SITUATION AND FINANCIAL POSITION (IFRS)

Result of operations (IFRS)

+19.8%
rise in income from rents and leases

Income from rents and leases amounted to €74.1 million in the reporting year and has therefore increased by €12.3 million or 19.8% as against 2016 due to new investments in particular. On a like-for-like basis – i.e. comparing the properties that were held in the portfolio throughout 2016 and 2017 – income from rents and leases was up on par with the previous year at €56.3 million in total. Uncollectible receivables and individual value adjustments amounted to around €248 thousand in the reporting year (previous year: €79 thousand).

The economic vacancy rate including agreed rent guarantees was 1.4% (previous year: 1.3%), and therefore still at a very low level. Not including rent guarantees, the vacancy rate was 1.6% (previous year: 1.6%).

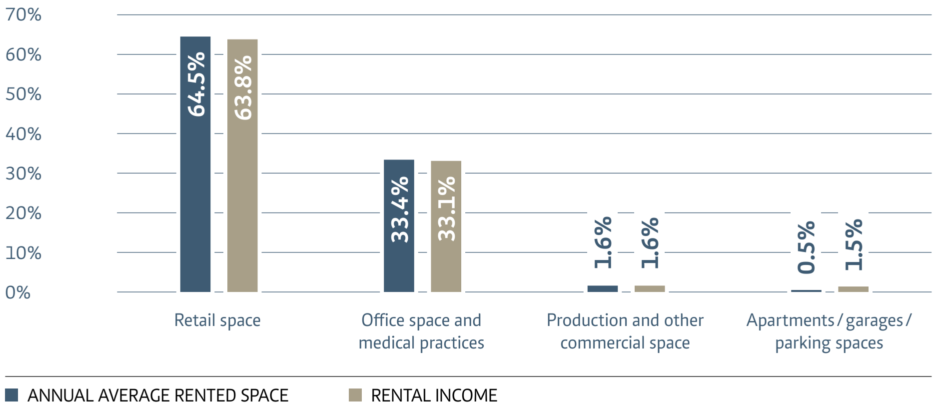
The following table provides an overview of the company's ten biggest tenants:

Company	Rental income in %*
1. EDEKA Group	9.9
2. Kaufland Group	7.2
3. real,- SB Warenhaus GmbH	5.9
4. OBI AG	5.4
5. Rewe Group	3.7
6. German Federal Employment Agency, job centre	3.5
7. H & M Hennes & Mauritz B.V. & Co. KG	2.2
8. NETCOLOGNE Gesellschaft für Telekommunikation mbH	2.2
9. C & A Mode GmbH & Co. KG	1.7
10. SPIE GmbH	1.4
Total	**43.1**

* according to share of annualised rents

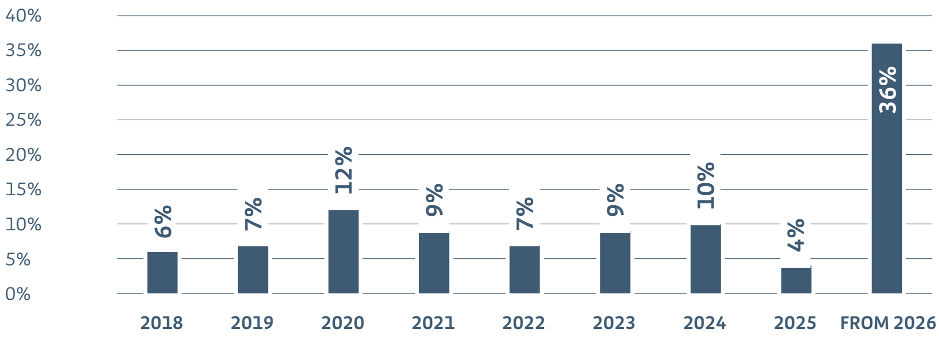
We generate most of our rental income from retail space, which has already proved largely reliable in terms of letting in past years. The 2017 portfolio breaks down by types of use and contributions to rental income as follows:

Rental income by asset class



The chart below shows rental income in relation to leases expiring in the coming years:

Share of leases expiring



The remaining term of our commercial rental agreements weighted according to rental income is 6.6 years. The weighted remaining term for the office sector is 5.3 years, 4.9 years for high street properties and approximately 8.6 years for large-scale retail space.

6.6 years
is the average remaining term of our leases.

Total ***maintenance expenses*** amounted to around €4.3 million in the financial year (previous year: €2.8 million). There were also measures eligible for capitalisation of €2.9 million (previous year: €1.8 million).

As in the past, extensive work was done in individual projects in the 2017 financial year as part of planned maintenance on roofs, façades and building services facilities to enhance the energy efficiency of the properties in question and thereby ensure their long-term letting prospects. A key task in building maintenance is the coordination and performance of conversion work for new and follow-on rental agreements.

Most of the more major renovation and revitalisation work took place at the following locations in 2017:

Biggest maintenance project in 2017: Overhaul of the ventilation, heating and refrigeration systems at Louisenstr. 66, Bad Homburg

The biggest individual project in the 2017 reporting year was the overhaul of the ventilation, heating and refrigeration systems of our property at Louisenstr. 66 in Bad Homburg. This essential work on parts of the building that are as old as the property itself – and therefore no longer in keeping with modern technological or energy standards – was completed by the end of the year and led to capital expenditure of €1.2 million in the year under review.

Another major project was the expansion of retail space at the centre acquired in March 2017 at Michelinstr. 142, Hallstadt, as part of a new rental to the tenant Aldi. The costs eligible for capitalisation, which were taken into account in the purchase agreement negotiations, amount to around €1.7 million. Roughly €1.0 million of these costs was incurred in 2017 after completion of the shell and parts of the building's engineering. The store is expected to open in April 2018. We have succeeded in optimising the centre's industry structure in the long term by placing a modern discount food retailer. This will further boost and increase the location's appeal.

Around €0.3 million was incurred for maintenance and refurbishment work at the location of the C & C wholesale market in Villingen-Schwenningen. In return, the existing lease with UnionSB Grossmarkt GmbH was renewed for around eight years.

+16.7 %
increase in net rental income

As a result of a rise in income from rents and leases in particular, ***net rental income*** increased by 16.7% and amounted to €65.4 million (previous year: €56.0 million).

The ***operating result*** was €29.4 million after €27.7 million in the previous year. This rise of 6.2% is due in particular to the higher net rental income. ***Administrative and personnel expenses*** rose by 8.7% to a total of €5.7 million (previous year: €5.3 million). The operating cost ratio relative to income from rents and leases was therefore 7.7% (previous year: 8.5%). ***Depreciation and amortisation*** were up 33.0% year-on-year as a result of new additions in particular. We recognise our properties at depreciated cost and therefore report depreciation, which amounted to €29.1 million in the reporting year as against €22.7 million in the previous year. Furthermore, there was an impairment loss of €1.1 million on the property in Mosbach. As in the previous year, there were no reversals of impairment losses recognised on properties in prior periods.

We generated a ***result from the sale of investment property*** of €3.2 million (previous year: €4.1 million). Details of this can be found on page 58.

EBIT increased accordingly by €0.8 million to €32.5 million after €31.7 million in the previous year.

The ***financial result*** is €–14.9 million in the year under review as against €–14.3 million in the previous year. The increase in the amount is due in particular to the interest expenses included in the financial result, which essentially rose as a result of loans borrowed in the reporting year for the pro rata financing of properties. After deducting the financial result from EBIT, the ***net profit for the year*** amounted to €17.7 million (previous year: €17.4 million).

Net asset situation (IFRS)

The ***total assets*** of the company increased by €166.7 million to €1,173.5 million (previous year: €1,006.8 million) as at 31 December 2017. Around 95% of assets are accounted for by our properties. The total property assets recognised at depreciated cost (including non-current assets held for sale) had a carrying amount as at 31 December 2017 of €1,109.2 million (previous year: €923.4 million) and break down as follows:

Properties account for around 95 % of our assets.

€ thousand	31 Dec. 2017	31 Dec. 2016
INVESTMENT PROPERTY		
Developed property assets	1,104,882	907,054
Incidental costs of pending acquisitions	3,951	8,793
Undeveloped land holdings	402	402
	1,109,235	**916,249**
PROPERTY HELD FOR SALE		
Developed property assets	0	7,178
Undeveloped land holdings	0	16
	0	**7,194**
TOTAL REPORTED PROPERTY ASSETS	1,109,235	**923,443**

Unless stated otherwise, we use the term ***"property portfolio"*** below to refer to our developed property assets, which are shown under ***"Investment property"*** and ***"Non-current assets held for sale"*** in the statement of financial position.

Performance of the property portfolio

Our property portfolio was again valued by a third-party expert as at the end of 2017. Jones Lang LaSalle (JLL), was commissioned to calculate the market value of the property portfolio and to document this in an expert report. The portfolio was measured on the basis of the generally recognised International Valuation Standards (IVS) and the guidelines of the Royal Institution of Chartered Surveyors (RICS).

Third-party valuation of our property portfolio by JLL

These state that market value "is the estimated value for which a property is exchanged between a willing buyer and a willing seller on the valuation date, whereby each of the parties has acted independently after proper marketing, knowledgeably, prudently and without obligation".

The above definition is the same as that of the "fair value model" as found in the International Financial Reporting Standards under IAS 40 in conjunction with IFRS 13. The valuation was performed on the basis of a discounted cash flow (DCF) method. In the DCF method, the forecast cash flows were calculated for a standard analysis period of ten years – 2018 to 2027. A capitalised residual value is forecast on the basis of the respective long-term net proceeds for the end of the ten-year planning horizon. The market value of a property is derived from the sum of the discounted cash flows of the overall planning period plus the residual value also discounted to the measurement date.

When calculating cash flows, rental income was always reduced by the property-specific costs that cannot be allocated to tenants. In addition, the expected expenses for maintenance or modernisation and the expected administrative expenses were deducted. Rent increases based on indexation were taken into account in specific cases for long-term contracts. Rent forecasts were prepared if rental agreements are terminated within the period of analysis. They were discounted to the measurement date to calculate the present value of future cash flows. The discount rates range between 4.05% and 8.35% and take into account the respective risks specific to the property.

Around €1.4 billion: value of our portfolio as at 31 December 2017

The fair values calculated by JLL are shown separately for each property in the list of properties from page 60 of the annual report. Also shown separately are rental income as the key factor in determining net cash flows, the discount rates and capitalisation rates. The total market value of the property portfolio calculated thus was €1,362.6 million, an increase of €247.6 million on the previous year's portfolio value. The difference is due to additions to fair value from acquisitions and investments in existing properties (subsequent capitalisation) of €229.4 million, fair value disposals of €14.0 million due to sales and a year-on-year increase in fair value due to the remeasurement of the portfolio of €32.1 million. This corresponds to a like-for-like increase in portfolio value of 2.9%, €11.7 million which of which is attributable to NuOffice in Munich, the office property on EUREF Campus in Berlin and the retail centre in Celle. The remeasurement and appreciation of the properties as at 31 December 2017 highlights the high quality of HAMBORNER's property portfolio.

We recognise our properties conservatively at depreciated cost, and not at their higher fair values. We therefore also recognise depreciation on our properties, with the result that both positive and negative changes in value are recognised in hidden reserves but do not necessarily affect earnings. An impairment loss of €1.1 million was recognised on the carrying amount of the property in Mosbach in the year under review. The property's sole tenant, Kaufland, opted not to renew its lease which is expiring at the end of 2019. A reletting concept is currently being devised.

Successful new investments

Our corporate strategy is geared towards value-adding growth through the yield-driven expansion of our commercial property portfolio in the fields of large-scale retail, high street commercial properties and offices while at the same time maintaining regional diversification. In line with this strategy, there were new investments in the 2017 financial year, not including incidental costs of acquisition, of €214.5 million (previous year: €179.7 million). In keeping with strategy, the new investments focused on the asset classes described above. The fair value of the properties added in 2017 amounts to €227.5 million in total as at 31 December 2017, and therefore €12.9 million more than the purchase prices. Specifically, the following seven properties were transferred to our portfolio in the reporting year:

€ 215 million
investment volume for acquisition of seven properties

City	Address	Building use	Area in m²	Rental income p. a. in € thou.	Purchase price in € m
Berlin	Märkische Allee 166	Retail centre	6,529	909	16.2
Hallstadt	Michelinstr. 142	Retail centre	21,752	2,253	40.4
Hanau	Otto-Hahn-Str. 18	Retail centre	13,987	2,038	37.5
Kiel	Kaistr. 90	Office	6,738	1,191	22.2
Cologne	Am Coloneum 9 / Adolf-Grimme Allee 3	Office	26,517	2,772	48.9
Passau	Steinbachstr. 60-62	Retail centre	4,281	870	14.9
Ratingen	Balcke-Dürr-Allee 7	Office	10,508	1,940	34.4
			90,312	**11,973**	**214.5**

Furthermore, three further purchase agreements were notarised in 2017 for properties in Bonn, Düsseldorf and Cologne with a total purchase price volume of €43.7 million with annual rental income of €2.3 million. Ownership of these properties had not yet been transferred as at 31 December 2017; rather it was transferred on 2 January 2018.

2 properties
sold in the financial year.

Portfolio disposals

After having already sold various properties no longer consistent with strategy in the previous years,we were again able to sell two properties in 2017, thereby streamlining our portfolio.

City	Address	Building use	Residual carrying amount in € thou.	Sale price in € thou.	Rental income p. a. in € thou.
Duisburg	Albertstr. 8–12	Retail centre	7,177	9,450	671
Minden	Bäckerstr. 8–10	Residential and high street	3,920	4,500	269
			11,097	**13,950**	**940**

In future, we intend to sell portfolio properties no longer considered to fit strategy on account of their location, property size, administration requirements or potential for rent increases.

74 properties at
58 locations

Property portfolio as at 31 December 2017

After the changes described above, the property portfolio comprised 74 properties as at the end of the year under review. The properties are predominantly in large and medium-sized cities at 58 locations in Germany and have a total usable area of 562,942 m², by far most of which is used commercially. More detailed information on the year of purchase, location, size and type of use and the fair value of all properties can be found in the list of properties below.

Further information and the respective property data can also be found on the Internet at www.hamborner.de.


KIEL
SCHLESWIG-HOLSTEIN
LÜBECK
MECKLENBURG-WESTERN POMERANIA
HAMBURG
HAMBURG
OLDENBURG
BREMEN
BREMEN
LÜNEBURG
MEPPEN
LOWER SAXONY
BERLIN
BERLIN
CELLE
OSNABRÜCK
RHEINE
SAXONY-ANHALT
BRANDEN-BURG
MÜNSTER
HERFORD
LEMGO
GÜTERSLOH
GELDERN
NRW
OBERHAUSEN
DORTMUND
KREFELD
RATINGEN
DÜSSELDORF
LÜDENSCHEID
LEIPZIG
HILDEN
SOLINGEN
LANGENFELD
LEVERKUSEN
THURINGIA
SAXONY
COLOGNE
FREITAL
SIEGEN
AACHEN
BONN
HESSE
GIESSEN
NEUWIED
KOBLENZ
BAD HOMBURG
HANAU
FRANKFURT
WIESBADEN
RHINELAND-PALATINATE
NEU-ISENBURG
HALLSTADT
BAYREUTH
MANNHEIM
ERLANGEN
SAAR-LAND
KAISERSLAUTERN
MOSBACH
FÜRTH
BAVARIA
KARLSRUHE
REGENSBURG
DITZINGEN
STUTTGART
INGOLSTADT
PASSAU
TÜBINGEN
OFFENBURG
BADEN-WÜRTTEMBERG
AUGSBURG
VILLINGEN-SCHWENNINGEN
MUNICH
BRUNNTHAL
FREIBURG
PORTFOLIO
TRANSFER OF POSSESSION 2017
NOTARISED, TRANSFER OF POSSESSION AFTER 31 DECEMBER 2017

LIST OF PROPERTIES (AS AT 31 DECEMBER 2017)

Year of acquisition	Property		Building use	Property size in m²	Useable area m²
1976	Solingen	Friedenstr. 64	B	27,344	7,933
1981	Cologne	Von-Bodelschwingh-Str. 6	B	7,890	3,050
1983	Wiesbaden	Kirchgasse 21	B/R	461	1,203
1984	Frankfurt/Main	Steinweg 8	B/O	167	594
1986	Frankfurt/Main	Königsteiner Str. 69a, 73–77	B	6,203	2,639
1987	Oberhausen	Marktstr. 69	B/R	358	523
1987	Lüdenscheid	Wilhelmstr. 9	B	136	499
1988	Dortmund	Westfalendamm 84–86	O/R	1,674	2,684
1991	Dortmund	Königswall 36	B/O/R	1,344	2,846
1997	Augsburg	Bahnhofstr. 2	B/O/R	680	1,438
1999	Kaiserslautern	Fackelstr. 12–14, Jägerstr. 15	B/O/R/U	853	1,444
2000	Gütersloh	Berliner Str. 29–31	B/R	633	1,292
2001	Hamburg	An der Alster 6	O	401	1,323
2002	Osnabrück	Grosse Str. 82/83	B	322	750
2003	Leverkusen	Wiesdorfer Platz 33	B/R	809	675
2004	Oldenburg	Achternstr. 47/48	B	413	847
2006	Krefeld	Hochstr. 123–131	B	1,164	3,457
2007	Münster	Johann-Krane-Weg 21–27	O	10,787	9,540
2007	Neuwied	Allensteiner Str. 61/61a	B	8,188	3,501
2007	Freital	Wilsdruffer Str. 52	B	15,555	7,940
2007	Geldern	Bahnhofstr. 8	B	12,391	8,749
2007	Lüneburg	Am Alten Eisenwerk 2	B	13,319	4,611
2007	Meppen	Am Neuen Markt 1	B	13,111	10,205
2007	Mosbach	Hauptstr. 96	B	5,565	6,493
2007	Villingen-Schwenningen	Auf der Steig 10	B	20,943	7,270
2008	Rheine	Emsstr. 10–12	B/O/R	909	2,308
2008	Bremen	Hermann-Köhl-Str. 3	O	9,994	7,154
2008	Osnabrück	Sutthauser Str. 285–287	O	3,701	3,831
2008	Bremen	Linzer Str. 7–9a	O	9,276	10,269
2008	Herford	Bäckerstr. 24–28	B	1,054	1,787
2008	Freiburg	Robert-Bunsen-Str. 9a	B	26,926	9,253
2009	Münster	Martin-Luther-King-Weg 18–28	O	17,379	13,792
2009	Hamburg	Fuhlsbüttler Str. 107–109	B/O/R	1,494	3,028
2010	Erlangen	Wetterkreuz 15	O	6,256	7,343
2010	Hilden	Westring 5	B	29,663	10,845
2010	Stuttgart	Stammheimer Str. 10	B	6,853	6,395
2010	Ingolstadt	Despagstr. 3	O/B	7,050	5,623
2010	Lemgo	Mittelstr. 24–28	B	2,449	4,759
2011	Brunnthal	Eugen-Sänger-Ring 7	O/C	6,761	6,721
2011	Bad Homburg	Louisenstr. 53–57	O/B	1,847	3,169
2011	Leipzig	Brandenburger Str. 21	B	33,916	11,139

Rent in 2017 (incl. rent guarantees) in €	Weighted remaining term of leases in months	Fair value in €*	Discount rate in %	Capitalisation rate in %	Other comments
1,472,012	28	16,280,000	6.30	6.00	Leasehold property
435,402	108	7,770,000	5.50	5.25	
617,883	66	13,720,000	4.90	4.20	
390,261	75	9,600,000	4.05	3.60	
348,702	70	5,710,000	5.90	5.25	
48,000	25	840,000	8.10	7.25	
33,600	42	510,000	7.25	6.95	
214,800	54	3,550,000	6.40	5.80	
339,007	46	5,700,000	6.10	5.56	
473,167	36	8,900,000	5.15	4.65	
351,115	20	5,790,000	6.80	5.70	
365,834	28	3,590,000	6.60	5.50	Leasehold property
270,659	29	4,790,000	5.30	4.90	
315,180	52	6,490,000	5.50	5.10	
43,361	2	1,410,000	7.70	6.10	
267,015	63	5,100,000	6.00	5.10	
545,058	54	9,280,000	6.00	5.30	
1,183,491	25	18,950,000	6.45	5.85	
407,640	78	5,600,000	7.95	6.60	
783,647	46	10,850,000	7.25	6.65	
863,387	22	11,560,000	6.45	5.95	
455,031	46	6,840,000	6.80	6.20	
1,007,121	22	14,030,000	6.30	5.95	
640,763	22	5,490,000	8.35	6.80	
250,000	96	3,050,000	6.50	6.25	
282,757	52	4,000,000	7.35	6.45	
639,392	11	10,000,000	7.00	6.40	
422,814	31	7,020,000	6.65	6.60	
1,125,288	33	17,110,000	6.75	6.20	
269,287	20	3,510,000	7.05	6.30	
1,081,918	138	14,110,000	6.20	6.05	Leasehold property
1,612,545	48	26,000,000	6.15	5.70	
498,046	79	8,530,000	5.45	5.05	
1,202,443	33	17,230,000	6.35	5.90	
899,883	75	12,490,000	6.85	6.50	
1,200,000	126	21,100,000	5.30	5.00	
875,673	29	14,670,000	6.00	5.45	
481,413	35	7,470,000	7.15	6.25	
964,867	27	11,130,000	7.65	7.15	
891,537	64	16,970,000	5.75	4.95	
889,528	82	13,550,000	6.15	5.90	

LIST OF PROPERTIES (AS AT 31 DECEMBER 2017)

Year of acquisition	Property		Building use	Property size in m²	Useable area m²
2011	Regensburg	Hildegard-von-Bingen-Str. 1	O/B	3,622	8,998
2011	Langenfeld	Solinger Str. 5–11	B	4,419	6,142
2011	Erlangen	Allee am Röthelheimpark 11–15	O/B	10,710	11,639
2011	Offenburg	Hauptstr. 72/74	B	1,162	5,150
2011	Freiburg	Lörracher Str. 8	B	8,511	4,127
2012	Aachen	Debyestr./Trierer Str.	B	36,177	11,431
2012	Tübingen	Eugenstr. 72–74	B	16,035	13,000
2012	Karlsruhe	Mendelssohnplatz 1/Rüppurrer Str. 1	O/B	10,839	15,152
2013	Munich	Domagkstr. 10	O/B	5,553	12,257
2013	Berlin	Torgauer Str. 12–15	O/B	3,100	12,642
2013	Bayreuth	Spinnereistr. 5a, 5b, 6–8	O/B	8,297	9,036
2013	Hamburg	Kurt-A.-Körber-Chaussee 9	B	20,330	10,408
2014	Bad Homburg	Louisenstr. 66	B/O/R	1,447	3,240
2014	Koblenz	Löhrstr. 40	B/O/R	1,386	3,359
2014	Siegen	Bahnhofstr. 8	B	1,419	7,112
2015	Aachen	Gut-Dämme-Str. 14/Krefelder Str. 216	O	3,968	10,059
2015	Celle	An der Hasenbahn 3	B	56,699	25,712
2015	Gießen	Gottlieb-Daimler-Str. 27	B	46,467	18,016
2015	Fürth	Gabelsbergerstr. 1	B	7,273	11,507
2015	Berlin	Tempelhofer Damm 198–200	O/B	6,444	6,270
2015	Neu-Isenburg	Schleussnerstr. 100–102	O/B	9,080	4,182
2016	Lübeck	Königstr. 84–96	O/B	4,412	13,345
2016	Ditzingen	Dieselstr. 18	B	22,095	10,036
2016	Mannheim	Spreewaldallee 44–50	B	103,386	28,365
2016	Münster	Martin-Luther-King-Weg 30/30a	O	4,986	3,317
2016	Dortmund	Ostenhellweg 32–34	O/B	2,908	9,208
2017	Cologne	Am Coloneum 9/Adolf-Grimme-Allee 3	O	15,461	26,517
2017	Hallstadt	Michelinstr. 142	B	41,829	21,752
2017	Berlin	Märkische Allee 166–172	O/B	17,264	6,529
2017	Ratingen	Balcke-Dürr-Allee 7	O	4,476	10,508
2017	Hanau	Otto-Hahn-Str. 18	B	37,527	13,987
2017	Kiel	Kaistr. 90	O	2,049	6,738
2017	Passau	Steinbachstr. 60–62	O/B	6,966	4,281
				842,536	**562,942**

O Office space, medical practices
B Business space (DIY stores, shopping centres, retail centres, food services, high street, department stores)
C Other commercial and production space
R Residential space
U Undeveloped reserve space

* As per JLL appraisal as at 31 December 2017
** Pro rata temporis rents from transfer of ownership

Rent in 2017 (incl. rent guarantees) in €	Weighted remaining term of leases in months	Fair value in €*	Discount rate in %	Capitalisation rate in %	Other comments
1,546,420	61	25,710,000	6.15	5.45	
1,126,205	43	18,690,000	6.10	5.75	
1,865,278	53	32,200,000	6.10	5.60	
557,944	86	9,380,000	5.85	5.40	
860,000	142	15,760,000	5.35	5.05	
1,236,000	111	19,130,000	6.55	6.10	
1,600,000	144	28,410,000	5.85	5.65	
2,476,901	50	41,820,000	5.95	5.40	
2,413,566	68	55,410,000	4.80	4.35	
2,239,766	62	51,500,000	5.27	4.45	
1,389,079	56	22,040,000	6.10	5.75	
1,248,272	131	19,930,000	6.20	5.85	
454,304	36	10,540,000	6.10	5.45	
677,120	36	11,410,000	6.05	5.40	
931,380	84	15,340,000	6.10	5.60	
1,720,509	144	30,570,000	6.00	5.55	
2,308,208	129	42,680,000	5.30	4.90	
2,331,606	70	31,580,000	6.75	6.00	
1,756,366	127	30,950,000	5.35	5.05	
1,309,580	117	24,190,000	5.15	4.75	
797,256	159	15,030,000	5.45	5.00	
3,301,257	53	54,370,000	6.20	5.15	
905,040	219	15,410,000	6.90	6.30	
4,079,801	84	82,050,000	5.05	4.75	
442,469	75	7,400,000	6.05	5.55	
1,661,335	75	33,330,000	5.20	4.80	
2,721,436 **	67	51,400,000	6.05	5.25	
1,744,713 **	83	45,900,000	5.25	4.75	
684,095 **	93	17,000,000	5.10	4.65	
871,714 **	94	34,900,000	5.75	5.25	
740,556 **	171	39,740,000	5.00	4.65	
201,249 **	115	22,700,000	5.70	5.30	
23,393 **	137	15,840,000	5.65	5.20	
73,682,344		**1,362,600,000**			

Financial position (IFRS)

The company's financial situation is very comfortable. ***Cash and cash equivalents*** amounted to €58.1 million as at the end of the reporting period after €75.3 million as at 31 December 2016. In particular, the cash inflows in the financial year resulted from operating activities (€59.5 million; previous year: €51.0 million) and the borrowing of loans (€202.4 million). Payments essentially relate to investments in the property portfolio (€223.3 million), dividend payments for the 2016 financial year (€34.3 million) and interest and principal payments (€35.9 million).

In particular, the funding requirements for the 2018 financial year are secured by the forecast proceeds from operating activities. The company also had unutilised loans of €27.5 million at its disposal as at 31 December 2017. For a period of ten years, these loans will incur interest at around 1.6%.

46.7 %
reported equity ratio

1.2 % to 1.6 %
are the interest rates for the loans utilised in 2017

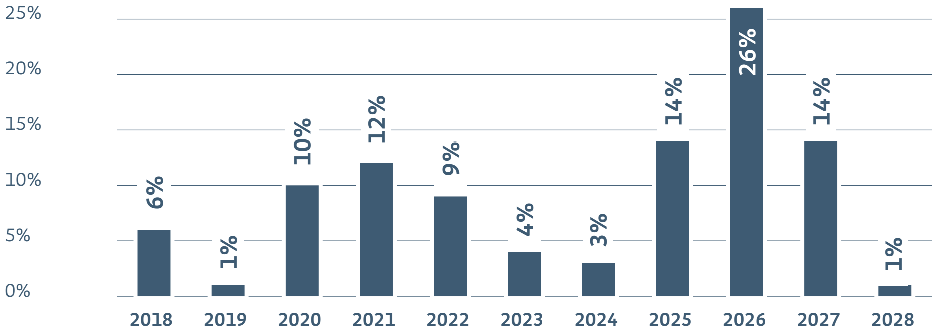
The financial structure of our company is still extremely solid. On the equity and liabilities side of the statement of financial position, ***equity*** amounted to €548.2 million after €561.3 million in the previous year. The company therefore has an accounting equity ratio of 46.7% (previous year: 55.8%). ***Financial liabilities and derivative financial instruments*** amount to €598.2 million, up €178.2 million on the previous year's figure (€420.0 million). In particular, the rise is due to the loans of €202.4 million borrowed in the reporting year for the pro rata debt financing of property acquisitions. These loans, which have a term of around ten years, will bear interest at between 1.2% and 1.6%. The new borrowing was offset by scheduled repayments of €21.1 million in the reporting year. After deducting cash and cash equivalents (less restricted funds of €4.2 million) from financial liabilities, net financial debt amounted to €541.7 million (previous year: €339.1 million). Comparing net financial liabilities to portfolio fair value, the company has an LTV ratio of 39.6% (previous year: 30.1%).

6.5 years:
average remaining term of our loans

The development of interest rates is highly significant to the company in terms of its financial position. In order not to be subject to short-term interest rate risks, we have arranged fixed, long-term conditions for the financing of our investments. We have concluded interest swap agreements to fully hedge against interest rate fluctuations on our floating rate loans with a nominal value of €39.9 million. The average interest rate of our loans, including loans concluded but not yet utilised, was 2.4% as at the end of the reporting period (previous year: 2.8%). Taking into account other loans agreed to partially finance properties acquisitions pending as at the end of the reporting period in Bonn, Düsseldorf and Cologne, and those already completed plus the forthcoming refinancing over the next few years of existing loans with much higher interest rates than the current level, average interest rates are expected to decline further in future. The average remaining term of loans, including loans concluded but not yet utilised, was 6.5 years as at the end of the reporting period (previous year: 6.4 years).

The very solid and comfortable financing structure of the company is shown by the maturity analysis below, which presents the annual refinancing requirements for expiring loans in relation to the total portfolio of loans borrowed as at the end of the reporting period.

Expiry of fixed interest agreements



REPORT ON RESULT OF OPERATIONS, NET ASSET SITUATION AND FINANCIAL POSITION (HGB)

The company prepares its financial statements both in accordance with the regulations of the German Commercial Code (HGB) and in accordance with International Financial Reporting Standard (IFRS) regulations as applicable in the European Union. The management of the company is based on values calculated in accordance with IFRS.

The main differences in HGB and IFRS figures relate in particular to the measurement of property, the recognition of costs subsequently added to property assets, pension provisions, the measurement of provisions for mining damage, accounting for derivative financial instruments and the treatment of the costs of the capital increases, and to the classification and reporting. The main differences between the items of the statement of financial position and the income statement described in detail in the result of operations, net asset situation and financial position (IFRS) and in the HGB annual financial statements are as follows:

/ ***Property and building maintenance:*** The different capitalisation criteria in connection with maintenance and modernisation activities resulted in maintenance expenses being €0.3 million higher in the HGB financial statements in the reporting year. The same expense was capitalised under investment property in accordance with IFRS provisions.

/ ***Administrative expenses:*** The administrative expenses (€1.3 million) reported as an independent item in the IFRS income statement are included under other operating expenses in the HGB annual financial statements. By contrast to the IFRS financial statements, HGB does not separate administrative expenses and other operating expenses.

/ ***Impairment losses:*** The impairment loss included in depreciation and amortisation expense under IFRS of €1.1 million for the property in Mosbach was not required under HGB as it is not considered permanent according to the criteria of German commercial law.

- ***Land and land rights:*** The carrying amount of properties in the HGB annual financial statements is €1,111.2 million, and therefore €2.0 million higher than the carrying amount of investment property in the IFRS financial statements. Among other things, €2.8 million of the difference relates to the company's administrative building in Duisburg. The capitalised costs of the administrative building are not assigned to property assets under IFRS, but rather to (other) property, plant and equipment. Under HGB they are reported with the rental property under land and land rights. Furthermore, the impairment loss in the reporting year described above and the impairment losses from previous years resulted in the HGB carrying amount of property being €1.3 million higher on account of different regulations. However, different capitalisation provisions increased the IFRS carrying amount by €2.1 million.

- ***Equity:*** HGB equity was €550.8 million as at the end of the reporting period, €2.6 million higher than the amount recognised under IFRS. The difference results firstly from various accounting differences in the year under review and previous years. Secondly, it results from the revaluation surplus of €6.4 million reported in equity under IFRS, which includes the cumulative actuarial gains and losses of pension provisions and the remeasurement effects of derivative financial instruments. Derivatives are not recognised in equity under HGB regulations. Accordingly, the reported HGB equity ratio of 47.0% is 0.3 percentage points higher than the reported IFRS equity ratio.

- ***Liabilities to banks / financial liabilities and derivative financial instruments:*** The liabilities to banks in the HGB annual financial statements amount to €596.7 million. Under IFRS, however, financial liabilities and derivative financial instruments are reported in the amount of €598.2 million. €1.5 million of the deviation of €2.5 million results in particular from the HGB accounting regulations for derivatives. These state that the fair values of derivatives are not recognised if they form a hedge with the hedged item (loan).

Given the detailed presentation and analysis of the result of operations, net asset situation and financial position in accordance with IFRS, which also applies to the result of operations, net asset situation and financial position under HGB, taking into account the deviations explained above, the HGB presentation is shown in condensed form below:

Result of operations (HGB)

Income from property management amounted to €85.3 million in the reporting year (previous year: €70.1 million). The ***costs of the management of our properties*** amounted to €20.3 million (previous year: €15.1 million). The increases in both income and management costs are due essentially to the changes in our property portfolio as a result of investments in the year under review and the previous year. Also as a result of the new acquisitions, ***depreciation*** was up 27.7% year-on-year at €29.1 million (€22.8 million). This increased the ***operating result*** by €8.1 million as against the previous year to €33.4 million (previous year: €25.3 million).

As a result of the loans borrowed in the reporting year in particular, the ***financial result*** declined by €0.8 million to €–15.1 million (previous year: €–14.3 million). The company closed the 2017 financial year with a ***net profit*** of €18.3 million (previous year: €11.0 million).

Including the ***withdrawal from other revenue reserves*** (€17.6 million), the ***net retained profits*** amounted to €35.9 million (previous year: €34.3 million).

Net asset situation and financial position (HGB)

The ***total assets*** of the company increased by €167.7 million as against the previous year to €1,172.9 million as a result of investments in the year under review. As a result of the changes in the property portfolio, ***fixed assets*** were up by €184.8 million at €1,112.0 million. ***Current assets*** including prepaid expenses were down by €17.1 million at €60.9 million. ***Equity*** was €550.8 million after €566.9 million in the previous year. ***Liabilities to banks*** rose by a net amount of €181.4 million to €596.7 million. Equity and medium- and long-term debt capital, including the loans not yet utilised (€27.5 million), cover fixed assets in full.

Please see the comments on the IFRS financial situation for information on the financial situation.

OVERALL STATEMENT ON THE ECONOMIC SITUATION

The company's highly positive result of operations and its comfortable net asset situation and financial position validate the measures and strategy of recent years. The concentration of business activities on commercial properties, the elimination of properties no longer consistent with the company's strategy from the portfolio and the reinvestment of funds in attractive retail and office property ensure sustainable and stable cash flows. The conservative accounting for property at cost is also advantageous. The effect on earnings of impairment losses and their reversal is much lower than when accounting at fair value, which makes the company's results less volatile overall. Furthermore, the company's high cash and cash equivalents and low net debt are also proof of its solid financial position.

Overall, the Management Board feels that the economic position of the company is good at the time of the preparation of the management report. As business performance in the initial weeks of the new financial year was in line with expectations in terms of revenue from rents and leases, the Management Board assumes that future developments will remain positive overall.

PERFORMANCE INDICATORS

FFO

Funds from operations (FFO) is a financial ratio calculated on the basis of the IFRS financial statements and an indicator of the company's long-term performance. It is used in value-oriented corporate management to show the funds generated that are available for investments and dividend distributions to shareholders. Adjusting FFO for maintenance and modernisation expenses capitalised and not recognised as an expense results in adjusted funds from operations (AFFO). FFO / AFFO are calculated as follows:

€ thousand		2017	2016
	Net rental income	65,357	56,008
–	Administrative expenses	–1,301	–1,257
–	Personnel expenses	–4,414	–4,000
+	Other operating income	1,241	723
–	Other operating expenses	–1,295	–1,087
+	Interest income	81	29
–	Interest expenses	–14,936	–14,338
	FFO	44,733	**36,078**
–	Capitalised expenditure	–2,927	–1,828
	AFFO	41,806	**34,250**
	FFO per share in € *	0.56	**0.45**
	AFFO per share in € *	0.52	**0.43**

* based on the number of shares at the end of the respective reporting period

HAMBORNER generated an FFO of €44.7 million in the 2017 financial year (previous year: €36.1 million). This corresponds to FFO per share of €0.56 (previous year: €0.45). As forecast in the previous year's annual financial statements, in absolute terms FFO rose significantly by 24.0% as against the previous year. The increase is due in particular to 19.8% higher income from rents and leases as a result of property acquisitions in 2016 and 2017. The forecast published in the previous year's annual financial statements for the development in income from rents and leases (up by between 16% and 18%) was exceeded as a result of higher investments in the property portfolio in particular.

+24.0%
year-on-year increase in FFO

NAV per share

Net asset value (NAV) per share is the benchmark for the asset strength of an enterprise and is a key indicator for us in our value-oriented company management, including as compared to other companies. Our goal is to increase NAV per share through value-adding measures.

	€ thousand	31 Dec. 2017	31 Dec. 2016
	Non-current assets	1,114,033	922,819
+	Current assets	59,470	83,941
–	Non-current liabilities and provisions*	–563,611	–406,332
–	Current liabilities*	–59,218	–33,604
	Reported NAV	550,674	**566,824**
+	Hidden reserves in "Investment property"	258,270	199,058
+	Hidden reserves in "Non-current assets held for sale"	0	2,604
	NAV	808,944	**768,486**
	NAV per share in €	10.15	**9.64**

* Not including derivative financial instruments

The growth in absolute NAV of €40.4 million to €808.9 million is as a result of the appreciation of the property portfolio in particular. NAV per share is 5.3% higher compared to the previous year at €10.15 (€9.64). In this forecast, we had presumed only a slight increase in NAV per share, assuming that the value of the portfolio would remain largely stable, while the value of the like-for-like portfolio increased by 2.9% in the year-end remeasurement, and thus to a correspondingly sharp increase in NAV per share.

€10.15
NAV per share.
Increase of 5.3% compared to previous year

PROPOSAL FOR THE APPROPRIATION OF PROFITS

45 cents
dividend to be distributed per share for shareholders in 2017.

The basis for the dividend distribution is net retained profits under German commercial law (HGB). The net profit for the reporting year calculated in accordance with the provisions of the German Commercial Code was €18,270 thousand. Taking into account the withdrawal from other retained earnings of €17,603 thousand, net retained profits amounted to €35,873 thousand.

The Management Board will propose using the unappropriated surplus for the 2017 financial year of €35,873 thousand to distribute a dividend of €0.45 per share.

REPORT ON RISKS AND OPPORTUNITIES

RISK REPORT

Principles of our risk policy

As a property company operating across Germany, HAMBORNER is exposed to various risks that can negatively influence the net asset situation, financial position and result of operations of the company. To reduce the risks, we have always tailored our business policy to avoid business areas with particularly high risk potential. In this regard, as in the past, we again did not participate in highly speculative financial transactions or property developer schemes in 2017. We take appropriate, manageable and controllable risks if the rewards offsetting them can be expected to give rise to adequate appreciation in value.

Risk management

In order to restrict risk, we have implemented a risk management system for the timely identification and handling of risks that could be of significance to the economic position of the company. It complies with the legal specifications and is subject to regular review. It is adjusted or added to appropriately in line with changing economic conditions. Opportunities that arise are not taken into account in this management system. The early risk detection system is examined by the auditor as part of the audit of the annual financial statements in accordance with section 317(4) HGB.

The company's internal risk management system is closely integrated into operational procedures – particularly the planning and controlling processes – and comprises several stages. This is described in more detail in a company policy. In this context, the risk inventory is of central importance. Based on business operations and the activities they entail, the risk inventory tracks the potential risks to which the company is exposed. These potential risks are divided into external and internal risk areas. In turn, the possible characteristics of the individual risk areas are assessed in terms of their risk impact (e.g. loss of assets, decreased income, higher expenses), their estimated probability, a possible threat to the company as a going concern, possible counterstrategies, leading indicators in place and options for obtaining information. Furthermore, responsibility for all individual characteristics of the risk fields is defined. Quarterly internal risk reporting focuses on selected material risks and those that pose a threat to the company as a going concern. The relevant analysis period covers the next two years. The basis for risk reporting is the respective approved planning. The possible impact of identified risks on the net asset situation and result of operations of the company are looked at in scenario analyses.

Reporting, streamlined organisational structures and transparent decision-making channels ensure that the Management Board is directly included in all risk-relevant transactions. Accounting processes are performed exclusively by our own qualified employees. The company prepares and communicates quarterly reports in addition to annual reports. The half-year financial statements are subject to review by the company's auditor.

When preparing the annual financial statements, we rely on expert appraisals for the measurement of investment property and to calculate the company's pension obligations. The dual control principle, taking into account appropriate signature regulations, is applied to all significant transactions. There is clear functional separation within the company between technical and commercial building management and accounting. Moreover, monthly reports on business performance are prepared and submitted to decision-makers. These serve as a basis on which to identify deviations from operational targets and initiate any countermeasures. The finance and accounting system uses standardised and certified IT programmes. For internal IT equipment, there are strict access regulations for read and write authorities in line with the individual areas of responsibility of the respective employees.

An internal audit was outsourced to a third-party audit firm to assess the appropriateness and effectiveness of the internal control system. As part of the internal audit, we select the processes and areas to be audited in coordination with the audit committee.

Presentation of individual risks

The risks that could have a substantial effect on the net asset situation, financial position and result of operations of the company are described below.

Risks of future macroeconomic development

HAMBORNER is influenced by the economic and political environment. They affect, for example, interest rate developments as well as the retail and office property markets, and therefore the company's direct market environment. Germany is currently in a good overall economic situation. However, the duration and sustainability of this situation is not foreseeable. But given our business model and our capital resources, we feel we are well positioned, even under these volatile economic conditions.

Market risks in the property sector

Regardless of economic risks, the property industry is subject to distinct market cycles that can have an adverse effect on the value and renting viability of the properties held in the portfolio. As a result of the low interest rate policy, the property transaction market has also been characterised by price increases due to demand in recent years. If general conditions change, interest rates rise and demand for commercial property wanes, there is the risk of falling market values.

Risks associated with the rental potential of the properties in the portfolio arise as a result of changing business models and tenant requirements brought about, for instance, by digitisation, e-commerce, demographic change and re-urbanisation. These risks relate to both office properties – due to changing workplace concepts (e.g. pay per use and increased flexibility) – and retail properties – due to changes in the retail landscape. We are attempting to counteract these risks through intensive market monitoring and by providing high-quality and contemporary office and retail properties. We also maintain close contact with our tenants to anticipate changing requirements early on. Furthermore, we endeavour to minimise risks of a loss of rent by concluding contracts with as long a term as possible with tenants of good credit standing.

General letting risks

Even though bricks and mortar retail is facing increasing competition from online shopping, we expect continuing high demand in the current financial year for properties in prime high street locations. It remains to be seen how the general economic environment will develop for office buildings in the coming years. There are still vacancy risks for outdated office space or retail properties in second-rate locations.

Through the broad regional diversification of our property portfolio, we attempt to keep the consequences of specific negative local influences, such as can arise due to the construction of shopping centres, to a minimum for the entire portfolio. In addition, a good location and the greatest possible flexibility of use are important criteria for us when purchasing properties. Moreover, we endeavour to limit letting risks through regular monitoring and improvement of the structural quality of the properties. The self-management of all the portfolio properties enables us to react quickly to a probable change of tenant with selective subsequent letting activities.

The above measures for minimising the letting risk have meant that we have been able to achieve a very high occupancy rate in past years. The average vacancy rate including rent guarantees was 1.4% in the 2017 financial year (previous year: 1.3%), which represents a very low level. We ensure a good occupancy rate in the event of new investments. Furthermore, rent guarantees cover letting risks in some cases.

Risks of a loss of rent

We reduce the risk of rent losses, particularly due to tenants' inability to pay, by means of efficient receivables management, the regular monitoring and review of the creditworthiness of our tenants and the agreement of rent securities that are appropriate to the risk. Uncollectible receivables and individual value adjustments amounted to €248 thousand in the 2017 financial year (previous year: €79 thousand). An increase in uncollectible receivables cannot be ruled out for the current financial year as well, depending on ongoing economic developments. However, major rent losses are not discernible at present due to our tenant structure. The EDEKA Group is our biggest single tenant with a share of 9.9% of the total rental volume. In view of the credit standing of this tenant and the location of the properties, we consider the resulting risk to be manageable.

Valuation risk and risk of impairment losses as a result of falling market values

The value of our properties is reviewed annually using the generally recognised DCF method. Our commercial property portfolio was again measured by an independent third party at the end of 2017. Detailed information on the valuation of our property portfolio can be found in the section "Performance of the property portfolio". The measurement of properties can also be negatively affected in future by the use of different discount rates as a result of changes in general risk assessment, interest rates, or risks specific to properties.

Financial risks

Further borrowed funds will be raised in future as well to finance our growth to an appropriate extent. The development in interest rates is therefore of high significance to the company. In order not to be subject to short-term interest rate risks, we have arranged fixed, long-term conditions for the financing of our investments. We have concluded interest swap agreements to hedge against interest rate fluctuations on our floating rate loans with a nominal value of €39.9 million. Further information on interest rate hedges using financial instruments can be found in the notes on accounting policies and under note (17).

The risks resulting from financial instruments relate to credit, liquidity and market risks. There are credit risks in the form of risks of default on financial assets. The maximum value of this risk is the carrying amount of the financial assets. For derivatives, this is the total of all the positive fair values and, for primary financial instruments, the total of the carrying amounts. If risks of default exist, they are taken into account by means of value adjustments.

Liquidity risks constitute refinancing risks and thus risks of a fulfilment of existing obligations to pay when due. The strategy and the results of the planning process are taken as a basis for the early identification of the future liquidity situation. The expected liquidity requirements are scheduled in medium-term planning, which covers a period of five years.

There are market risks at HAMBORNER due to potential changes of the market interest rate in particular. The company finances its operating activities using borrowed funds and equity within the framework of the limits permitted under the German REIT Act. For floating rate financial instruments, changes in market interest rates can result in fluctuations of interest payments and the measurement of the derivative financial instruments used.

Risk of loss of REIT status

HAMBORNER has been a REIT stock corporation since 1 January 2010. As such, it is exempt from German corporation and trade tax. In order to maintain REIT status over a sustained period, the company must comply with certain legal criteria. In particular, free float must be at least 15%, no investor can directly hold 10% or more of the shares, at least 75% of the assets must be immovables, 90% of the annual result in accordance with the German Commercial Code must be distributed, and equity must not fall below 45% of the fair value of the immovables. We counteract the risk of losing REIT status by means of our internal monitoring and controlling system. We monitor the development of the key indicators for classification as a REIT company, particularly the development of the REIT equity ratio in accordance with section 15 of the German REIT Act, which at 59.0% as at 31 December 2017 was considerably higher than the required minimum equity ratio of 45%.

Legal risks

In the context of its business activities, HAMBORNER is not currently involved in any significant court cases or threatened legal disputes.

Subsidence risks

There are potential risks from our former mining activities, e.g. due to subsidence damage or shaft stabilisation, on account of the possible future discontinuation of large-scale dewatering activities in the Ruhr area. The associated economic risk was assessed by an expert in 2005. The provisions relating to mining currently amount to €2.6 million in accordance with IFRS (HGB: €2.4 million).

There are no other contaminated land risks that could require cleaning up, e.g. due to soil pollution, according to current information. An inspection of the register of contaminated sites has been carried out at the respective municipalities with regard to our entire developed and undeveloped property holdings. No significant risks were found in this regard.

SUMMARY ASSESSMENT OF THE RISK SITUATION

In the overall assessment, there are currently no risks jeopardising HAMBORNER as a going concern in terms of income, asset or liquidity standpoints.

REPORT ON OPPORTUNITIES

The current low-interest environment means opportunities for the company. The average interest rate on the loans concluded as at the end of the reporting period is 2.4% with a weighted remaining term on fixed interest agreements of 6.5 years. If the interest rate remains low in the coming years, there is a change that loans with expiring fixed interest agreements can be prolonged or refinanced at better terms. This would have a positive effect on the financial result and FFO.

HAMBORNER is growth-oriented, has an efficient organisational structure and core competence in portfolio management. As at 31 December 2017, we were represented at 58 locations with our properties. This is a good platform and opens up opportunities for further growth with a positive impact on rental income and FFO development. The low interest level benefits the growth strategy and improves the return on capital employed on account of the leverage effect on acquisitions.

Discount rates can decline in the valuation of our properties as a result of changes in interest rates, in general risk assessment, or the assessment of risks specific to properties. This can lead to increases in the fair value of our properties and thus the company's NAV.

The continuing demand for commercial property while supply remains limited can lead to further price increases and thus to higher market values for portfolio properties. This would have a positive effect on the company's NAV.

Our company's rental income benefits from long-term leases with an average remaining term of 6.6 years. In the event of a rise in consumer prices, there will be potential increases in rental income on account of adjustments in line with this index usually included in rental agreements.

FORECAST REPORT

ORIENTATION OF THE COMPANY

Excellently positioned among the competition and well equipped for further growth

HAMBORNER is a nationwide commercial real estate company and will remain so in future as well. On conversion into a REIT, the requirements arising from the German REIT Act have applied since the start of 2010. These relate in particular to the object of the company and compliance with the requirements in terms of company law and capital. The latter includes a minimum equity ratio of 45% on a fair value basis. Given our excellent capital resources, we feel we are very well positioned in terms of competition and well equipped for further growth. We will take advantage of market opportunities as they arise.

Our strategy is geared to the medium to long term. We will also maintain our sound financing structure in future and finance investments with an appropriate use of borrowed funds, taking into account the equity ratio to be maintained at company level. Parallel to the expansion of the portfolio, the optimisation of the portfolio through disposals will be an ongoing task. This relates to primarily older, mainly smaller properties no longer consistent with strategy.

EXPECTED ECONOMIC ENVIRONMENT

According to Deutsche Bundesbank, the driving forces behind the current upswing on the German economy are the persistently strong stimulus stemming from new orders in industry. According to its monthly report for December 2017, the extremely optimistic consumer sentiment and the very good situation on the labour market are continuing to have a positive effect on the economy.

Against this backdrop, the German economy could increase its real gross domestic product (GDP) by 2.5% in 2018 and by 1.7% in 2019, according to Deutsche Bundesbank. Deutsche Bundesbank assumes that inflation will be close to the 2017 level in the next two years at 1.6% in 2018 and 1.7% in 2019. This assumes that there will be hardly any increase in energy prices and thus the price pressure on other goods and services will be partially covered by the growth in wages. On the labour market, Deutsche Bundesbank is forecasting further, albeit moderate, declines in unemployment. According to the forecast for the economy as a whole, unemployment could fall slightly to 5.3% in 2018 and 5.1% in 2019.

FUTURE SITUATION IN THE INDUSTRY

Letting market

As a result of economic growth, in 2018 we expect the office letting market to continue its dynamic development, though it is unlikely to get close to the 2017 result owing to the insufficient availability of new and modern space. According to JLL, the growth in prime rents for office space from this year should continue at a reduced rate (around 2.0%) in 2018.

We are also forecasting decreases in rent revenues on average in pedestrianised zones in the coming years, with significant outliers in either direction in isolated cases. There is rising demand for small spaces, and sales space requirements are on the decline. The development of recent years is likely to continue. Bricks and mortar food outlets, household goods stores and food concepts are performing well, non-foods (especially textiles) are under pressure and losing sales while online retail is still gaining market share in some product categories. We anticipate stable lettings and rents for retail centres.

Investment market

In light of the strong fundamentals for the German economy and the high momentum on the rental markets, the major brokerage houses are forecasting a similar transaction volume to 2017 in 2018. The only limiting factor here is the supply of products eligible for investment. There is no reason to assume that the rise on the property market could turn into a descent. As the economy will continue to grow in 2018 as well, the rental markets will also remain strong and support investment decisions.

We expect prime yields to track sideways in 2018. The time for zero interest rates appears to be over, at least in the US, and as inflation and yields on the bond markets rise, investors' focus will shift back to other financial market products. Germany, however, still has its reputation as a safe haven and continues to offer good investment opportunities thanks to the relatively strong fundamentals for the economy and the property sector.

ANTICIPATED BUSINESS DEVELOPMENT

The targets and forecasts for the financial year were largely met or exceeded in some cases. Rental income increased by 19.8% over the previous year in 2017, coming in above the original forecast of between 16% and 18%. This is essentially due to new acquisitions, including the addition of the office property acquired in Ratingen in the middle of 2017, which was not yet definite at the time the forecast was prepared. In particular, the operating profit (FFO) rose significantly (by 24.0%) as a result of increases in rental income. FFO per share climbed accordingly from 45 cents to 56 cents. NAV per share climbed from €9.64 to €10.15. In particular, the basis for this was again the positive development of 2.9% in the value of our property portfolio on a like-for-like basis in 2017.

For the current 2018 financial year, we are assuming that the good business performance will continue with significant year-on-year increases in FFO again. With the same number of shares, FFO per share would rise accordingly. The main factor influencing FFO, our central control parameter, is still rental income, which is estimated to rise by 8% to 10% year-on-year in 2018 according to our current forecasts. In particular, this is due to the new acquisitions transferred to us in 2017 and the purchases in Cologne, Bonn and Düsseldorf already notarised but for which ownership will not transfer until 2018. This forecast does not take into account other acquisitions or disposals not yet specified further.

Additional new acquisitions would have a further positive effect on rental income and the operating result. The extent of this crucially depends on the timing of new property additions. Even assuming that interest rates remain low or increase only moderately, further acquisitions are desirable. However, new acquisitions must satisfy our quality and yield requirements. In addition, the competition for profitable properties has increased markedly in the past year and is unlikely to wane in 2018. The timing of possible purchases and also further portfolio streamlining through selective disposals therefore cannot be predicted precisely.

The vacancy rate including rent guarantees was very low in 2017 at 1.4%. We assume that by far the majority of the rental agreements expiring in 2018 will be prolonged or that new tenants will be quickly found. We are therefore expecting a high occupancy rate in 2018 as well, though a slight increase in the vacancy rate cannot be ruled out owing to the currently extremely low level. We also expect a low level of default on rent because, as in previous years, our main tenants are of good credit standing. Overall, our company has a solid foundation thanks to its secure letting income, particularly in the retail sector.

In terms of cash expenses, there will be a significant increase in real estate operating expenses, personnel expenses and interest expenses in 2018 as a result of growth. In maintenance expenses as well, we are assuming a higher level than in previous years on account of the larger portfolio and the necessary improvements for tenants in the context of new leases.

HAMBORNER's REIT status, the structure of its property portfolio and its financial strength have left it in a good competitive situation. This does not preclude further volatility of property prices and thus an impact on the valuation of the portfolio properties and therefore on net asset value (NAV).

One the basis of our earnings forecasts, we are assuming that an appropriate and attractive distribution will be possible for 2018 as well. This will require that we are spared from major, unforeseeable reductions in earnings. Assuming both this and a further stable development in the value of our like-for-like property portfolio, we are anticipating a slight increase in NAV per share for 2018 in addition to a significant rise in FFO.

REPORT ON ADDITIONAL INFORMATION UNDER COMPANY LAW (SECTION 289A(1) HGB)

Composition of issued capital

As at 31 December 2017, the issued capital of the company amounted to €79,717,645 and was fully paid up. The share capital is divided into 79,717,645 no-par-value shares, each with a nominal amount of €1 per share. The company is authorised to issue global certificates for shares. Shareholders are not entitled to certificates for their shares.

79.7 million
shares outstanding as at 31 December 2017

Each share grants one vote at the Annual General Meeting, whereby the rights of shares held by persons subject to disclosure requirements or that are assigned to such persons in accordance with section 34 of the German Securities Trading Act (WpHG) do not apply in the period in which the disclosure requirements of section 33(1) or (2) WpHG are not met. In accordance with section 44(1) sentence 2 WpHG, this does not apply to rights in accordance with section 58(4) AktG and section 271 AktG if disclosure was not deliberately forgone and this has been rectified. Please refer to the German Stock Corporation Act for information on the rights and obligations of shareholders, including in particular the right to participate in the Annual General Meeting (section 118(1) AktG), the right to information (section 131 AktG), voting rights (section 133 et seq. AktG) and the right to participate in profits (section 58(4) AktG).

Restrictions relating to voting rights or the transfer of shares

The shares issued by HAMBORNER are not subject to any restrictions in this respect.

Capital holdings exceeding 10% of voting rights

Information on disclosures on the existence of holdings exceeding 10% of voting rights can be found in the notes to the financial statements under "Other information and required disclosures".

Shares with special rights bestowing control

No shares issued by the company bestow any such special rights.

Nature of voting right control if employees hold interests in capital and do not exercise their control rights directly

HAMBORNER does not have an employee share programme. If employees have purchased HAMBORNER shares, they exercise their associated rights directly themselves in accordance with the statutory requirements and the provisions of the Articles of Association.

Statutory regulations and provisions of the Articles of Association for the appointment and dismissal of members of the Management Board and the amendment of the Articles of Association

In accordance with section 84(1) AktG, members of the Management Board are appointed by the Supervisory Board for a maximum of five years. A repeat appointment or extension of the term of office is permitted for a maximum of five years in each case. In accordance with Article 7(1) of the Articles of Association, the Management Board of the company consists of several members, the number of which is determined by the Supervisory Board. The Supervisory Board can also appoint one member as the Chairman of the Management Board in accordance with section 84(2) AktG. Furthermore, it can revoke the appointment of a member of the Management Board and the appointment as its Chairman for cause in accordance with section 84(3) AktG. If a necessary member of the Management Board is lacking, the court must appoint this member in urgent cases at the request of a party involved in accordance with section 85 AktG.

Any amendment to the Articles of Association requires a resolution of the Annual General Meeting in accordance with section 179 AktG. The Annual General Meeting can delegate to the Supervisory Board the authority to make amendments that relate only to the wording (section 179(1) sentence 2 AktG). This authority has been transferred to the Supervisory Board in accordance with Article 12(3) of the Articles of Association of the company. An amendment to the Articles of Association requires a qualified majority resolution by the Annual General Meeting comprising at least three quarters of the share capital represented in the vote (section 179(2) sentence 1 AktG). In accordance with section 179(2) AktG, the Articles of Association can stipulate other capital majorities and additional requirements.

Authority of the Management Board to issue shares

Article 3 of the Articles of Association contains information on the share capital of the company. To allow the company the opportunity to react to market events while safeguarding the share price and, in particular, to allow it to react to capital market requirements and acquisitions flexibly, at short notice and in a manner consistent with market and industry practices, the Annual General Meeting on 10 May 2017 authorised the Management Board:

Authorised Capital I

a) to increase the share capital of the company, with the approval of the Supervisory Board, on one or several occasions by up to a total of €7,971,764 by issuing new bearer shares against cash and non-cash contributions (Authorised Capital II) until 9 May 2022 and, with the approval of the Supervisory Board, to disapply shareholders' statutory pre-emption rights in certain cases.

Authorised Capital II

b) to increase the share capital of the company, with the approval of the Supervisory Board, on one or several occasions by up to a total of €31,887,058 by issuing new bearer shares against cash contributions (Authorised Capital II) until 9 May 2022.

Contingent Capital

Furthermore, at the Annual General Meeting on 7 May 2013, the Management Board was authorised, with the approval of the Supervisory Board, to issue bearer or registered warrant and convertible bonds ("bonds"), dated or undated, up to a total of €250,000,000 until 6 May 2018, and to grant the bearers or creditors ("bearers") of bonds conversion rights to new bearer shares of the company with a total pro rata amount of share capital of up to €22,747,666 in accordance with the more detailed conditions of the warrant or convertible bonds ("bond conditions").

In issuing warrant or convertible bonds, to contingently increase the share capital of the company by up to €22,746,666, divided into up to 22,746,666 bearer shares (Contingent Capital) and, with the approval of the Supervisory Board, the Management Board can disapply shareholders' statutory pre-emption rights in certain cases for a partial amount.

Authority of the Management Board to buy back shares

In the future and at short notice, it may be expedient for the company to buy back its own shares to afford it greater flexibility of action.

The Management Board was therefore authorised by the Annual General Meeting on 28 April 2016 to acquire shares of the company until 27 April 2021. The authorisation is limited to the acquisition of shares accounting for not more than 10% in total of the lower of share capital at the time of the resolution by the Annual General Meeting on this authorisation or at the time that this authorisation is exercised. The authorisation can be exercised in full or in part, and in the latter case on several occasions. The authorisation cannot be used by the company for the purposes of trading in its own shares.

At the discretion of the Management Board, the shares will be acquired on the stock exchange by way of a public offering to all shareholders of the company or by way of a public invitation to all shareholders of the company to submit offers for sale.

Significant arrangements of the company subject to a change of control following a takeover bid and their repercussions

The company has not concluded any such arrangements.

Agreements by the company with the Management Board or employees for compensation in the event of a change of control

Compensation agreements between the company and the Management Board for the event of a change of control are described in the remuneration report from page 22 of the annual report onwards. There are no other compensation agreements with employees of the company.

CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289F HGB

HAMBORNER REIT AG has presented the key elements of its corporate governance structures in its corporate governance declaration: the declaration of compliance of the Management Board and Supervisory Board, key corporate management practices exceeding legal requirements, the operating procedures of the Management Board and the Supervisory Board, and the composition and operating procedures of their committees. The corporate governance declaration can be found on our website at www.hamborner.de in the section Investor Relations / Corporate Governance / Corporate Governance Declaration.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Detailed information on the remuneration system and the remuneration of the Management Board and the Supervisory Board can be found in our corporate governance report from page 22 onwards. The statements found there are part of the management report.

Duisburg, 19 February 2018

The Management Board

Dr Rüdiger Mrotzek　　Hans Richard Schmitz

The management report contains forward-looking statements. These statements are based on current assumptions and estimates by the Management Board, which were made diligently on the basis of all information available at the respective time. If the assumptions on which statements and forecasts are based are not accurate, the actual results may differ from those currently anticipated.

RATINGEN – HOME OF THE DUMEKLEMMER LEGEND

RATINGEN

75%

of Ratingen's total area is covered by extensive woods, meadows and fields

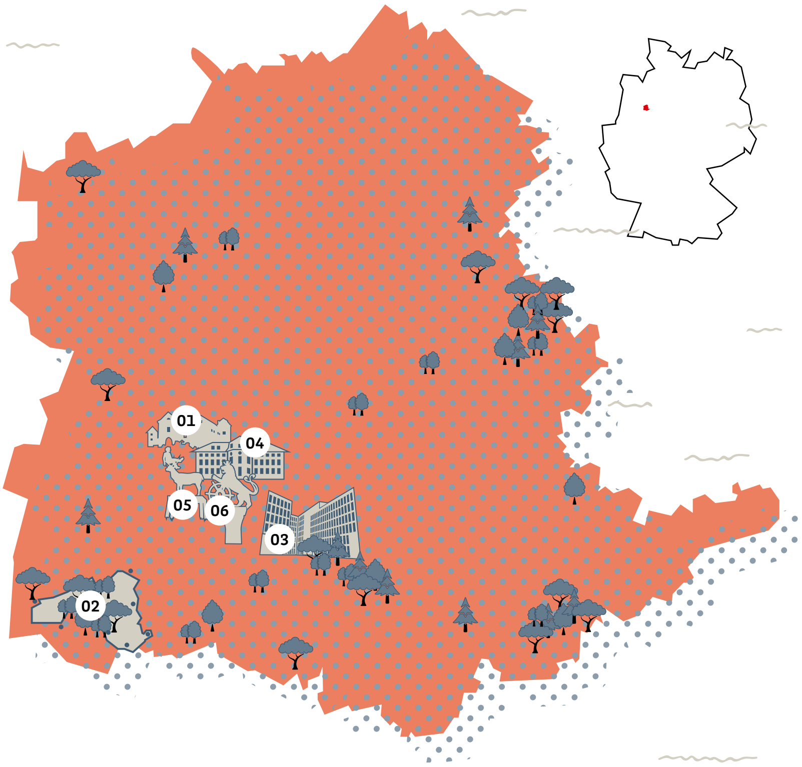
45

day care facilities for children, 16 of which within the city limits

11

different organisations to marshal Ratingen's Carnival revellers

TYPICALLY RHINE



History and industry, nature and culture come face to face in Ratingen. Nestled in the ring of cities on the Rhine, Ruhr and Wupper rivers, the town has its own unique charm.

01 HAUS ZUM HAUS CASTLE

Once a symbol of fighting spirit, today for quality of life: In the 9th century there was a hill fort at the site of *Haus zum Haus* castle. The fortification played a key part in Ratingen's origins as a town. The noble vom Haus family built the moated castle here in 1276 as their ancestral home. Today visitors will find a cultural centre, a restaurant, residential buildings and a firm of architects.

02 VOLKARDEY ECOLOGICAL TRAIL

In the middle of the Rhine-Ruhr metropolitan region, city folk can discover nature on the ecological trail: The 4.5 km circular hiking path leads through diverse habitats, allowing visitors young and old an impressive insight into the region's natural and cultural history.

03 HAMBORNER OFFICE BUILDING IN SCHWARZBACH DISTRICT

New ways of working were taken into account in the planning of this state-of-the-art office building. Situated in the up-and-coming Schwarzbach neighbourhood in the east of the city, the building offers workspaces for teams and open-plan areas. There's even somewhere for children – the integrated professional daycare facility.

04 CROMFORD INDUSTRIAL MUSEUM

The Cromford Textile Mill is believed to have been the first factory on the European continent. The design principles for the spinning machines used there were stolen by the entrepreneur Brügelmann in an act of industrial espionage in the Middle English town of Cromford. Records do not show whether he named his mill after the town out of gratitude or malice. At the mill, today a museum, visitors can still see the recreated spinning works in action – thanks to the crafty crook Brügelmann.

05 ART TRAIL

A grazing horse in the meadows of Angertal, a man with antlers on a hill, or a walking gate – the Art Trail offers unusual encounters in a characteristic landscape. The sculptures and the trail are part of an international project that unites that natural and cultural landscapes of the Rhine-Maas area.

06 MARKETPLACE

People have been shopping here since at least 1371. Ratingen has a market three times a week. Distinctive historic buildings, such as the Town House, the Church of St Peter & St Paul and the Minorite Monastery, are clustered around the square.

02

03

Well Rated: Ratingen.

For centuries the people of Ratingen were decried by others in the region as ruffians: They called them dumeklemmer – stuck-thumbs. Buy why? Legend has it that Saint Suitbertus came to convert the heathen Ratingers. They weren't so keen, and literally slammed the door in his face – which left him with his thumb stuck between the gates. Suitbertus had his revenge by putting a curse on Ratingen: From this day forth, every child born here will have one flat thumb. In all likelihood, the nickname probably comes from the form of torture favoured by the local executioner and feared throughout the region: the thumbscrews.

The people of Ratingen have since cast off their bad reputation and dedicated themselves to more peaceful pastimes:

A range of industries have settled here, with a strong service and retail sector as well. Thanks to successful economic policy and a good infrastructure, Ratingen – unlike back in the 1970s – is no longer a sleepy little town. Instead it is on its feet and wide awake: Despite having no less than three regional centres as neighbours, Ratingen has had more commuters coming in than going out for several years. Surrounded by greenery and still central: Ratingen offers a quality of life usually found in mid-sized cities in a sprightly setting.

01

01 The idyllic canal city was remodelled in the 1970s on the basis of a typical Dutch settlement.
02 The dumeklemmer legend can be seen everywhere you look in Ratingen's centre.
03 Major refurbishment project: The Ratingen-West high-rise estate.
04 The well depicts two typical Ratingen children – both with a distinctive flat thumb.

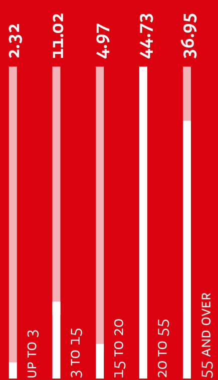
93,099

inhabitants [2015]

1049

population per km²

AGE GROUPS IN %



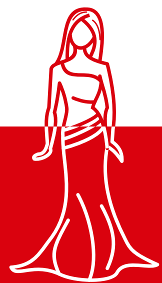
PURCHASING POWER PER INHABITANT

100% Germany

99.5% North Rhine-Westphalia

117.1% Ratingen

107.6% Mettmann district



17,000

is the number of Barbie dolls owned by one woman in Ratingen – the world's biggest collection. She also repairs and restores Barbie dolls and designed successful exhibitions.

04

Anyone who wants to take a look at Ratingen can do so at any time thanks to the webcam that takes a snap of the market-place every ten seconds.

DISTANCE TO NEIGHBOURING BIG CITIES

10 KM DÜSSELDORF INTERNATIONAL AIRPORT

12 KM DÜSSELDORF

25 KM ESSEN

45 KM COLOGNE

30 KM WUPPERTAL-ELBERFELD

OFFICE BUILDING IN SCHWARZBACH DISTRICT

Ratingen is booming: Top companies are setting up shop and looking for first-class office space. Our office building meets these high standards.

CONTEMPORARY AND FORWARD-LOOKING

The Schwarzbach district is one of the most meaningful construction projects in the town's history. Spacious offices are being built here. The HAMBORNER office building was completed in 2017 and, in many ways, is in keeping with the innovative spirit of the new neighbourhood. Thanks to its technologically advanced design and energy-saving construction methods, is sets a benchmark as a green building.

COOPERATIVE AND FAMILY-FRIENDLY

The building is designed as an open office and, in addition to integrated communal areas and think tanks, also features a children's daycare centre. The "wekita" nursery specialises in babies and small children up to the age of three – even outside usual office hours.

Only **10 KM** from Düsseldorf International Airport.

01 CERTIFIABLY SUSTAINABLE

The property has a LEED platinum certificate – the seal of quality for energy efficiency and sustainability in buildings.

02 CLOSE TO THE AUTOBAHN

Autobahn 44 is just one kilometre away.

03 BUS AND RAIL

A number of bus stops and a local train service can be found within a radius of 200 m.

04 REPRESENTATIVE

The building can be seen far and wide with its state-of-the-art architecture and attractive natural stone façade.

SEPARATE

03

FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

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* also part of the notes

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

€ thousand	Notes	2017	2016
Income from rents and leases		74,085	61,818
Income from passed-on incidental costs to tenants		11,200	8,231
Real estate operating expenses		–15,581	–11,207
Property and building maintenance		–4,347	–2,834
Net rental income	(1)	65,357	**56,008**
Administrative expenses	(2)	–1,301	–1,257
Personnel expenses	(3)	–4,414	–4,000
Amortisation of intangible assets, depreciation of property, plant and equipment and investment property	(4)	–30,226	–22,732
Other operating income	(5)	1,241	723
Other operating expenses	(6)	–1,295	–1,087
		–35,995	**–28,353**
Operating result		29,362	**27,655**
Result from the sale of investment property	(7)	3,176	4,075
Earnings before interest and taxes (EBIT)		32,538	**31,730**
Interest income		81	29
Interest expenses		–14,936	–14,338
Financial result	(8)	–14,855	**–14,309**
Net profit for the year		17,683	**17,421**
Earnings per share (€)	(9)	0.22	0.26

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

€ thousand	Notes	2017	2016
Net profit for the year as per income statement		17,683	**17,421**
Items reclassified to profit or loss in future if certain conditions are met:			
Unrealised gains / losses (–) on the revaluation of derivative financial instruments	(17)	2,998	2,727
Items not subsequently reclassified to profit or loss in future:			
Actuarial gains / losses (–) on defined benefit obligations	(19)	446	–520
Other comprehensive income		3,444	**2,207**
Total comprehensive income		21,127	**19,628**

STATEMENT OF FINANCIAL POSITION – ASSETS

€ thousand	Notes	31 Dec. 2017	31 Dec. 2016
NON-CURRENT ASSETS			
Intangible assets	(10)	507	488
Property, plant and equipment	(10)	3,156	3,017
Investment property	(11)	1,109,235	916,249
Advance payments on investment property	(11)	0	2,000
Financial assets	(12)	926	834
Other assets	(13)	209	231
		1,114,033	**922,819**
CURRENT ASSETS			
Trade receivables and other assets	(13)	1,365	1,412
Cash and cash equivalents	(14)	58,105	75,335
Non-current assets held for sale	(15)	0	7,194
		59,470	**83,941**
Total assets		1,173,503	**1,006,760**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

€ thousand	Notes	31 Dec. 2017	31 Dec. 2016
EQUITY	(16)		
Issued capital		79,718	79,718
Capital reserves		391,194	391,194
Retained earnings		77,247	90,399
		548,159	**561,311**
NON-CURRENT LIABILITIES AND PROVISIONS			
Financial liabilities	(17)	552,979	393,588
Derivative financial instruments	(17)	2,109	4,402
Trade payables and other liabilities	(18)	1,716	2,327
Pension provisions	(19)	6,578	7,387
Other provisions	(20)	2,338	3,030
		565,720	**410,734**
CURRENT LIABILITIES AND PROVISIONS			
Financial liabilities	(17)	42,682	20,876
Derivative financial instruments	(17)	406	1,111
Trade payables and other liabilities	(18)	14,230	11,158
Other provisions	(20)	2,306	1,570
		59,624	**34,715**
Total equity, liabilities and provisions		1,173,503	**1,006,760**

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

€ thousand	Notes	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES	(23)		
Net profit for the year		17,683	17,421
Financial result		14,855	14,309
Depreciation, amortisation and impairment (+) / write-ups (–)		30,226	22,732
Change in provisions		–483	–680
Gains (–) / losses (+) (net) on the disposal of property, plant and equipment and investment property		–3,184	–4,201
Change in receivables and other assets not attributable to investing or financing activities		43	–274
Change in liabilities not attributable to investing or financing activities		332	1,675
		59,472	**50,982**
CASH FLOW FROM INVESTING ACTIVITIES	(24)		
Investments in intangible assets, property, plant and equipment and investment property		–223,302	–206,613
Proceeds from disposals of property, plant and equipment and investment property		14,297	11,789
Proceeds from disposals of financial assets		12	4
Proceeds from the short-term financial management of cash investments		50,000	0
Payments relating to the short-term financial management of cash investments		0	–50,000
Interest received		107	4
		–158,886	**–244,816**
CASH FLOW FROM FINANCING ACTIVITIES	(25)		
Dividends paid		–34,279	–26,041
Proceeds from borrowings of financial liabilities		202,380	86,770
Repayments of borrowings		–21,094	–16,560
Proceeds from capital increases		0	166,521
Payments for costs of capital increases		0	–4,871
Payments for cash collateral for financial liabilities		–4,191	0
Interest payments		–14,823	–13,783
		127,993	**192,036**
Changes in cash funds		28,579	**–1,798**
Cash funds on 1 January		25,335	**27,133**
Cash and cash equivalents (with a remaining term of up to three months)		25,335	27,133
Fixed-term deposits (with a remaining term of more than three months)		50,000	0
Cash and cash equivalents on 1 January		75,335	**27,133**
Cash and cash equivalents on 31 December		53,914	**25,335**
Cash and cash equivalents (with a remaining term of up to three months)		53,914	25,335
Fixed-term deposits (with a remaining term of more than three months)		0	50,000
Restricted cash and cash equivalents		4,191	0
Cash and cash equivalents on 31 December		58,105	**75,335**

STATEMENT OF CHANGES IN EQUITY

€ thousand	Issued capital	Capital reserves	Retained earnings		Total equity
			Revaluation surplus	Other retained earnings	
As at 1 January 2016	**62,003**	**247,259**	**–12,057**	**108,869**	**406,074**
Distribution of profit for 2015 (€0.42 per share)				–26,041	–26,041
Capital increases	17,715	148,806			166,521
Costs of capital increases		–4,871			–4,871
Net profit for the year 1 Jan. – 31 Dec. 2016				17,421	17,421
Other comprehensive income 1 Jan. – 31 Dec. 2016			2,207		2,207
Total comprehensive income 1 Jan. – 31 Dec. 2016			**2,207**	**17,421**	**19,628**
As at 31 December 2016	**79,718**	**391,194**	**–9,850**	**100,249**	**561,311**
Distribution of profit for 2016 (€0.43 per share)				–34,279	–34,279
Net profit for the year 1 Jan. – 31 Dec. 2017				17,683	17,683
Other comprehensive income 1 Jan. – 31 Dec. 2017			3,444		3,444
Total comprehensive income 1 Jan. – 31 Dec. 2017			**3,444**	**17,683**	**21,127**
As at 31 December 2017	**79,718**	**391,194**	**–6,406**	**83,653**	**548,159**

STATEMENT OF CHANGES IN NON-CURRENT ASSETS*

€ thousand	Cost				
	As at 1 Jan. 2017	Additions	Disposals	Reclassification	As at 31 Dec. 2017
Intangible assets	661	48	2	0	707
Property, plant and equipment	3,804	305	87	0	4,022
Investment property	1,042,849	224,937	4,808	2,000	1,264,978
Advance payments on investment property	2,000	0	0	–2,000	0
Total	**1,049,314**	**225,290**	**4,897**	**0**	**1,269,707**

€ thousand	Cost				
	As at 1 Jan. 2016	Additions	Disposals	Reclassification	As at 31 Dec. 2016
Intangible assets	209	452	0	0	661
Property, plant and equipment	2,887	991	74	0	3,804
Investment property	856,334	198,842	3,487	–8,840	1,042,849
Advance payments on investment property	0	2,000	0	0	2,000
Total	**859,430**	**202,285**	**3,561**	**–8,840**	**1,049,314**

* also part of the notes

Depreciation / amortisation / write-ups					Carrying amounts	
As at 1 Jan. 2017	Additions (depreciation / amortisation for the financial year)	Disposals	Reclassification	As at 31 Dec. 2017	As at 31 Dec. 2016	As at 31 Dec. 2017
173	29	2	0	200	488	507
787	166	87	0	866	3,017	3,156
126,600	30,031	888	0	155,743	916,249	1,109,235
0	0	0	0	0	2,000	0
127,560	**30,226**	**977**	**0**	**156,809**	**921,754**	**1,112,898**

Depreciation / amortisation / write-ups					Carrying amounts	
As at 1 Jan. 2016	Additions (depreciation / amortisation for the financial year)	Disposals	Reclassification	As at 31 Dec. 2016	As at 31 Dec. 2015	As at 31 Dec. 2016
146	27	0	0	173	63	488
734	127	74	0	787	2,153	3,017
107,510	22,578	1,842	–1,646	126,600	748,824	916,249
0	0	0	0	0	0	2,000
108,390	**22,732**	**1,916**	**–1,646**	**127,560**	**751,040**	**921,754**

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

HAMBORNER REIT AG is a listed corporation (SCN 601300) headquartered in Duisburg, Germany. It is entered in the Commercial Register of Duisburg District Court under HRB 4. Since its transformation into a REIT as at 1 January 2010, it is also subject to the provisions of the German Act on German Real Estate Stock Corporations with Listed Shares (REITG – German REIT Act).

HAMBORNER REIT AG acquires ownership or easement rights for German and foreign immovable property within the meaning of section 3 of the German REIT Act for use, management or disposal, with the exception of residential properties in Germany. It can also acquire, hold, manage and dispose of equity investments in partnerships and corporations within the meaning of section 3 of the German REIT Act. As a REIT, HAMBORNER has been exempt from both corporation tax and trade tax since 1 January 2010.

As a listed REIT stock corporation, HAMBORNER REIT AG prepares and publishes separate financial statements within the meaning of section 325(2a) of the Handelsgesetzbuch (HGB – German Commercial Code) in accordance with the provisions of the International Financial Reporting Standards (IFRSs). The management report in accordance with section 289 HGB is published with the IFRS separate financial statements in the Federal Gazette.

The separate financial statements as at 31 December 2017 were prepared in accordance with IFRS as applicable in the European Union at the end of the reporting period and the additional provisions of commercial law in accordance with section 325 (2a) HGB. IFRS include the IFRS passed by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All the standards and interpretations issued by the IASB and effective as at the time of the preparation of the financial statements have been applied to the extent that they have been endorsed by the EU. Thus, the separate financial statements of the company comply with IFRS.

The financial statements were prepared in euro (€). All amounts are shown in thousands of euro (€ thousand) unless stated otherwise. Minor rounding differences may occur in totals and percentages.

The Management Board prepared the separate financial statements as at 31 December 2017 and the management report for 2017 on 19 February 2018 and approved them for submission to the Supervisory Board.

The separate financial statements prepared in accordance with IFRS in accordance with section 325 (2a) HGB and the HGB annual financial statements have been submitted to the operator of the Federal Gazette. The IFRS financial statements will then be published there. The financial statements are available for download on the Internet at www.hamborner.de. They can also be requested from HAMBORNER REIT AG, Goethestrasse 45, 47166 Duisburg, Germany.

ACCOUNTING POLICIES

These separate financial statements as at 31 December 2017 are based on the same accounting policies as the separate financial statements for the previous year. The statement of financial position as at 31 December 2017 is structured by maturity in accordance with IAS 1(60). Items that have been summarised in the statement of financial position and the income statement are explained in the notes.

Revised or new standards or interpretations and the resulting changes in accounting policies

As against the separate financial statements as at 31 December 2016, the following standards and interpretations have been amended or were effective for the first time as a result of their endorsement in EU law or their coming into effect:

Standard / Interpretation	Name	Nature of amendment
IAS 7	Statement of Cash Flows	Amendments in connection with disclosures on changes in liabilities arising from financing activities
IAS 12	Income Taxes	Amendments in the recognition of deferred tax assets for unrealised losses in assets at fair value

The new or revised standards and interpretations had no material influence on the HAMBORNER financial statements. Only the amendment to IAS 7 led to a slightly more extensive notes on changes in financial liabilities (note (25)).

The following standards and interpretations already passed, amended or issued by the IASB were not yet effective for the 2017 financial year. The option to apply standards and interpretations early was not exercised.

Standard / Interpretation	Name	Nature of amendment	Effective date	Material expected effect
IFRS 2	Share-Based Payment	Accounting for cash-settled share-based payment transactions; in particular calculation of fair value	1 January 2018	None
IFRS 4	Insurance Contracts	Reduction of effects of different first-time adoption dates for IFRS 9 and the successor standard to IFRS 4	1 January 2018	None
IFRS 9	Financial Instruments	New standard; replaces IAS 39 as currently amended	1 January 2018	See explanation
IFRS 9	Financial Instruments	Amendments to IFRS 9 regarding the classification of certain financial assets with prepayment features and prepayment rules and modifications of financial liabilities.	1 January 2019	Under examination
IFRS 15	Revenue from Contracts with Customers	New standard on the recognition of revenue from contracts with customers. The standard replaces IAS 11 and IAS 18 and various interpretations relating to this issue.	1 January 2018	See explanation
IFRS 16	Leases	New standard; replaces IAS 17 as currently amended	1 January 2019	See explanation
IFRS 17	Insurance Contracts	The standard governs accounting for insurance contracts and replaces the previous transitional standard IFRS 4.	1 January 2021	None
IAS 28	Investments in Associates and Joint Ventures	Clarification that IFRS 9 rather than IAS 28 applies to long-term interests in associates and joint ventures that are essentially part of the net investment in the associate or joint venture and not accounted for using the equity method	1 January 2019	None
IAS 40	Investment property	Clarification of the reclassification of property to or from "investment property" in the event of a change in use	1 January 2018	None
Various	Annual IFRS improvement project (2014 – 2016)	Amendments essentially relate to IFRS 1, IFRS 12, IAS 28	1 January 2017 / 1 January 2018	None
Various	Annual IFRS improvement project (2015 – 2017)	Amendments essentially relate to IFRS 3, IFRS 11, IAS 12, IAS 23	1 January 2019	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	New interpretation; clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency	1 January 2018	None
IFRIC 23	Uncertainty over income tax treatments	New interpretation to clarify uncertainty over income tax treatments	1 January 2019	None

Effects of the introduction of IFRS 9 “Financial Instruments”

IFRS 9 regulates accounting for financial instruments and will replace the predecessor standard IAS 39. The main changes relate in particular to the classification regulations for financial assets, the regulations on the recognition of impairment and hedge accounting.

The amendments will not have any material effect on HAMBORNER. In particular, no material effect is expected on the accounting for the existing interest rate swaps. There could possibly be minor implications only in the area disclosures in the notes.

Effects of the introduction of IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 will replace the currently applicable IAS 11 and IAS 18 and covers the recognition of revenue from contracts with customers. As leases are exempt from the regulations, the new provisions will not lead to any material changes in revenue recognition for HAMBORNER.

Effects of the introduction of IFRS 16 “Leases”

IFRS 16 regulates the accounting for leases and will replace the currently applicable IAS 17. While accounting for leases will remain virtually unchanged for lessors, accounting for lessees will change fundamentally. In future, lessees must recognise all leases on-balance sheet as a right of use. At the same time, future financial obligations arising from leases must be recognised as lease liabilities. As a result, the previous presentation of leases off-balance sheet will cease in future.

The introduction of IFRS 16 will not have any material accounting effects on HAMBORNER as a lessor in relation to leased properties.

As a lessee, the company must essentially recognise three leaseholds (see note 21) in its statement of financial position in future. The additions to the statement of financial position resulting from the rights of use and lease liabilities to be recognised is expected to be within a range of €7.5 million to €10.0 million. Beyond this, HAMBORNER is only a lessee in leases for small quantities of operating and office equipment of minor significance.

Segment reporting

Segment reporting in accordance with IFRS 8 is based on the management approach and is therefore consistent with the management and reporting system used in the company for its segments. HAMBORNER only operates in one business segment and one geographical segment, and generates its revenue and holds its assets exclusively in Germany. As in previous years, it therefore did not prepare a segment report. Internal reporting is also based on the IFRS accounting figures.

Assumptions and estimates

In preparing the financial statements, assumptions have been made and estimates used that affect the reporting and amount of the recognised assets, liabilities, income and expenses. These assumptions and estimates essentially relate to the determination of useful lives, the fair value of land, buildings and receivables, the calculation of the fair value of financial instruments and the recognition and measurement of provisions. The carrying amounts of the items concerned can be found in the statement of financial position and the notes. Actual values may deviate from the assumptions and estimates made in individual cases. Changes are taken into account when new information is available.

Intangible assets

Intangible assets are measured at cost less straight-line amortisation. Amortisation is recognised in line with the economic useful life, which is between three and eight years in principle. In the case of tender for a naming right, the useful life is 33 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less straight-line depreciation. The company's administrative building in Duisburg and operating and office equipment are reported under property, plant and equipment. Depreciation for the administrative building is based on a total useful life of 33 years. The operating and office equipment has an average useful life of between three and 15 years.

The results of disposals of property, plant and equipment are reported under "Other operating income" (gains) or "Other operating expenses" (losses).

Investment property

Investment property is measured at amortised cost less straight-line depreciation in accordance with the option under IAS 40(30) in conjunction with (56). All land, buildings and parts of buildings already developed and under development held to generate future rental income or gains from appreciation or with an undetermined use are classified as investment property. They are not intended for HAMBORNER's own administrative purposes or for short-term trading in the context of the ordinary business activities. Depreciation is recognised on a straight-line basis over the economic life. The property portfolio is depreciated over periods of between 33 and 50 years. Since 2007 a useful life of 33 years has been assumed when a property is acquired. If this principle is contradicted by the actual circumstances (e.g. on account of age, quality, options for use of the building), the useful life is estimated differently accordingly. The remaining useful life is also reviewed in the context of major modernisation work. Properties added to the portfolio prior to 2007 are depreciated over a useful life of 40 or 50 years. The results from the sale of the investment property are shown separately in the income statement.

To calculate the fair value disclosed in the notes in accordance with IAS 40, our developed property portfolio was valued by an independent expert at the end of 2017. The market values of property were calculated in line with internationally recognised standards using the discounted cash flow (DCF) method (level 3 of the measurement hierarchy in accordance with IFRS 13). Under this method, the market value of a property is calculated as the total of the discounted cash flows for the entire planning period, usually ten years (2018 to 2027), plus the residual value of the property calculated on the basis of its long-term free cash flow less costs to sell, also discounted to the measurement date. Discount rates of between 3.60% and 7.25% (previous year: 3.65% and 7.20%) were used to calculate residual values. Cash flows and residual values were discounted using risk-adjusted interest rates of between 4.05% and 8.35% (previous year: 4.05% and 8.30%). For further information please see "Performance of the property portfolio" in the management report.

We used the respective carrying amounts for the fair values of the cost of acquisition for properties not yet transferred to us.

The fair value of our undeveloped land holdings was calculated using the market-based approach in accordance with level 2. The standard land values calculated in expert reports for similar properties and areas are used, and risk deductions are charged in line with the particular characteristics of the properties. On average, the fair value of undeveloped land is €2.58 per m² in 2017 (previous year: €2.58 per m²).

Impairment losses and reversals of impairment losses on intangible assets, property, plant and equipment and investment property

The recoverability of the carrying amounts of all intangible assets, property, plant and equipment and investment property is reviewed regularly. In addition, the carrying amounts are reviewed if events or changes in circumstances indicate that it may no longer be possible to recover the recognised carrying amount. If the recoverable amount of these assets is less than the carrying amount at the end of the reporting period, this is shown by the recognition of impairment losses.

The recoverable amount is determined using the fair value as calculated by an expert before the deduction of transaction costs of a notional acquisition (gross capital value) as the value in use within the meaning of IAS 36.30. If the reasons for impairment losses recognised in previous years no longer exist, they are reversed up to the amortised carrying amounts of the respective assets. Impairment losses are reported under "Amortisation of intangible assets, depreciation of property, plant and equipment and investment property". Reversals of impairment losses are recognised in "Other operating income".

Leases

Leases in which the risks and rewards incidental to ownership of a leased asset remain with the lessor are classified as operating leases in line with IAS 17. Payments made or received for an operating lease are recognised in the income statement over the term of the lease. All properties are let under operating leases at HAMBORNER.

If the significant risks and rewards incidental to ownership of a leased asset are transferred to the lessee, these are classified as finance leases. There are no leases of this kind at HAMBORNER.

Financial assets

In accordance with IAS 39, financial assets are measured at fair value including transaction costs for acquisitions on first-time recognition. Subsequent measurement is determined by the category to which a financial asset is allocated.

Loans and receivables are measured at amortised cost. Any discernible specific risks are taken into account appropriately by way of write-downs.

Derivative financial instruments

HAMBORNER uses derivative financial instruments in the form of interest rate swaps to manage risks from interest rate fluctuations.

Derivative financial instruments are recognised for the first time on the trade date. For cash flow hedges used to hedge risks affecting the amount or timing of future cash flows, any changes in market value are recognised in equity (revaluation surplus) and hedge effectiveness is documented. The effectiveness of cash flow hedges is determined in line with the dollar-offset method. In these cases this resulted in the recognition of the changes in carrying amounts in full in equity. Asset and liability derivative financial instruments are reported in separate items of the statement of financial position.

The market values calculated by banks as at the end of the respective reporting period including the risk of default result from discounting the expected future cash flows over the residual term of the contracts on the basis of current market interest rates or yield curves. Derivatives are measured in line with level 2. This means that the measurement models use factors observed directly (i.e. as prices) or indirectly (i.e. derived from prices) on active markets.

The fair value of the derivative financial instruments designated as hedging instruments is reported in full as a non-current asset or liability if the remaining term of the hedged item is longer than twelve months after the end of the reporting period, and as a current asset or liability if the remaining term is shorter.

Cash and cash equivalents

Cash and cash equivalents comprise call money with an initial remaining term of less than three months.

Non-current assets held for sale

Non-current assets are classified as held for sale if a sale is highly likely in the next twelve months. The assets classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. Depreciation is no longer recognised from the time of reclassification.

Provisions

Provisions are classified as non-current or current in line with the maturity structure required under IFRS and reported accordingly.

Pension provisions

Pension provisions are calculated using the projected unit credit method, taking into account future adjustments in salaries and pensions. They are calculated using the biometric data of the 2005 G Heubeck mortality tables.

The following parameters were applied:

Parameter p. a. in %	2017	2016
Interest rate	1.6	1.5
Pension trend	2.0	2.0
Inflation	2.0	2.0

Sensitivity analyses, which are shown under note 19, were performed to show the sensitivity of the parameters used that are considered significant. These sensitivity analyses should not be considered representative for the actual change in defined benefit pension obligations. It is thought unlikely that the deviations from assumptions will occur in isolation as the assumptions are related in some cases.

Actuarial gains and losses from experience adjustments and changes in assumptions are recognised in the revaluation surplus in the year in which they arise. The interest expenses included in pension expenses is reported in interest expenses.

Expenses for defined contribution plans are recognised as an expense and reported in personnel expenses.

Other provisions

Current provisions are recognised in the amount of expected utilisation (best estimate) without discounting and take into account all obligations identifiable at the end of the reporting period based on transactions or past events for which the amount or timing is uncertain. This includes only third-party obligations for which an outflow of assets is likely.

Provisions for obligations that will not result in a reduction of assets in the subsequent year are recognised in the amount of the present value of the forecast outflow of assets.

Long-term, share-based Management Board remuneration is measured with the fair value of the liability as at the end of each reporting period and on the settlement date. All changes in fair value are recognised in profit or loss.

Financial liabilities

Liabilities are measured at fair value taking into account transaction costs on first-time recognition. Subsequent measurement is at amortised cost using the effective interest method. Liabilities are classified as non-current if the agreements provide for repayment after twelve months.

Recognition of expenses and revenue

The recognition of revenue and other operating income is based on when services are rendered or, for sales transactions, when substantially all the risks and rewards of ownership have been transferred to the buyer.

Operating expenses are recognised when services are utilised or when they are incurred.

NOTES TO THE INCOME STATEMENT

(1) Net rental income

Net rental income breaks down as follows:

€ thousand	2017	2016
INCOME FROM RENTS AND LEASES		
Retail space	47,003	39,412
Office space and medical practices	24,311	19,637
Production and other commercial space	1,205	1,320
Apartments	146	147
Garages / car parking spaces	955	855
Other lettings and leases (agricultural leases, licensing agreements, etc.)	300	229
Income from rent guarantees	165	218
Total	74,085	**61,818**
Income from passed-on incidental costs to tenants	11,200	8,231
Total	85,285	**70,049**
Real estate operating expenses	–15,581	–11,207
Property and building maintenance	–4,347	–2,834
Net rental income	65,357	**56,008**

Income from rents and leases for properties recognised in accordance with IAS 40 increased by €12,267 thousand to €74,085 thousand in the reporting year. The change was as a result of rent increases due to property additions in the reporting year and the previous year (€13,032 thousand), rent losses as a result of property disposals (€–791 thousand) and increases in rents (like-for-like) of €26 thousand.

HAMBORNER generated more than 10% of its rental income with the Edeka Group in the 2017 financial year (€7.8 million; previous year: €7.7 million).

Income from passed-on incidental costs to tenants mainly includes advances on billable heating and operating costs in addition to fractional amounts on heating and operating costs billed in the financial year. This income increased by €2,969 thousand in the reporting year. €2,895 thousand of the increase in income from passed-on incidental costs to tenants was due to the change in the investment property portfolio. The income from reallocating incidental costs to tenants for the other properties in the portfolio increased by a total of €74 thousand.

Most of the ***real estate operating expenses*** can be passed on to the tenants under the terms of their rental agreements. They increased by €4,374 thousand to €15,581 thousand as a result of changes in the property portfolio.

€ thousand	2017	2016
REAL ESTATE OPERATING EXPENSES		
Energy, water, etc.	6,289	4,701
Property / centre management, caretakers	3,120	1,751
Land taxes	2,661	2,118
Other property charges	1,140	821
Ground rent costs	608	559
Insurance premiums	614	503
Non-deductible input tax	269	229
Miscellaneous	880	525
Total	15,581	**11,207**

The ***expenses for property and building maintenance*** amounted to €4,347 thousand compared to €2,834 thousand in the previous year. The costs predominantly relate to various planned measures, including in Villingen Schwenningen, Karlsruhe and Ingolstadt, and ongoing maintenance.

The direct operating expenses for our leased properties were €19,928 thousand in the reporting year (previous year: €14,041 thousand). With the exception of temporary, partial vacancies in individual properties, the entire inventory was let at the end of the reporting period.

(2) Administrative expenses

The item includes the costs for the Annual General Meeting, the Supervisory Board and the auditor as stipulated in the Articles of Association and actual costs of administration.

The following fees were recognised for the appointed auditor in the financial year:

€ thousand	2017	2016
Audits of financial statements	109	110
Other assurance services	0	207
Total	**109**	**317**

Other assurance services in the previous year related to fees in connection with the capital increase in September 2016.

(3) Personnel expenses

The €414 thousand increase in personnel expenses to €4,414 thousand (previous year: €4,000 thousand) results in particular from the higher headcount as against the previous year and general salary adjustments.

€ thousand	2017	2016
Wages and salaries	3,938	3,521
Social security contributions and related expenses	403	411
Retirement benefit expenses / pension expenses	73	68
Total	**4,414**	**4,000**

(4) Amortisation of intangible assets, depreciation of property, plant and equipment and investment property

The depreciation and amortisation expense was up €7,494 thousand on the previous year at €30,226 thousand. €30,031 thousand of this increase relates to investment property (previous year: €22,578 thousand). This contains an impairment loss of €1,157 thousand on our property in Mosbach as a result of the current existing tenant not renewing the lease that expires at the end of 2019.

(5) Other operating income

Other operating income breaks down as follows:

€ thousand	2017	2016
Compensation for early lease termination	550	7
Charges passed on to tenants and leaseholders	163	54
Compensation in connection with section 15a UStG	90	122
Other compensation and reimbursement	80	145
Reversal of provisions and accruals	77	258
Miscellaneous	281	137
Total	1,241	723

(6) Other operating expenses

Other operating expenses rose by €208 thousand to €1,295 thousand. This item includes write-downs on trade receivables of €248 thousand (previous year: €79 thousand), legal and consulting costs of €236 thousand (previous year: €236 thousand) and costs of public relations work of €171 thousand (previous year: €273 thousand) in the reporting year. Furthermore, the item includes input tax adjustments due to the conclusion of VAT-exempt leases (section 15a of the *Umsatzsteuergesetz* (UStG – German VAT Act) of €307 thousand (previous year: €300 thousand) predominantly passed on to tenants (see table under note (5)) or compensated by corresponding rent adjustments.

(7) Result from the sale of investment property

In the reporting year we generated net income from the disposal of property of €3,176 thousand after €4,075 thousand in the previous year. This essentially results from the disposal of two properties (previous year: five) from our portfolio.

(8) Financial result

The financial result consists solely of interest income and expenses. ***Interest income*** amounts to €81 thousand (previous year: €29 thousand).

Interest expenses increased by €598 thousand to €14,936 thousand, €14,751 thousand (previous year: €14,115 thousand) of which relates to financial liabilities. At €14,594 thousand (previous year: €13,986 thousand), this is almost entirely attributable to interest on property financing.

The interest expenses for interest rate hedges amounted to €2,945 thousand (previous year: €3,284 thousand). The payments we make quarterly on the basis of agreed interest rates amounted to €2,945 thousand in the reporting year (previous year: €3,284 thousand).

As in the previous year, there were no offsetting incoming cash flows from the swap agreements on account of the consistently negative 3-month EURIBOR. For further details and information on interest rate hedges please see note 17.

(9) Earnings per share

The net profit for the year amounted to €17,683 thousand, up €262 thousand on the figure for the previous year.

Earnings per share amounted to €0.22 and are calculated in line with IAS 33. Thus, earnings per share are determined by dividing the net profit for the period attributable to the shareholders by the weighted average number of shares in the financial year.

Earnings per share are not diluted by, for example, stock options or convertible bonds as HAMBORNER has no such programmes. The basic and diluted earnings per share are therefore the same.

		2017	2016
Weighted average number of shares outstanding	Thousands	79,718	66,649
Net earnings / net profit for the year	€ thousand	17,683	17,421
Earnings per share	€	0.22	0.26

NOTES TO THE STATEMENT OF FINANCIAL POSITION

(10) Intangible assets and property, plant and equipment

At €425 thousand, intangible assets essentially comprise a naming right purchased in connection with the property in Lübeck. In particular, this item also includes acquired rights for the use of system and application software for our IT.

The carrying amount of the company's administrative building in Duisburg reported under property, plant and equipment was €2,794 thousand (previous year: €2,660 thousand) as at the end of the reporting period. The increase results from the renovation of the existing administrative building.

(11) Investment property / advance payments

Additions to ***investment property*** amounted to €226,937 thousand in the financial year. €220,111 thousand of this amount relates to property acquired in the reporting year and previous years, €3,899 thousand to incidental acquisition costs for property not yet transferred to the company and €2,927 thousand to costs subsequently added in the portfolio.

Investment property developed as follows in the reporting year:

	€ thousand	2017	2016
	As at 1 January	916,249	**748,824**
+	Additions due to acquisition	218,111	188,221
+	Addition due to reclassification from advance payments	2,000	0
+	Additions to incidental costs of pending acquisitions	3,899	8,793
+	Additions due to costs subsequently added	2,927	1,828
		226,937	**198,842**
–	Disposals due to sales	–3,920	–1,645
–	Disposals due to IFRS 5 reclassifications	0	–7,194
		–3,920	**–8,839**
–	Depreciation for the financial year	–28,875	–22,578
–	Impairment losses for the financial year	–1,156	0
		–30,031	**–22,578**
		1,109,235	**916,249**

Taking into account the additions and disposals in the reporting year, the fair value of investment property was €1,367,504 thousand as at 31 December 2017 (previous year: €1,115,307 thousand).

The fair value of investment property breaks down as follows:

€ thousand	2017	2016
Developed property portfolio	1,362,600	1,105,560
Incidental costs of pending acquisitions	3,950	8,793
Undeveloped land holdings	954	954
Total	**1,367,504**	**1,115,307**

Advance payments in the previous year related to a contractually agreed purchase price payment for a property in Hanau, risks and rewards of ownership of which transferred to the company in the reporting year. The advance payments were reclassified to investment property at the time of acquisition in the year under review.

(12) Financial assets

At €918 thousand (previous year: €815 thousand) financial assets essentially relate to cash security deposits by tenants.

(13) Trade receivables and other assets

All receivables and other assets are carried at amortised cost.

Trade receivables and other current assets break down as follows:

€ thousand	2017	2016
TRADE RECEIVABLES		
from rent in arrears and billed incidental costs	914	581
Write-downs on trade receivables	–313	–85
from deferred receivables from future incidental cost invoices (not yet due)	343	573
Miscellaneous	29	62
	973	**1,131**
OTHER ASSETS		
Financial assets	260	129
Miscellaneous	132	152
	392	**281**
Total	1,365	**1,412**

At €169 thousand, non-current other assets included development costs paid for the leasehold property in Solingen.

(14) Cash and cash equivalents

Cash and cash equivalents break down as follows:

€ thousand	2017	2016
Bank balances	58,100	75,332
Cash balances	5	3
Total	58,105	**75,335**

Bank balances include €16,895 thousand (previous year: €70,750 thousand) in demand deposits.

(15) Non-current assets held for sale

The risks and rewards of ownership of the property in Duisburg, Kasslerfelder Kreisel, and around 98 thousand m² of undeveloped land for which carrying amounts were reported under this item in the previous year were transferred in 2017.

(16) Equity

The development of equity from 1 January 2016 to 31 December 2017 is shown in the statement of changes in equity. As at 31 December 2017, the issued capital of the company amounted to €79,718 thousand and was divided into 79,718 thousand no-par-value bearer shares.

By way of resolutions of the Annual General Meeting on 10 May 2017, the Management Board was authorised until 9 May 2022, with the approval of the Supervisory Board, to increase the share capital of the company by up to €7,972 thousand (Authorised Capital I). At the same time, the existing Authorised Capital II of €6,200 thousand was revoked.

Furthermore, by way of resolutions of the Annual General Meeting on 10 May 2017, the Management Board was authorised until 9 May 2022, with the approval of the Supervisory Board, to increase the share capital of the company by up to €31,887 thousand (Authorised Capital II). At the same time, the existing Authorised Capital II of €7,086 thousand was revoked.

The following total authorised capital is therefore still available as at 31 December 2017:

- €7,972 thousand (Authorised Capital I)
- €31,887 thousand (Authorised Capital II)

Furthermore, on 7 May 2013, the Management Board was authorised, with the approval of the Supervisory Board, to issue bearer or registered warrant and convertible bonds ("bonds"), dated or undated, up to a total of €250,000 thousand until 6 May 2018, and to grant the bearers or creditors ("bearers") of bonds conversion rights to new bearer shares of the company with a total pro rata amount of share capital of up to €22,747 thousand in accordance with the more detailed conditions of the warrant or convertible bonds ("bond conditions").

In issuing warrant or convertible bonds, the Management Board is authorised to contingently increase the share capital of the company by up to €22,747 thousand, divided into up to 22,747 thousand bearer shares (Contingent Capital).

With the approval of the Supervisory Board, the Management Board can disapply shareholders' statutory pre-emption rights in certain cases for a partial amount. The above authorisations had not been utilised by the end of the reporting period.

By way of the resolutions of the Annual General Meeting on 28 April 2016, the Management Board was also authorised to acquire own shares in the company. The authorisation is limited to the acquisition of shares accounting for not more than 10% in total of the lower of share capital at the time of the resolution by the Annual General Meeting on this authorisation or at the time that this authorisation is exercised. The authorisation is therefore limited to 6,200 thousand shares and until 27 April 2021. The Management Board has not yet utilised this authorisation.

The capital reserves still amount to €391,194 million (unchanged as against the previous year) and include amounts generated when issuing shares in the context of capital increases that exceeded the notional value of the shares less the costs of capital increases.

The company reported retained earnings of €77,247 thousand (previous year: €90,399 thousand) as at 31 December 2017. The distribution of a dividend of €35,873 thousand for the 2017 financial year will be proposed at the Annual General Meeting. This corresponds to a dividend of €0.45 per share. The dividend proposal is based on net retained profits for the company under German commercial law of the same amount.

The revaluation surplus (€–6,406 thousand; previous year: €–9,850 thousand) in retained earnings includes the actuarial losses on defined benefit obligations accrued as at 31 December 2017 of €–3,891 thousand (previous year: €–4,337 thousand) and the negative fair values of derivatives in connection with cash flow hedges of €–2,515 thousand (previous year: €–5,513 thousand).

The objectives of our capital management are to ensure the continuation of the company as a going concern, generate an adequate return on equity and remain solvent.

The main control parameter for this is the equity ratio, a business ratio also recognised by investors, analysts and banks.

€ thousand	**2017**	**2016**	**Change**
Equity	548,159	561,311	–2.3%
Total assets	1,173,503	1,006,760	+16.6%
Reported equity ratio	**46.7%**	**55.8%**	**–9.1 percentage points**

In addition, the company is required to comply with the equity coverage ratio of at least 45% codified in accordance with section 15 REITG in order to maintain its status as a real estate investment trust. Compliance with the REIT equity ratio is therefore subject to ongoing monitoring. The equity ratio was 59.0% as at 31 December 2017 (previous year: 67.8%).

A key figure in connection with solvency is the loan-to-value (LTV) ratio. This ratio is defined as net financial liabilities to the calculated value of the company's properties. The figure was 39.6% as at 31 December 2017 (previous year: 30.1%).

The framework for the management of the capital structure e.g. by capital increases, is defined by the provisions of company law.

The capital management targets were achieved in the financial year.

(17) Financial liabilities and derivative financial instruments

Financial liabilities increased by a net amount of €181,197 thousand to €595,661 thousand as a result of further borrowing for property financing. In particular, the fair value of derivative financial instruments rose by €2,998 thousand as a result of the shorter remaining term by one year and is €–2,515 thousand. The property loans in place are based on both long-term fixed-rate interest agreements and interest rate agreements based on EURIBOR. The interest rate risk was fully eliminated in these instances by concluding interest rate swaps, with which HAMBORNER receives EURIBOR and pays a constant fixed rate of interest over the entire term of the swap.

The nominal hedge volume of the interest rate swaps was €39.9 million at the end of the reporting period. Depending on the underlying loan transactions, the derivatives mature between 2018 and 2021. The change in the fair values of interest rate derivatives recognised in equity of €3.0 million resulted in a rise in market value changes in derivatives in the revaluation surplus to €–2.5 million. There are no further derivative financial instruments other than the interest rate swaps shown above.

			31 Dec. 2017		31 Dec. 2016	
No.	Type	Maturity	Nominal value in € thousand	Fair value in € thousand	Nominal value in € thousand	Fair value in € thousand
1	Interest rate swap	October 2017	–	–	27,552	–1,111
2	Interest rate swap	April 2018	11,677	–147	12,493	–745
3	Interest rate swap	April 2018	8,472	–107	9,065	–540
4	Interest rate swap	December 2018	3,588	–152	3,778	–311
5	Interest rate swap	November 2021	16,173	–2,109	16,474	–2,806
Total			39,910	–2,515	**69,362**	**–5,513**

Financial liabilities and derivative financial instruments break down by maturity as follows:

€ thousand	31 Dec. 2017			31 Dec. 2016		
	Current	Non-current		Current	Non-current	
	less than 1 year	2 to 5 years	more than 5 years	less than 1 year	2 to 5 years	more than 5 years
Financial liabilities	42,682	231,849	321,130	20,876	196,813	196,775
Derivative financial instruments	406	2,109	0	1,111	4,402	0
Total	43,088	233,958	321,130	**21,987**	**201,215**	**196,775**

The table below shows the contractually agreed payments for interest and the repayment of financial liabilities and derivative financial instruments. Interest payments on floating-rate loans are calculated uniformly using the last interest rate set before the end of the reporting period.

€ thousand	31 Dec. 2017			31 Dec. 2016		
	less than 1 year	2 to 5 years	more than 5 years	less than 1 year	2 to 5 years	more than 5 years
Financial liabilities	53,313	268,643	336,908	31,177	225,762	215,219
Derivative financial instruments	1,130	1,710	0	3,193	2,974	0
Total	54,443	270,353	336,908	**34,370**	**228,736**	**215,219**

All loans are secured by investment property. There were land charges of €664.6 million chargeable to the company for the financial liabilities reported as at 31 December 2017. In addition, the rent receivables on the collateralised properties have usually been assigned to the lending banks by way of undisclosed assignment. The non-current property loans bear interest at interest rates of between 1.10% and 5.21% (average interest rate: 2.43%). Including loans concluded but not yet utilised, the average interest rate is 2.39%. In line with loan agreements, repayments are made monthly or quarterly.

HAMBORNER is exposed to various risks on account of its business activities. The risk report, which is a component of the management report, includes a detailed presentation of these risks and their management.

Derivative financial instruments in the form of interest rate swaps are used to manage interest rate risks on floating-rate loans. The risks resulting in connection with the use of these financial instruments are subject to risk management and control.

The risks resulting from financial instruments relate to credit, liquidity and market risks. There are credit risks in the form of risks of default on financial assets. The maximum value of this risk is the carrying amount of the financial assets. For derivatives, this is the total of all the positive fair values and, for primary financial instruments, the total of the carrying amounts. If risks of default exist, they are taken into account by means of value adjustments.

Liquidity risks constitute refinancing risks and thus risks of a fulfilment of existing obligations to pay when due. The strategy and the results of the planning process are taken as a basis for the early identification of the future liquidity situation. The expected liquidity requirements are scheduled in medium-term planning, which covers a period of five years.

Liquidity requirements are calculated using daily, weekly and monthly forecasts.

Sensitivity analyses are required for the presentation of market risks in accordance with IFRS 7. The effects on earnings and equity are shown by way of hypothetical changes in risk variables based on past data. Interest rate risks in particular are relevant for HAMBORNER in this regard.

Interest rate risks result from changes in the level of market interest rates. We limit such risks by using interest rate swaps. Sensitivity analyses, which show the effects of changes of market interest rate levels on interest payments, interest expenses, interest income and equity, are performed in line with IFRS 7. The following premises apply:

Interest rate risks regarding primary financial instruments with a fixed interest rate are reported only if they are measured at fair value. For financial instruments measured at amortised cost, changes in interest rates have no effect on accounting. For cash flow hedges used to hedge fluctuations due to interest rates, changes in market interest rates can affect the revaluation surplus in equity. Therefore, these financial instruments are taken into account in the sensitivity analysis. In the sensitivity analysis, the indicative measurement was calculated on the basis of the market value, taking into account accrued interest.

Change in revaluation surplus € thousand	2017	2016
Interest rate +1%	605	1,649
Interest rate –1%	–635	–1,288

Fair value of financial assets and liabilities measured at amortised cost

Except for financial liabilities, the carrying amounts of the financial assets and liabilities in the statement of financial position constitute a reliable approximation of the fair value.

The fair values of financial liabilities are equal to the present values of the payments associated with the liabilities, taking into account the current matched-term interest rate parameters at the end of the reporting period (level 2).

€ thousand	31 Dec. 2017		31 Dec. 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	595,661	618,931	414,464	441,464

Additional disclosures on financial instruments

In the separate financial statements, financial instruments are classified in line with the classification used for the statement of financial position. The following table shows the reconciliation of the items of the statement of financial position to IAS 39 categories. IFRS 7 applies to all assets and liabilities measured in accordance with IAS 39.

31 Dec. 2017	Carrying amount	Measurement in accordance with IAS 39		Non-financial assets / liabilities
€ thousand		Amortised cost, loans and receivables	Fair value, derivatives designated as hedges	
ASSETS				
Financial assets	926	926		
Current trade receivables and other assets	1,365	1,233		132
Cash and cash equivalents	58,105	58,105		
	60,396	**60,264**	**0**	**132**
LIABILITIES				
Non-current financial liabilities	552,979	552,979		
Non-current derivative financial instruments	2,109		2,109	
Non-current trade payables and other liabilities	1,716	1,030		686
Current financial liabilities	42,682	42,682		
Current derivative financial instruments	406		406	
Current trade payables and other liabilities	14,230	11,288		2,942
	614,122	**607,979**	**2,515**	**3,628**

31 Dec. 2016	Carrying amount	Measurement in accordance with IAS 39		Non-financial assets / liabilities
€ thousand		Amortised cost, loans and receivables	Fair value, derivatives designated as hedges	
ASSETS				
Financial assets	834	834		
Current trade receivables and other assets	1,412	1,267		145
Cash and cash equivalents	75,335	75,335		
	77,581	**77,436**	**0**	**145**
LIABILITIES				
Non-current financial liabilities	393,588	393,588		
Non-current derivative financial instruments	4,402		4,402	
Non-current trade payables and other liabilities	2,327	1,190		1,137
Current financial liabilities	20,876	20,876		
Current derivative financial instruments	1,111		1,111	
Current trade payables and other liabilities	11,158	8,561		2,597
	433,462	**424,215**	**5,513**	**3,734**

(18) Trade payables and other liabilities

€ thousand	2017	2016
FINANCIAL LIABILITIES		
Trade payables	287	306
Other purchase price retention	4,741	2,545
Outstanding invoices	3,558	2,859
Security retention for rent guarantees	1,435	1,873
Security deposits	918	815
Supervisory Board remuneration	309	330
Audit fees	71	99
Miscellaneous	999	924
	12,318	**9,751**
OTHER LIABILITIES		
Rental and leasing advances	1,076	1,272
VAT liabilities	1,063	1,022
Land transfer tax liabilities	900	516
Deferred investment subsidies	329	574
Land tax obligations	46	172
Miscellaneous	214	178
	3,628	**3,734**
Total	15,946	**13,485**

€14,230 thousand (previous year: €11,158 thousand) of trade payables and other liabilities are due within one year.

The non-current financial liabilities (€1,030 thousand; previous year: €1,190 thousand) have a remaining term of less than five years.

(19) Pension provisions

There are pension scheme commitments for former employees and their surviving dependents. These are defined benefit commitments within the meaning of IAS 19. Provisions are measured using the projected unit credit method. In addition to the pensions and vested claims known at the end of the reporting period, the projected unit credit method also takes into account forecast increases in pensions and assumed inflation.

In connection with defined benefit pension plans, the company is exposed to general actuarial risks such as longevity and interest rate risks. In particular, the risks affect the allocation to pension provisions at HAMBORNER and therefore the net asset situation of the company. In order to quantify these risks and present them appropriately in the statement of financial position, we had the provision measured by an independent expert, taking into account the sensitivities of actuarial parameters.

HAMBORNER is able to pay the monthly pension payments to recipients or their surviving dependents from its operating activities (internal financing). The company's liquidity management monitors that it is able to meet payment obligations at all times.

As at 31 December 2017, the pension obligations are distributed among four (previous year: four) and six (previous year: seven) surviving dependents.

The weighted average term of defined benefit obligations was around 11.0 years as at the end of the reporting period (previous year: around 11.0 years).

Pension provisions developed as follows:

€ thousand	2017	2016
Carrying amount 1 January (= present value 1 January)	7,387	7,220
Interest expenses	110	138
Actuarial gains (–) / losses recognised for the current year	–446	520
(due to change in financial assumptions)	(–84)	(+371)
(due to experience adjustments)	(–362)	(+149)
Pension payments	–473	–491
Total	6,578	**7,387**

The changes in the main actuarial assumptions would have had the following effects on the present value of pension obligations:

Change in pension provision € thousand	Increase	Decrease
Discounting rate (–0.5 / +0.5 percentage points) (previous year)	398 (454)	–360 (–411)
Inflation (+0.25 / –0.25 percentage points) (previous year)	170 (230)	–162 (–219)
Pension trend (+0.25 / –0.25 percentage points) (previous year)	170 (230)	–162 (–219)
Deviation in mortality from standard (–7.5% / +7.5%) (previous year)	228 (259)	–207 (–235)

The sensitivity calculations are based on the average term of the pension obligation calculated as at 31 December 2017. The calculations were performed in isolation for the actuarial parameters classified as significant in order to show the effects on the present value of pension obligations separately.

Pension payments from defined benefit commitments of €449 thousand are expected in the 2018 financial year (2017: €473 thousand).

In the year under review, HAMBORNER paid contributions of €215 thousand (previous year: €206 thousand) deemed as a defined contribution pension scheme to statutory pension insurance. In addition, the company paid direct insurance premiums of €4 thousand (previous year: €7 thousand) and premiums for employer-funded commitments of €60 thousand (previous year: €60 thousand). The company has no obligations other than its payment obligations under defined contribution schemes. The expenses are recognised in personnel expenses.

(20) Other provisions

Other provisions break down as follows:

€ thousand	1 Jan. 2017	Utilisation	Reversals	Additions	31 Dec. 2017	of which non-current	of which current
PROVISIONS FOR							
Mining damage	2,547	0	0	59	2,606	1,795	811
Employee bonuses	322	322	0	368	368	0	368
Management Board bonuses (STI)	385	385	0	398	398	0	398
Management Board bonuses (LTI)	773	290	0	319	802	543	259
Reimbursements from operating costs not yet invoiced	437	353	84	362	362	0	362
Miscellaneous	136	102	34	108	108	0	108
Total	**4,600**	**1,452**	**118**	**1,614**	**4,644**	**2,338**	**2,306**

The provision for employee bonus obligations assumes that the expected bonuses for 2017 will be €46 thousand higher than in the previous year and amount to €368 thousand. In addition, there are provisions for long-term, share-based Management Board bonuses (LTI) of €802 thousand (previous year: €773 thousand), €259 thousand of which was paid out in 2018 on the basis of the value of shares as at the end of the reporting period, and for short-term remuneration (STI) of €398 thousand (previous year: €385 thousand). The terms of the share-based remuneration as at the end of the reporting period was two months (long-term, share-based commitments for 2015), 14 months (long-term, share-based commitments for 2016) and 26 months (long-term, share-based commitments for 2017).

The provisions for mining damage relate to the potential risks from our former mining activities. Please see the more detailed information in the risk report, which is a component of the management report. Provisions relating to mining activities are non-current provisions measured at their probable settlement amount at the end of the reporting period. Depending on their respective remaining term (between one and 17 years; previous year: between two and 18 years), interest rates of between 0.0% and 1.7% (previous year: between 0.1% and 2.0%) were assumed for discounting. The provision increased slightly by a total of €59 thousand to €2,606 thousand as at 31 December 2017 owing to interest effects (maturity adjustment: €15 thousand; interest rate adjustment: €37 thousand) and inflation-based adjustments (€7 thousand).

(21) Contingent liabilities and financial obligations

On 31 December 2017 there were obligations arising from notarised purchase agreements for three properties in Bonn, Düsseldorf and Cologne to pay a total purchase price of €43.7 million.

The other financial obligations after the end of the reporting period essentially result from three long-term leasehold contracts. These are as follows:

Maturing on	Payment obligation (€ thou. p.a.)	Passed on to tenants (€ thou. p.a.)
30 June 2023 (plus 3 x 10-year renewal option)	291	0
31 December 2034 (plus 2 x 10-year renewal option)	204	204
31 March 2060	113	0
Total	**608**	**204**

There are no further significant contingent liabilities or other financial obligations.

(22) Leases

HAMBORNER as a lessor

All rental agreements that HAMBORNER has concluded with its tenants are classified as operating leases under IFRS as all the risks and rewards of ownership remain with the company.

Investment property with a carrying amount of €1,105.3 million (previous year: €912.5 million) was let under operating leases as at 31 December 2017.

The leases, which are essentially for office and retail space, are usually concluded for terms of between three and 15 years. Around 96% of our commercial leases contain indexation clauses that peg rents to development of the consumer price index. Rent deposits are usually agreed. The full reallocation of incidental costs is intended.

HAMBORNER will receive the following contractually guaranteed rent payments (minimum lease payments) from its current commercial rental agreements:

€ thousand	31 Dec. 2017	31 Dec. 2016
Up to one year	74,674	64,542
Between two and five years	234,711	198,685
More than five years	195,204	172,160
Total	504,589	**435,387**

The minimum lease payments include rent income until the end of the agreed lease or until the tenant's earliest possible termination date, regardless of whether termination or non-utilisation of a prolongation option is actually expected.

There were contingent rent payments of only an insignificant amount in the reporting period.

HAMBORNER as a lessee
As a lessee, HAMBORNER must essentially make payments under three leasehold agreements. Their terms including renewal options are shown in the table under note (21). All three leasehold agreements have indexation clauses.

The total future minimum lease payments from the leasehold agreements not including renewal options based on current conditions are as follows:

€ thousand	31 Dec. 2017	31 Dec. 2016
Up to one year	608	559
Between two and five years	2,431	2,236
More than five years	6,798	7,892
Total	**9,837**	**10,687**

NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows shows development of cash flows broken down according to cash generated by and used in operating, investing and financing activities.

The cash and cash equivalents comprise bank deposits and cash balances with an initial remaining term of less than three months. The difference between cash and cash equivalents as at 31 December 2017 and the "Cash and cash equivalents" item in the statement of financial position of €4.2 million results from a restricted bank account contained in this line that was pledged to replace collateral in the form of property liens for a loan borrowed in 2009 to finance the Kasslerfelder Kreisel property in Duisburg sold in the reporting year.

The difference between cash funds and the item in the statement of financial position as at 31 December of the previous year is due to a fixed-term deposit with a term of €50 million not included in cash and cash equivalents in accordance with IAS 7.7.

Cash and cash equivalents amounted to €53.9 million as at the end of the reporting period after €25.3 million in the previous year.

The statement of cash flows was prepared in accordance with the provisions of IAS 7. Exchange rate fluctuations have no effect at HAMBORNER.

(23) Cash flow from operating activities

The cash flow from operating activities was €59.4 million after €51.0 million in the previous year. The increase is largely due to higher rental income as a result of new investments.

Operating cash flow per share developed as follows:

		2017	2016
Number of shares outstanding	Thousands	79,718	79,718
Operating cash flow	€ thousand	59,472	50,982
Operating cash flow per share	€	0.75	0.64

(24) Cash flow from investing activities

The cash flow from investing activities essentially resulted in a total cash outflow of €158.9 million (previous year: €244.8 million) due to acquisitions in the financial year (€223.3 million).

The payments for investments in intangible assets, property, plant and equipment and investment property do not correspond to the additions shown in the statement of changes in non-current assets. The reason for this is mainly the retention of purchase price and payments for the land transfer tax that are not yet due as at as at the end of the reporting period.

(25) Cash flow from financing activities

The cash flow from financing activities of €128.0 million (previous year: €192.0 million) results in particular from loan borrowings of €202.4 million. Cash receipts are offset by payments for the dividend for 2016 (€34.3 million) and interest and principal payments (€35.9 million) on the loans borrowed for the pro rata financing of our properties.

The company also has total funds not yet utilised of €27.5 million at its disposal from concluded loan agreements. These funds can be accessed at short notice.

	2017	2016
As at 1 January	414,464	344,335
Addition due to borrowing of new loans	202,380	86,770
Disposal due to repayment of loans	–21,094	–16,560
Change in short-term deferred interest	111	62
Change in deferred transaction costs	–200	–143
As at 31 December	595,661	414,464

OTHER NOTES AND MANDATORY DISCLOSURES

Events after the end of the reporting period

The risks and rewards of ownership of the retail properties Bonn, Düsseldorf and Cologne were transferred at the start of 2018. The purchase price amounts to €43.7 million with annual rental income of €2.3 million.

Employees

The average number of employees over the year (not including the Management Board) was as follows:

	2017	2016
Commercial property management	12	11
Technical property management	7	6
Administration	15	15
Total	**34**	**32**

Corporate governance

In December 2017, the Management Board and Supervisory Board issued an updated declaration of compliance and published it on the Internet at www.hamborner.de under Investor Relations / Corporate Governance. The full declaration of compliance has also been published in this 2017 annual report.

Notification of the existence of an equity investment

In order to maintain REIT status, investors are not permitted to directly hold 10% or more of shares or shares to such an extent that they hold 10% or more of voting rights under section 11(4) of the German REIT Act. As at the end of the reporting period on 31 December 2017, the company was not aware of any shareholders with a direct shareholding of more than 10% of share capital.

In accordance with section 160(1) no. 8 AktG, the existence of equity investments reported to the company in accordance with section 33(1) or (2) of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) must be disclosed.

The following table shows the reportable equity investments of which the company was notified by 19 February 2018. The information was taken from the most recent notification from a reporting entity received by the company. All publications by the company on notifications of equity investments in the year under review and also until 19 February 2018 can be found on the HAMBORNER REIT AG website under Investor Relations / Notifications. Please note that the percentage and voting right information for equity investments may now be out of date on account of non-reportable acquisitions or sales of shares.

There was an indirect equity investment in the capital of the company indirectly amounting to or exceeding 10% of the voting rights as at 31 December 2017. This was held by the RAG Foundation, Essen, and amounted to 12.45%.

Voting right notifications

No.	Reporting entity	Voting rights in accordance with sections 33, 34 WpHG (new)	Voting rights from instruments in accordance with section 38(1) WpHG	Share of voting rights (new) in %	Threshold affected	Date threshold affected	Allocation of voting rights as defined by section 34 WpHG
1	Prof. Theo Siegert, Germany	2,300,000		4.60	Drop below 5%	20 Feb. 2015	Yes: 4.60%
2	RAG Foundation, Essen, Germany	9,926,280		12.45	Rise above 10%	27 Sept. 2016	Yes: 2.67%
3	BNP Paribas Investment Partners S.A., Paris, France	3,979,833		4.99	Drop below 5%	1 Dec. 2016	Yes: 4.99%
	BNP Paribas Investment Partners UK Ltd, London, UK	2,373,381		2.98	Drop below 3%	30 Nov. 2016	Yes: 2.98%
	BNP Paribas Investment Partners Belgium S.A., Brussels, Belgium	2,373,381		2.98	Drop below 3%	30 Nov. 2016	No
4	Kingdom of Belgium, Brussels, Belgium	3,944,369		4.95	Drop below 5%	17 Feb. 2017	Yes: 4.95%
5	BlackRock, Inc., Wilmington, DE, USA	3,991,934	155,387	5.20	Rise above 5%	19 Jan. 2018	Yes: 5.01%

Related party disclosures for the 2017 financial year

The only related parties of HAMBORNER within the meaning of IAS 24 are the members of the Management Board, the Supervisory Board and their close relatives. There were no reportable transactions with related parties in the 2017 financial year.

Remuneration of the Management Board and the Supervisory Board

The remuneration paid to persons in key positions at our company that is reportable under IAS 24 comprises the remuneration of the active Management Board and the Supervisory Board.

Total remuneration for active members of the Management Board amounted to €1,249 thousand in the reporting year (previous year: €1,175 thousand). In addition to current remuneration of €989 thousand (previous year: €915 thousand), non-current, share-based remuneration (LTI) amounts to €260 thousand (previous year: €260 thousand).

The LTI comprises virtual share commitments to be paid to the Management Board in cash after a retention period after the second trading day after publication of the results for the third year. The amount of the payment is calculated as the number of share commitments granted multiplied by the closing price of HAMBORNER shares on the Xetra trading system as at the end of the retention period. An increase in the price of HAMBORNER shares of more than 200% (cap) compared to the closing price on the respective commitment date will be disregarded.

Furthermore, for half of the share commitments, the payout amount can be increased or reduced based on the relative performance of HAMBORNER shares compared to the EPRA / NAREIT Europe ex UK Index according to a target system stipulated by the Supervisory Board.

The fair value per vested share commitment as at the end of the reporting period is therefore essentially the closing price of the shares of the company on the last trading day of the financial year (€9.90; previous year: €9.04).

On the basis of the share commitments granted in 2017 and remeasurement effects, expenses of €328 thousand (previous year: €160 thousand) were recognised for share-based remuneration in the reporting year.

The number of virtual share commitments granted and still outstanding on 31 December 2017, and the closing price of HAMBORNER shares on the respective commitment date, are presented below:

			Number of virtual share commitments granted	
	Share price at grant date	End of retention period	Dr Rüdiger Mrotzek	Hans Richard Schmitz
LTI 2015	9.68	2018	13,430	13,430
LTI 2016	9.40	2019	13,830	13,830
LTI 2017	9.19	2020	14,146	14,146

Virtual share commitments developed as follows:

	2017	**2016**
As at 1 January	88,286	**97,246**
Addition of virtual share commitments granted	28,292	27,660
Disposal of virtual share commitments paid out	–33,766	–36,620
As at 31 December	82,812	**88,286**

The virtual share commitments from 2014 due in 2017 (LTI 2014) resulted in a payment of €300 thousand at a share price of €9.34.

The remuneration of the members of the Supervisory Board is due in the short term and amounts to €309 thousand (previous year: €330 thousand) for the financial year.

The remuneration of the Management Board and the Supervisory Board and the principles of the remuneration system are presented in detail in the remuneration report, which is a component of the management report.

The pension provisions recognised for former Management Board members and their surviving dependents amount to €3,997 thousand as at the end of the reporting period. Post-employment benefits under these pension commitments amounted to €312 thousand in the reporting year.

EXECUTIVE BODIES OF THE COMPANY AND THEIR MANDATES

Supervisory Board

Dr Eckart John von Freyend, Bad Honnef
Chairman
Partner in Gebrüder John von Freyend
Verwaltungs- und Beteiligungsgesellschaft m.b.H.
External mandates:
- Bundesanstalt für Immobilienaufgaben (BImA)**
- EUREF AG* (Chairman)
- HAHN-Immobilien-Beteiligungs AG* (Chairman)
- Investment AG für langfristige Investoren TGV* (until 10 June 2017)
- Litos Immobilien AG*

Bärbel Schomberg, Königstein
Deputy Chairwoman
Managing Partner at Schomberg & Co.
Real Estate Consulting GmbH
External mandates:
- DeWert Deutsche Wertinvestment GmbH*

Claus-Matthias Böge, Hamburg
Managing Director of CMB Böge
Vermögensverwaltung GmbH
External mandates:
- Bijou Brigitte modische Accessoires AG*

Christel Kaufmann-Hocker, Düsseldorf
Independent management consultant
External mandates:
- Stiftung Mercator GmbH**

Dr Helmut Linssen, Issum
Member of the Management Board
of the RAG Foundation
External mandates:
- RAG Aktiengesellschaft*
- RAG Deutsche Steinkohle AG*
- Vivawest GmbH** (Chairman)
- Vivawest Wohnen GmbH** (Chairman)
- Degussa Bank AG*

Dr Andreas Mattner, Hamburg (from 10 May 2017)
Managing Director of Verwaltung ECE
Projektmanagement G.m.b.H.
External mandates:
- EUREF AG*

Mechthilde Dordel***, Oberhausen
Clerical employee of HAMBORNER REIT AG

Wolfgang Heidermann***, Raesfeld
Technician of HAMBORNER REIT AG

Dieter Rolke***, Oberhausen
Clerical employee of HAMBORNER REIT AG

Committees of the Supervisory Board

Executive Committee
Dr Eckart John von Freyend (Chairman)
Claus-Matthias Böge
Dr Helmut Linssen
Bärbel Schomberg

Audit Committee
Claus-Matthias Böge (Chairman)
Wolfgang Heidermann
Christel Kaufmann-Hocker
Dr Andreas Mattner (from 10 May 2017)

Nomination Committee
Dr Eckart John von Freyend (Chairman)
Claus-Matthias Böge (until 10 May 2017)
Dr Helmut Linssen
Dr Andreas Mattner (from 10 May 2017)
Bärbel Schomberg

* Membership of other statutory supervisory boards
** Membership of similar executive bodies in Germany and abroad
*** Employee member of the Supervisory Board

Management Board
Dr Rüdiger Mrotzek, Hilden
Director for Finance / Accounting, Controlling, Taxes, Portfolio Management, Transaction Management, HR, IT, Risk Management and Controlling, Investments

Hans Richard Schmitz, Duisburg
Director for Asset Management, Technology / Maintenance, Legal, Investor Relations / Public Relations, Corporate Governance, Insurance, Corporate Services

Duisburg, 19 February 2018

The Management Board

Dr Rüdiger Mrotzek Hans Richard Schmitz

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the separate financial statements give a true and fair view of the net asset situation, financial position and result of operations of the company, and the management report of the company includes a fair review of development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Duisburg, 19 February 2018

The Management Board

Dr Rüdiger Mrotzek Hans Richard Schmitz

INDEPENDENT AUDITOR'S REPORTS

To HAMBORNER REIT AG, Duisburg / Germany

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

Audit Opinions

We have audited the separate financial statements of HAMBORNER REIT AG, Duisburg / Germany, which comprise the income statement and statement of comprehensive income, the statement of financial position, the cash flow statement and the statement of changes in equity as well as the notes to the financial statements for the year from 1 January to 31 December 2017, including a summary of significant accounting policies. In addition, we have audited the management report of HAMBORNER REIT AG, Duisburg / Germany, for the financial year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the management report specified in the Chapter "Other information" of our auditor's report.

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

- the accompanying separate financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 325 (2a) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017.

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the separate financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the management report specified in the Chapter "Other information" of our auditor's report.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the separate financial statements and of the management report.

Basis for Audit Opinions

We conducted our audit of the separate financial statements and of the management report in accordance with Sec. 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537 / 2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the Chapter "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) Point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the separate financial statements and on the management report.

Key Audit Matters in the Audit of the Separate Financial Statements

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

In the following, we present the measurement of investment property at fair value, which we consider to be the key audit matter we have determined in the course of our audit:

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

a) Description (including reference to corresponding information in the separate financial statements and management report)

b) Auditor's response

Investment properties measured at fair value

a) The item "Investment properties" stated in the statement of financial position comprises property in the amount of mEUR 1,109.2 (94.5% of total assets). For the purpose of accounting, HAMBORNER REIT AG measures investment properties at amortised cost in accordance with the option under IAS 40.30 in connection with IAS 40.56. In accordance with IAS 40, the fair values of the property are to be stated in the notes to the financial statements pursuant to IFRS 13. The property's fair values are also used to determine the net asset value (NAV) and NAV per share ratios disclosed in the management report. In measuring the investment properties, numerous parameters relevant to measurement are used. Even minor changes of these parameters may result in major changes to the fair values. Market rent as well as discounting rate and rate of return on investment were the most significant parameters in the past financial year. Their development reflects the different dynamic trend of the purchase price of properties and rent (yield compression), which are the drivers for fair value growth of the property as at 31 December 2017.

   HAMBORNER REIT AG has the fair values of the property be determined by an independent external expert and the results of measurement be verified by own professional personnel.

   The measurement of investment properties at fair values is predominantly based on estimates and assumptions made by the executive directors. Estimated values entail an increased risk of misstatements in the financial statements. The estimates of the executive directors, which are subject to judgement, have a direct and frequently significant effect on the information about the fair values in the notes to the financial statements as well as the presentation of the development of the value of the Company's property portfolio in the management report. They affect the fair values of the investment properties and, consequently, affect the NAV per share of the Company, which is considered to be one of the key financial performance indicators. They are, therefore, decisive in providing an appropriate view of the Company's position. Moreover, the determined fair values are critical to the decision about necessary impairments of the investment property to the lower fair value prior to deduction of transaction costs of a fictive acquisition (gross capital value). In the light of the above facts, we determined this matter to be a key audit matter.

   The information provided by the executive directors on measurement of this properties and the related scope of judgement or estimation uncertainties are included in the Chapter "Accounting and measurement methods" in the notes to the financial statements. The information on NAV and NAV per share are provided in the Chapter "Performance indicators" in the management report.

b) We assessed whether the measurement methods and measurement results have been appropriate.

During our audit, we examined the organisational structure and processes for their appropriateness and the effectiveness of the key controls implemented at HAMBORNER REIT AG. This primarily relates to the independent verification process concerning the market rent and discounting rates and rates of return on investment as well as the reporting processes and the related controls.

In the scope of our audit of the measurement, we consulted internal experts in the area of real estate consulting. With the support of these experts, we evaluated the parameters used in the measurement process, the measurement models and measurement results. As regards objects that have been selected randomly, we examined the calculations by means of mathematical procedures and compared them with our own calculations made by using the DCF method. Moreover, we participated in inspections at individual properties made by the external expert.

Furthermore, we convinced ourselves of the competence, capabilities and objectivity of the independent external expert contracted by HAMBORNER REIT AG and assessed whether the measurement method applied in the expert opinion complied with IAS 40 in connection with IFRS 13.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the non-financial statement pursuant to Section 289f German Commercial Code (HGB) included in the management report,
- the executive directors' confirmation relating to the separate financial statements and to the management report pursuant to Sec. 264 (2) Sentence 3 and Sect 289 (1) Sentence 5 German Commercial Code (HGB) respectively,
- the remaining parts of the Annual Report, with the exception of the audited separate financial statements and management report and the executive directors' statement on compliance with the requirements under Sec. 11 to 15 REIT Act and on the composition of income regarding pre-taxed income and non-taxed income pursuant to Sec. 19 (3) in connection with Sec. 19a REIT ACT as well as our auditor's report.

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

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

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

Responsibilities of the Executive Directors and the Supervisory Board for the Separate Financial Statements and the Management Report

The executive directors are responsible for the preparation of the separate financial statements that comply, in all material respects, with the requirements of the IFRS, as adopted in the EU, and the additional requirements of German commercial law pursuant to Sec. 325 (2a) German Commercial Code (HGB), and that the separate financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the separate financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Separate Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the separate 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 separate financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (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 separate financial statements and this management report.

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

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

- Obtain an understanding of internal control relevant to the audit of the separate financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements present the underlying transactions and events in a manner that the separate financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with the requirements of the IFRS, as adopted in the EU, and the additional requirements of German commercial law pursuant to Sec. 325 (2a) German Commercial Code (HGB).

- Evaluate the consistency of the management report with the separate financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 10 May 2017. We were engaged by the supervisory board on 12 / 22 June 2017. We have been the auditor of HAMBORNER REIT AG, Duisburg / Germany, without interruption since the financial year 2008.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Thomas Neu.

Düsseldorf / Germany, 19 February 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: (Künemann)	Signed: (Neu)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

LIVING AND TRADING IN HALLSTADT

HALLSTADT

19

playgrounds for Hallstadt's children to play on

4

times a year Hallstadt celebrates *kerwa* – a fair.

745

was the year Hallstadt was first mentioned in an official document

SMALL, BUT OH MY!

In Hallstadt, Upper Franconian tradition meets a modern world of culture: Its location on the outskirts of the city of Bamberg invigorates and enlivens the town.

01 MARKETPLACE

There is a market now where part of the Carolingian royal court once stood. The market was mentioned in an official document for the first time in 1461. The first reference to the fountain in the square dates back to the year 1330.

02 MARKTSCHEUNE

The *Marktscheune* has been enriching the centre of Hallstadt since 2015. It it a venue with rooms for cultural events and private parties, and also a fresh food centre with a bistro and plentiful parking. The building was designed with great feeling for the town's structure as it has emerged over the years, and offers a contemporary interpretation of a typical large and high-roofed Hallstadt commercial building. The building was awarded the German Urban Development Prize in 2016 and nominated for the 2017 Heinze Architect Award.

03 MARKET OBERFRANKEN

On the southern outskirts of Hallstadt and right on the border with Bamberg is the Market Oberfranken retail park. This is not just a place to go shopping, but also a venue for a wide variety of special events for all ages, like competitions or exhibitions. All this makes the Market a popular meeting place for people from all over the region.

04 ARTOTHEK

The aim of the Artothek, an art lending library, is to make art available to people outside of museums and galleries. For a small fee, you can borrow a work of art and display it in your home or place of work. If you end up falling in love with your piece during your three-month loan, you are free to buy it as well. A number of regional artists are participating in the project.

05 TOWN HALL

The town hall built in the 16th century has always been somewhat of a multi-purpose building: The three-story gabled building has housed various goods, a fire extinguisher and even the communal scales over the years. The town also kept those it didn't want in custody here: The prison – also known as the House of Fools – was located in the building, as were a ballroom for weddings, the court and a granary. The hall was the central point of the region's busy life.

06 CHURCH OF ST KILIAN

A wooden "Slavic Church" already stood at the site of St Kilian's around the year 800. The late Gothic house of God was built from 1380 and dominates the skyline with its high gable.

01 Small alleyways run rife through the town centre.
02 Its scenic location and proximity to Bamberg make Hallstadt an attractive place to live.
03 The late Gothic Church of St Kilian.

02

HATS OFF TO HALLSTADT

The Franks called this place *"Chungeshofe"*, deriving from *Königshof* or royal court. Specifically, this was the Carolingian court, where Charlemagne himself once resided. While this was long ago, Hallstadt has remained a good place to live: Brisk income from trade tax gives the affluent town the chance to provide its citizens with excellent infrastructure and to launch a wide-scale development process focused on its centre. In recent years, there has been massive investment in fixing roads, in schools and kindergartens, and the centre is now being developed further and made more attractive. The traditional art of baking *hutkrapfen* (a type of cake in the shape of a hat) will soon also be making a comeback in a separate school with adjoining café.

Next door to the UNESCO World Heritage Site of Bamberg and picturesquely hugged by the River Main, Hallstadt is a lively secondary centre for the local region. Various automotive suppliers and a mechanical engineering company are well situated here and ensure Hallstadt's prosperity. From the medieval royal court to an industrial and commercial location with a good quality of living, Hallstadt has always been able to go with the times.

01

AGE GROUPS IN %

UP TO 3	2.78
3 TO 15	10.47
15 TO 20	5.64
20 TO 55	50.74
55 AND OVER	30.37

The Bamberg district has the highest density of private breweries in the world with around 70 small private breweries

192
Retail Centrality Index

101 %
Purchasing power index

EDUCATION

8 DAY CARE FACILITIES

2 COMPREHENSIVE SCHOOLS

2.3 %
Unemployment rate

REGISTERED BUSINESSES

517 INDUSTRY, RETAIL, TRADE

552 OTHERS

899 INDEPENDENT BUSINESSES

123 DEPENDENT BUSINESSES

35 BRANCHES

32 volunteers aged from 13 to 85 work at Hallstadt's library.

€45 million budget [2017]

Hallstadt is partnered with Hallstatt in Austria

0 % per capita debt for the town

03

MARKET OBERFRANKEN RETAIL PARK

Everything you need to live – and a little more as well. Market Oberfranken on the border of Hallstadt and Bamberg is the one-stop spot to shop for the whole region.

ROOM FOR RANGE

The property's smart layout creates space for almost 40 shops. The new-look discount supermarket ALDI will be joining the ranks from 2018. Easily visible from the autobahn, the retail park attracts plenty of motorists. Good thing there's plenty of parking as well!

ON YOUR MARKS. GET SET. SHOP!

Surrounded by residential and office buildings and not far from internationally renowned companies, the retail park has its finger on the pulse and has firmly established itself in the region's retail landscape. This is thanks in part to the dedicated community of tenants that ensure strong and stable customer frequency with regular events and activities.

More than **2 MILLION**

visitors come to wander through and shop at Market Oberfranken every year.

01 EXPANSIVE
Ample room for ample shopping fun on around 21,700 m² in total.

02 IDEAL CONNECTIONS
The retail park benefits from its proximity to the town centre of Hallstadt and to Bamberg, not to mention its easy accessibility.

03 ALMOST 40 SHOPS
From clothes and electronics to food and service providers: The Market has a broad portfolio.

04 CONVENIENT PARKING
Visitors can park their cars in one of around 840 parking spaces.

ADDITIONAL

04

INFORMATION

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REIT INFORMATION

As a REIT company, HAMBORNER has been exempt from German corporation and trade tax since 1 January 2010. In order to maintain this status, the regulations of the German REIT Act must be complied with and a declaration to this effect issued by the Management Board.

In connection with the annual financial statements in accordance with section 264 HGB and our separate IFRS financial statements in accordance with section 325(2) HGB, the Management Board issues the following declaration of compliance with the requirements of sections 11 to 15 of the German REIT Act and the calculation of the composition of income in terms of income subject to and not subject to income tax for the purposes of section 19(3) and section 19a of the German REIT Act as at 31 December 2017:

Section 11 of the German REIT Act: free float

In accordance with section 11(1) of the German REIT Act, a REIT company must maintain at least 15% of its shares in free float on a sustained basis. As at 31 December 2017, HAMBORNER REIT AG's free float according to the notifications of voting rights that we have received was 68.9%. We notified the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) of this by way of letter dated 8 January 2018.

In accordance with section 11(4) of the German REIT Act, shareholders are not permitted to directly hold 10% or more of shares or shares to such an extent that they hold 10% or more of voting rights. On the basis of voting right notifications received from shareholders in accordance with section 33(1) and section 40(1) and (2) WpHG, according to our knowledge no shareholder directly holds 10% or more shares to such an extent that they hold 10% or more of voting rights.

Section 12 of the German REIT Act: asset and income requirements

In accordance with section 12(2) of the German REIT Act, at least 75% of the total assets of the company (i.e. total assets minus the deductions for the distribution obligation within the meaning of section 13(1) of the German REIT Act and reserves within the meaning of section 13(3) of the German REIT Act) must consist of immovable assets. In accordance with section 12(1) of the German REIT Act, immovable investment property must be measured at fair value within the meaning of IAS 40.

As at the end of the 2017 financial year, 96.6% of the company's total assets were immovable assets.

In accordance with section 12(3) of the German REIT Act, at least 75% of revenues and other income must derive from immovable assets from renting and leasing, including activities connected to real estate or to the disposal of immovable assets.

This requirement was met in full in the reporting year.

Section 13 of the German REIT Act: distribution to investors

In accordance with section 13(1) of the German REIT Act, HAMBORNER is required to distribute at least 90% of its HGB net profit for the year, reduced or increased by the allocation to or reversal of the reserve for gains on the disposal on immovable assets in accordance with section 13(3) of the German REIT Act and also reduced by any loss carry-forward from the previous year, to its shareholders by the end of the following financial year.

Provided that the Annual General Meeting approves the dividend proposal, the company will distribute a dividend to its shareholders amounting to €35.9 million, thus using its full HGB net profit for the year.

Section 14 of the German REIT Act: exclusion of real estate trading

According to this regulation, a REIT company cannot conduct trades with its immovable assets if the income from these assets constitutes more than half of the value of the average portfolio of immovable assets within the last five years as a REIT company.

The company has sold approximately 9.3% of its average portfolio of immovable assets in the last five years since its transformation into a REIT.

Section 15 of the German REIT Act: minimum equity

The equity of a REIT company calculated in accordance with section 12(1) of the German REIT Act must not fall below 45% of the fair value of its immovable assets.

The corresponding value at HAMBORNER as at 31 December 2017 was 59.0%.

Section 19 of the German REIT Act: composition of income in terms of income subject to and not subject to income tax

Under this regulation, the partial income rule in line with section 3(40) of the German Income Tax Act and the resulting 95% tax exemption in line with section 8b of the German Corporation Tax Act do not apply to the distributions of a REIT company. However, these tax exemptions are granted if the REIT company distributes profits subject to tax at the level of the REIT company.

Subject to the approval of the Annual General Meeting, HAMBORNER will distribute a dividend not subject to taxation of €35.9 million.

HAMBORNER does not hold any shares in REIT service companies, with the result that the relevant asset and income requirements are not relevant.

Duisburg, 19 February 2018

The Management Board

Dr Rüdiger Mrotzek Hans Richard Schmitz

The REIT declaration was audited by the auditor in accordance with section 1(4) of the German REIT Act on 19 February 2018.

IMPORTANT TERMS AND ABBREVIATIONS

AktG	*Aktiengesetz* – German Stock Corporation Act
Capitalisation rate	The capitalisation rate is used to capitalise the long-term recoverable net return on an investment in perpetuity. This rate reflects growth (e.g. rent growth or inflation) and represents an appropriate market return for the property.
Cash flow	Net amount of cash inflows and outflows within a period
Compliance	Implies compliance with laws and regulations in companies in addition to voluntary codes. The entirety of the principles and measures employed by a company in compliance with certain regulations and therefore to avoid violations in a company is referred to as the compliance management system.
Corporate governance	Principles of responsible corporate governance and control geared to the long-term creation of value added.
Cost ratio (EPRA)	The cost ratio developed by the EPRA measures the cost / income structure of property companies and is intended to make them comparable on the basis of a uniform definition. It is the ratio of all operating costs (possibly adjusted for individual components) incurred in the management and operation of the property to its rental and letting income.
DAX	The most important German share index established by Deutsche Börse AG. It shows the development of the 30 biggest German stock corporations in terms of market capitalisation and stock exchange turnover.
DCF method	Discounted cash flow method – method used to determine value e.g. the fair value of real estate. It is based on the financial concept of discounting cash flows to determine the capital value.
Derivative	A financial instrument whose value is derived predominantly from the price, price fluctuations and price expectations of an underlying asset, such as shares, interest-bearing securities or foreign currencies; often used as a hedging instrument.
Designated sponsor	Specialist financial service provider that counteracts temporary imbalances between supply and demand in individual shares in the electronic trading system Xetra. The negotiability of a share is meant to be improved through placing bid and ask limits.
DIMAX	Share index published by the banking firm Ellwanger & Geiger, which comprises German property shares.
Discounting rate	The discounting rate is the return that investors expect when providing capital, taking into account the specific investment risk. It consists of a risk-free interest rate plus a market-specific and property-specific risk. The future cash flows of the respective analysis period are discounted to the measurement date using the discounting rate.
EBDA	Earnings before depreciation and amortisation.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation (only taxes on income).
EPRA	European Public Real Estate Association – European association of listed property companies. It represents financial analysts, investors, auditors and consultants in addition to companies.
Fair value	Fair value or market value, the value at which knowledgeable and willing parties would be prepared to exchange an asset at normal market conditions or to settle a liability.
FFO / AFFO	Funds from operations / adjusted funds from operations: Key performance indicator for operating business and also a key control parameter of the company. FFO is used in value-oriented corporate management to show the funds generated that are available for investments, repayments and dividend distributions to shareholders in particular. Adjusted for maintenance expenditure in the financial year not recognised as an expense, this figure is known as AFFO.
GCGC	German Corporate Governance Code – a set of regulations devised by the Government Commission of the Federal Republic of Germany for listed companies intended to promote good and responsible corporate governance.
GDP	Gross domestic product: Indicator of the economic performance of an economy, i.e. the combined value of all goods and services generated by a country within a specific period.
HGB	*Handelsgesetzbuch* – German Commercial Code.

IFRS	International Financial Reporting Standards: International accounting regulations issued by the International Accounting Standards Board (IASB). These must be applied by listed companies and groups and are intended to facilitate better comparability in the international environment.
Investment property	All undeveloped and developed properties plus buildings and parts of buildings held to generate future rental income or profits from appreciation in value in respect of third parties or for an as yet undefined use. They are not intended for administrative purposes or for short-term trading in the context of ordinary business activities.
LEED	Leadership in Energy and Environmental Design – a standard developed in the United States of America for the development and planning of highly ecological buildings
Loan-to-value (LTV)	Represents the financial liabilities of the company as a proportion of the fair value of its investment property portfolio, taking into account cash and cash equivalents.
Market capitalization	Market value of a stock corporation. Current share price multiplied by the number of shares.
Net asset value (NAV)	The net asset value reflects the economic equity of the company. It is determined by the fair values of the company's assets – essentially the value of properties – net of the borrowed capital.
Net initial yield (EPRA)	The net initial yield is an indicator calculated according to EPRA standards that reflects the yield on the property portfolio. It is calculated by dividing annualised rental income as at the end of the reporting period less non-transferable costs by the fair value of the investment property portfolio including incidental costs of acquisition.
Operating cost ratio	The operating cost ratio is the ratio of administrative and personnel expenses to income from rents and leases.
Prime Standard	Market segment of Deutsche Börse AG for stock corporations that satisfy particularly high international transparency standards.
REIT	Real estate investment trust. Listed company that invests solely in property. Facilitates indirect investment in properties for investors through the purchase of shares. The majority of its profit is distributed, and taxation occurs at investor level only (tax transparency).
REIT equity ratio	Corresponds to the equity coverage ratio in accordance with section 15 in conjunction with section 12(1) sentence 2 of the German REIT Act, i.e. the ratio of equity (on a fair value basis) to the fair value of immovable assets. The equity on fair value basis is calculated from the total reported equity and hidden reserves. Immovable assets at HAMBORNER consist of the property portfolio of the company and undeveloped land, consisting primarily of agricultural land and forests.
Risk management	Systematic process intended to identify and assess potential risks in a company at an early stage, introducing necessary preventive measures where appropriate.
SDAX	Small-cap index: German share index that, as a small-cap index, includes the 50 most important equities after the DAX and MDAX. The "S" for "small cap" refers to smaller companies with low market capitalisation and stock exchange turnover.
Statement of cash flows	The statement of cash flows transparently shows a company's cash flows. Transactions affecting cash are classified according to operating, investing and financing activities.
Triple net asset value (NNNAV)	Net asset value less deferred taxes for hidden reserves between the carrying amount and fair value, taking into account the difference in value between the fair value and carrying amount of debt.
Vacancy rate	The company calculates its vacancy rate as target rent for the vacant space in relation to total target rent. In calculating the economic vacancy rate, the rental losses for vacancies are adjusted for contractual rent guarantee claims.
Vacancy rate (EPRA)	The EPRA vacancy rate is calculated using the annualised rent for vacant space at standard market rents for the portfolio as a whole as at the end of the reporting period.
WpHG	*Wertpapierhandelsgesetz* – German Securities Trading Act.

DISCLAIMER

This report contains forward-looking statements, e.g. on general economic developments in Germany, the future situation of the property industry and the company's own probable business performance. These statements are based on current assumptions and estimates by the Management Board, which were made diligently on the basis of all information available at the respective time. If the assumptions on which statements and forecasts are based are not accurate, the actual results may differ from those currently anticipated.

CREDITS

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FINANCIAL CALENDAR 2018 / 2019

21 March 2018	Annual report 2017
25 April 2018	Quarterly financial report 31 March 2018
26 April 2018	Annual General Meeting 2018
2 May 2018	Payment of dividend for the 2017 financial year
9 August 2018	Half-year financial report 30 June 2018
8 November 2018	Quarterly financial report 30 September 2018
27 March 2019	Annual report 2018
2 May 2019	Quarterly financial report 31 March 2019
7 May 2019	Annual General Meeting 2019

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